



# The State Bar *of California*

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**Title of Report:** 2023 Financial Statement and Independent Auditor's Report  
**Statutory Citation:** Business and Professions Code section 6145  
**Date of Report:** May 21, 2024

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The State Bar of California is submitting its 2023 Financial Statements and Independent Auditor's Report to the Chief Justice of California and the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145. The financial statements are certified under oath by the Chief Financial Officer of the State Bar.

The 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.

In the auditor's opinion, the State Bar's financial statements present fairly, in all material respects, the financial position and the changes in financial position as of December 31, 2023, in accordance with accounting principles generally accepted in the United States.

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 understanding the State Bar's 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

## **2023 Financial Statements and Independent Auditor's Report**

**Years Ended December 31, 2023 and 2022  
and Supplementary Information for Year Ended December 31, 2023**

**May 21, 2024**

**THE STATE BAR OF CALIFORNIA**  
Financial Statements  
Years Ended December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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.

#### ***Responsibilities of Management for the Financial Statements***

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 statement 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 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 GAAS, 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 GAAS. In our opinion, the combining schedules of Program Funds are 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 May 21, 2024 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 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

May 21, 2024

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**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

**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 2022 and 2021 amounts have been reclassified to conform to the 2023 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 2023, the State Bar had approximately 290,800 licensees, an increase of 1.3% compared to 287,200 licensees in 2022.

Licensing fees for 2023 and 2022 were allocated to the following funds:

|                                    | 2023          |               | 2022          |               |
|------------------------------------|---------------|---------------|---------------|---------------|
|                                    | 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             |
| 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>\$ 510</u> | <u>\$ 177</u> | <u>\$ 515</u> | <u>\$ 182</u> |

\*The \$5 voluntary fee for legislative activities was changed from an opt-out to an optional donation in 2023.

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 2023 statutorily-approved annual fee remained unchanged at \$388 from 2022.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

**Financial Statements 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 Statements of Net Position – present the financial position of the State Bar at the end of the fiscal year. The statements report 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.

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

The Statements of Cash Flows – reflect 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 – provide integral information needed to explain the basis for the financial statement presentation and amounts within 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.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

**Financial Highlights**

The following is a summary comparison of the State Bar's Statements of Net Position as of December 31, 2023, 2022, and 2021:

|                                                     | <u>2023</u>           | <u>2022</u>           | <u>2021</u>           |
|-----------------------------------------------------|-----------------------|-----------------------|-----------------------|
| Cash, cash equivalents, and investments             | \$ 313,642,218        | \$ 155,941,040        | \$ 144,069,219        |
| Restricted cash, cash equivalents, and investments  | -                     | 9,287,909             | 15,172,463            |
| Other assets                                        | 28,214,015            | 31,114,201            | 23,936,908            |
| Capital assets, net                                 | 115,863,302           | 99,136,637            | 103,628,056           |
| Deferred outflows of resources                      | 42,688,915            | 37,885,114            | 12,163,713            |
| Total assets and deferred outflows of resources     | <u>500,408,450</u>    | <u>333,364,901</u>    | <u>298,970,359</u>    |
| Current liabilities                                 | 80,322,389            | 76,022,506            | 67,026,336            |
| Noncurrent liabilities                              | 70,288,683            | 32,817,998            | 35,846,115            |
| Net OPEB liability                                  | 5,773,259             | 7,393,303             | 7,617,010             |
| Net pension liability                               | 92,286,609            | 81,349,352            | 21,343,799            |
| Deferred inflows of resources                       | 24,864,791            | 21,733,662            | 60,366,341            |
| Total liabilities and deferred inflows of resources | <u>273,535,731</u>    | <u>219,316,821</u>    | <u>192,199,601</u>    |
| Net position                                        |                       |                       |                       |
| Net investment in capital assets                    | 50,746,966            | 75,520,878            | 83,786,375            |
| Restricted for:                                     |                       |                       |                       |
| Enabling legislation                                | 218,394,235           | 85,013,835            | 66,020,083            |
| Other restrictions                                  | 1,281,991             | 509,945               | 593,340               |
| Unrestricted                                        | <u>(43,550,473)</u>   | <u>(46,996,578)</u>   | <u>(43,629,040)</u>   |
| Total net position                                  | <u>\$ 226,872,719</u> | <u>\$ 114,048,080</u> | <u>\$ 106,770,758</u> |

**Fiscal Year 2023 Compared to Fiscal Year 2022**

**Assets and Deferred Outflows of Resources** – As of December 31, 2023, the State Bar's total assets and deferred outflows of resources were \$500.4 million, up by \$167.0 million or 50.1% compared to \$333.4 million last year. The increase is primarily due to the \$157.7 million increase in cash, cash equivalents and investments due to significant increase of trust account revenues and greater return on investments in 2023. Other changes include a \$7.6 million increase in accounts and other receivables resulted from higher trust account revenues, \$0.5 million increase in other current assets, \$4.8 million increase in deferred outflow of resources related to pension and other postemployment benefit items; partially offset by a \$1.5 million net decrease in noncurrent assets and \$2.1 million decrease in lease receivables resulted from the State Bar's San Francisco office building sale in 2023.

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, 2023, the deferred outflows of resources were \$42.7 million, which increased by \$4.8 million compared to \$37.9 million last year. See accompanying notes 10 and 11 to the financial statements for additional information.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

***Liabilities and Deferred Inflows of Resources*** – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned fees collected in advance, grants payable, loans payable, lease liabilities, subscription liabilities, net OPEB liability, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68, GASB 75, GASB 87, and the gain from disposition of capital assets. As of December 31, 2023, State Bar's total liabilities and deferred inflows of resources were \$273.5 million, increased by \$54.2 million or 24.7% compared to \$219.3 million last year. The increase is primarily due to a \$50.2 million increase in lease liabilities associated with the State Bar's sale-leaseback transaction related to the San Francisco building sale. Other changes include a \$9.0 million increase in unearned fees collected in advance, a \$2.5 million increase in subscription liabilities, a \$0.8 million increase in noncurrent portion of the compensated absences, a \$11.0 million in net pension liability, a \$1.8 million increase in deferred inflows of resources related to OPEB, a \$13.0 million increase in deferred inflows of resources related to the gain from disposition of capital assets; partially offset by a \$1.4 million decrease in accounts payable and other liabilities, a \$19.4 million decrease in loans payable, a decrease of \$1.6 million in net OPEB liability, a decrease of \$10.5 million in deferred inflows of resources related to leases and a decrease of \$1.2 million decrease of deferred inflows of resources related to pension items.

The State Bar's total pension liability as of December 31, 2023 was \$490.2 million and the plan fiduciary net position was \$397.9 million resulting in a net pension liability of \$92.3 million, or 18.8% of the total pension liability. Compared to the \$81.3 million net pension liability in 2022, the 2023 net pension liability increased by \$11.0 million or 13.4%.

Deferred inflows of resources as of December 31, 2023 were \$24.9 million, representing an increase of \$3.2 million compared to the \$21.7 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. Starting in 2023, the deferred inflows of resources also include the gain from the San Francisco building sale. See accompanying notes 8, 10 and 11 to the financial statements for additional information.

***Net Position*** – The State Bar's total net position as of December 31, 2023 was \$226.9 million, up by \$112.9 million or 98.9% compared to \$114.0 million in 2022. The increase represented an 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 \$134.2 million or 156.9% from \$85.5 million in 2022 to \$219.7 million in 2023. The increase is due to the \$133.4 million increase in enabling legislation and the \$0.8 million increase 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 \$24.8 million or 32.8% from \$75.5 million in 2022 to \$50.7 million in 2023. The net decrease is primarily due to retirement of capital assets related to the San Francisco building sale.

***Unrestricted Net Position*** – The part of net position that is used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2023, the unrestricted net position was negative \$43.6 million, an increase of \$3.4 million or 7.3% compared to \$47.0 million negative unrestricted net position in 2022. The change is substantially due to the increase in cash and investments associated with the San Francisco building sale proceeds, and partially offset by increased operating expenses in the general fund.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

**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 10 and 11 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, 10 and 11 to the financial statements for additional information.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

**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 an 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 Investment 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 is 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.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

**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, 2023, 2022, and 2021:

|                                | <u>2023</u>           | <u>2022</u>           | <u>2021</u>           |
|--------------------------------|-----------------------|-----------------------|-----------------------|
| OPERATING REVENUES             |                       |                       |                       |
| Program revenues               | \$ 428,304,443        | \$ 293,009,434        | \$ 184,414,210        |
| Other revenue                  | 1,862,642             | 1,695,396             | 1,494,224             |
| Unallocated pension gain       | -                     | 432,080               | 15,379,467            |
| Total operating revenues       | <u>430,167,085</u>    | <u>295,136,910</u>    | <u>201,287,901</u>    |
| OPERATING EXPENSES             |                       |                       |                       |
| Program expenses               | 314,056,502           | 277,927,038           | 177,616,101           |
| General and administration     | 14,658,524            | 12,635,206            | 12,456,372            |
| Total operating expenses       | <u>328,715,026</u>    | <u>290,562,244</u>    | <u>190,072,473</u>    |
| OPERATING INCOME               | 101,452,059           | 4,574,666             | 11,215,428            |
| NONOPERATING REVENUES          | <u>11,372,580</u>     | <u>2,702,656</u>      | <u>3,078,577</u>      |
| CHANGE IN NET POSITION         | 112,824,639           | 7,277,322             | 14,294,005            |
| NET POSITION—beginning of year | <u>114,048,080</u>    | <u>106,770,758</u>    | <u>92,476,753</u>     |
| NET POSITION—end of year       | <u>\$ 226,872,719</u> | <u>\$ 114,048,080</u> | <u>\$ 106,770,758</u> |

**Fiscal Year 2023 Compared to Fiscal Year 2022**

**Operating and Nonoperating Revenues** – For the year ended December 31, 2023, the State Bar's total operating and net nonoperating revenues were \$441.5 million, up by \$143.7 million or 48.2% compared to \$297.8 million in 2022. The increase is due to significant increase in Interest on Lawyers' Trust Account (IOLTA) revenues resulting from higher account balance and interest yields.

**Operating Expenses** – For the year ended December 31, 2023, the State Bar's total operating expenses were \$328.7 million, an increase of \$38.1 million or 13.1% from \$290.6 million last year. The increase is substantially due to a \$21.1 million increase in grants associated with more grant revenues distributed in 2023, a pension expense of \$6.9 million in 2023 vs. an unallocated pension gain of \$0.4 million in 2022, and an increase of \$10.1 million in various program expenses primarily from increased personnel costs.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 2022

| <b>Operating expenses by natural classification</b> | <b>2023</b>           | <b>2022</b>           | <b>Increase (Decrease)</b> |
|-----------------------------------------------------|-----------------------|-----------------------|----------------------------|
| Personnel cost                                      | \$ 96,857,909         | \$ 87,722,285         | \$ 9,135,624               |
| Employer pension contribution                       | 12,609,321            | 12,493,665            | 115,656                    |
| Pension expense                                     | 6,866,533             | -                     | 6,866,533                  |
| Grant expense                                       | 168,743,605           | 147,657,448           | 21,086,157                 |
| Professional and outside Services                   | 11,778,643            | 16,914,157            | (5,135,514)                |
| Examination                                         | 7,534,160             | 5,002,441             | 2,531,719                  |
| CSF disbursement                                    | 6,229,972             | 3,788,619             | 2,441,353                  |
| Building operations                                 | 6,088,401             | 5,977,566             | 110,835                    |
| Other                                               | 12,006,482            | 11,006,063            | 1,000,419                  |
| Total operating expenses by natural classification  | <u>\$ 328,715,026</u> | <u>\$ 290,562,244</u> | <u>\$ 38,152,782</u>       |

***Operating Expenses by natural classification***

Personnel costs were \$96.9 million in 2023, which is an increase of \$9.2 million from \$87.7 million last year. The increase is related to a cost-of-living adjustment (COLA) and new positions. Employer pension contributions were \$12.6 million, or an increase of \$0.1 million from \$12.5 million due to higher personnel costs and partially offset by a decrease in unfunded actuarial liability. Grant expenses increased by \$21.1 million from \$147.7 million in the prior year due to the increases in grant disbursements in 2023. Professional and outside services were \$11.8 million, a \$5.1 million decrease from the prior year, mainly due to the Bar Examination administration not being outsourced in 2023. Disbursements from CSF were \$6.2 million in 2023, an increase of \$2.4 million from \$3.8 million the prior year due to more cases being eligible for payouts in 2023. The reduction of \$0.4 million in unallocated pension gain and the \$6.9 million pension expenses in 2023 were due to the recognition of differences between expected and actual experiences, net differences between expected and actual earnings on pension plan investments, and changes of assumptions for the pension plan. Other expenses, which include supplies, travel and training, depreciation of capital assets, amortization of leased and subscription assets and other miscellaneous expenses, increased by \$1.0 million from \$11.0 million the prior year primarily due to recording of the subscription amortization expenses resulting from the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

**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 nonoperating 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.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2023 and 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.

**Economic Factors Facing the State Bar**

On September 18, 2022, the Governor signed Assembly Bill 2958, the 2023 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 2023. The State Bar continued to receive additional funding to support technology investments and capital maintenance.

On February 27, 2023, the Board of Trustees approved the 2023 Budget. The budget supports the State Bar's 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 State Bar's General Fund supports travel, lodging, and per diem meal expenses for Board of Trustees travel to board meetings as consistent with the guidelines outlined in the travel policy. Any costs incurred by members of the Board of Trustees that exceed those authorized by the policy are not reimbursed and are paid for out-of-pocket by trustees.

The 2023 Final Budget has total revenue of \$336.1 million with expenses of \$295.4 million. The primary driver for the revenue increase was the increase from Interest on Lawyers' Trust Account. The 2023 General Fund budget projects \$91.4 million in revenue with total expenses and indirect charges of \$104.9 million. General Fund expenses exceed revenues by approximately \$13.5 million. The reserve was planned to be \$0.4 million at the end of 2023. The State Bar sold its San Francisco office building in November 2023 for \$54.0 million. Due to this transaction, operating reserves increased to \$36.1 million. The State Bar has had deficit spending in the last several years and will also be in deficit spending into 2024. 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 obtain a fee increase and 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, lease assets and subscription intangible assets. Capital assets are partially owned by the State Bar and others are leased.

Capital assets, net of depreciation but excluding lease and subscription assets, decreased by \$36.5 million (37.2%) as of December 31, 2023, primarily due to the retirement of assets related to the State Bar's San Francisco office building sale and the continued depreciation of existing assets. Capitalization of additional capital improvement, equipment, and software costs in 2023 were less than depreciation of existing assets. Major capital asset additions in 2023 included video and audio system upgrades to conference rooms and courtroom system upgrades for the State Bar. Two elevators were placed in service at the San Francisco building and additional project costs incurred for the elevator modernization project and emergency generator project prior to the building sale and retirements of the related assets.

**THE STATE BAR OF CALIFORNIA**  
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Years Ended December 31, 2023 and 2022

Lease assets, net of amortization increased by \$50.6 million from \$0.8 million in 2022 to \$51.4 million in 2023 due to the leaseback of the San Francisco office building subsequent to the building sale on November 14, 2023.

Subscription assets, net of amortization, were first recorded in 2023 due to the implementation of GASB 96. The subscription assets, net of amortization at 2023 year-end was \$2.7 million.

Loans payables held by the State Bar are for the purpose of financing and 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 payable decreased by \$19.4 million (62.6%) as of December 31, 2023, due to payoff of two existing loans associated with the San Francisco building. See Note 7 for additional information.

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 increased by \$50.2 million (6341.4%) as of December 31, 2023, due to the State Bar leasing back the San Francisco office building after the building was sold in November 2023. See Note 8 for additional information.

Subscription liabilities were first measured and recorded in 2023 as a result of the GASB 96 implementation. The subscription liabilities are calculated as the present value of payments the State Bar expects to make during the noncancellable subscription term, including any contract renewal options reasonably certain to be exercised and any cancellation reasonably certain not to be exercised. Subscription liabilities were \$2.5 million as of December 31, 2023. See Note 9 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](mailto:finance@calbar.ca.gov).

**THE STATE BAR OF CALIFORNIA**  
**Business-Type Activity – Enterprise Fund**  
**Statements of Net Position**  
**Years Ended December 31, 2023 and 2022**

|                                                                                                                                  | <u>2023</u>           | <u>2022</u>           |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                                                                                                                    |                       |                       |
| Current assets                                                                                                                   |                       |                       |
| Cash and cash equivalents                                                                                                        | \$ 287,570,908        | \$ 133,357,937        |
| Investments                                                                                                                      | 26,071,310            | 22,583,103            |
| Accounts and other receivables, net<br>of allowance for uncollectible accounts of<br>\$1,883,824 in 2023 and \$1,889,585 in 2022 | 21,190,767            | 13,564,552            |
| Lease receivable                                                                                                                 | 365,164               | 2,452,532             |
| Other current assets                                                                                                             | <u>2,900,479</u>      | <u>2,385,274</u>      |
| Total current assets                                                                                                             | <u>338,098,628</u>    | <u>174,343,398</u>    |
| Noncurrent assets                                                                                                                |                       |                       |
| Restricted cash                                                                                                                  | -                     | 9,287,909             |
| Lease receivable                                                                                                                 | 3,757,605             | 12,711,843            |
| Capital assets                                                                                                                   |                       |                       |
| Nondepreciable                                                                                                                   | 18,418,271            | 22,075,451            |
| Depreciable, net                                                                                                                 | 43,360,059            | 76,232,257            |
| Lease asset, net                                                                                                                 | 51,368,178            | 828,929               |
| Subscription asset, net                                                                                                          | <u>2,716,794</u>      | <u>-</u>              |
| Total noncurrent assets                                                                                                          | <u>119,620,907</u>    | <u>121,136,389</u>    |
| Total assets                                                                                                                     | <u>457,719,535</u>    | <u>295,479,787</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                                                                            |                       |                       |
| Pension items                                                                                                                    | 33,054,876            | 30,143,693            |
| Other postemployment benefits items                                                                                              | <u>9,634,039</u>      | <u>7,741,421</u>      |
| Total deferred outflows of resources                                                                                             | <u>42,688,915</u>     | <u>37,885,114</u>     |
| Total assets and deferred outflows of resources                                                                                  | <u>500,408,450</u>    | <u>333,364,901</u>    |
| <b>LIABILITIES</b>                                                                                                               |                       |                       |
| Current liabilities                                                                                                              |                       |                       |
| Accounts payable and other liabilities                                                                                           | 13,288,661            | 14,645,296            |
| Unearned fees collected in advance                                                                                               | 62,316,794            | 58,072,098            |
| Loans payable                                                                                                                    | 849,000               | 2,789,746             |
| Lease liability                                                                                                                  | 2,633,338             | 515,366               |
| Subscription liability                                                                                                           | <u>1,234,596</u>      | <u>-</u>              |
| Total current liabilities                                                                                                        | <u>80,322,389</u>     | <u>76,022,506</u>     |
| Noncurrent liabilities                                                                                                           |                       |                       |
| Unearned fees collected in advance                                                                                               | 4,750,001             | -                     |
| Loans payable                                                                                                                    | 10,747,000            | 28,219,244            |
| Lease liability                                                                                                                  | 48,376,130            | 276,540               |
| Subscription liability                                                                                                           | 1,276,272             | -                     |
| Compensated absences                                                                                                             | 5,139,280             | 4,322,214             |
| Net OPEB liability                                                                                                               | 5,773,259             | 7,393,303             |
| Net pension liability                                                                                                            | <u>92,286,609</u>     | <u>81,349,352</u>     |
| Total noncurrent liabilities                                                                                                     | <u>168,348,551</u>    | <u>121,560,653</u>    |
| Total liabilities                                                                                                                | <u>248,670,940</u>    | <u>197,583,159</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                                                                             |                       |                       |
| Lease items                                                                                                                      | 16,880,388            | 14,342,822            |
| Pension items                                                                                                                    | 882,497               | 2,042,039             |
| Other postemployment benefits items                                                                                              | <u>7,101,906</u>      | <u>5,348,801</u>      |
| Total deferred inflows of resources                                                                                              | <u>24,864,791</u>     | <u>21,733,662</u>     |
| Total liabilities and deferred inflows of resources                                                                              | <u>273,535,731</u>    | <u>219,316,821</u>    |
| <b>NET POSITION</b>                                                                                                              |                       |                       |
| Net investment in capital assets                                                                                                 | 50,746,966            | 75,520,878            |
| Restricted for:                                                                                                                  |                       |                       |
| Enabling legislation                                                                                                             | 218,394,235           | 85,013,835            |
| Other restrictions                                                                                                               | 1,281,991             | 509,945               |
| Unrestricted                                                                                                                     | <u>(43,550,473)</u>   | <u>(46,996,578)</u>   |
| Total net position                                                                                                               | <u>\$ 226,872,719</u> | <u>\$ 114,048,080</u> |

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, 2023 and 2022

|                                                      | <b>2023</b>                  | <b>2022</b>                  |
|------------------------------------------------------|------------------------------|------------------------------|
| <b>OPERATING REVENUES</b>                            |                              |                              |
| Licensee fees and donations                          | \$ 106,991,427               | \$ 106,636,644               |
| Examination application fees                         | 18,673,814                   | 17,095,587                   |
| Trust account revenue                                | 176,403,380                  | 54,073,155                   |
| Seminar/workshop revenue                             | 4,300                        | 4,800                        |
| Legal specialization fees                            | 2,318,075                    | 2,134,926                    |
| Law corporation registration fees                    | 2,453,552                    | 1,764,913                    |
| Continuing legal education fees                      | 1,510,777                    | 627,468                      |
| Grant revenue                                        | 119,499,118                  | 105,464,040                  |
| EAF AB145 filing fee revenue                         | 450,000                      | 5,207,901                    |
| Other revenue                                        | 1,862,642                    | 1,695,396                    |
| Unallocated pension gain                             | -                            | 432,080                      |
| Total operating revenues                             | <u>430,167,085</u>           | <u>295,136,910</u>           |
| <b>OPERATING EXPENSES</b>                            |                              |                              |
| Chief Trial Counsel                                  | 73,021,568                   | 64,172,241                   |
| State Bar Court                                      | 14,591,140                   | 14,568,706                   |
| Attorney Regulation and Consumer Resources           | -                            | 6,842,945                    |
| Professional Competence                              | 3,831,007                    | 3,875,951                    |
| Probation                                            | 2,119,162                    | 1,901,694                    |
| Mandatory Fee Arbitration                            | 995,828                      | 203,022                      |
| Judicial Evaluation                                  | 892,485                      | 887,611                      |
| Center on Access to Justice                          | -                            | 628,533                      |
| Communications                                       | 1,747,465                    | 1,554,811                    |
| Governance                                           | 4,100,542                    | 3,617,124                    |
| Lawyer Assistance Program                            | 2,643,260                    | 2,348,679                    |
| Client Security Fund                                 | 7,583,507                    | 4,864,559                    |
| Public Trust Liaison                                 | 2,445,772                    | -                            |
| Regulation                                           | 5,864,246                    | -                            |
| Admissions                                           | 25,476,915                   | 25,449,913                   |
| Grants                                               | 168,743,605                  | 147,011,249                  |
| General and administration                           | 14,658,524                   | 12,635,206                   |
| Total operating expenses                             | <u>328,715,026</u>           | <u>290,562,244</u>           |
| <b>OPERATING INCOME</b>                              | 101,452,059                  | 4,574,666                    |
| <b>NONOPERATING REVENUES AND EXPENSES</b>            |                              |                              |
| Interest and investment income                       | 10,078,894                   | 380,307                      |
| Rental income                                        | 2,554,076                    | 3,116,852                    |
| Interest expenses on loans, leases and subscriptions | (1,312,387)                  | (794,503)                    |
| Gain from dispositions of capital assets             | 51,997                       | -                            |
| Total nonoperating revenues and expenses             | <u>11,372,580</u>            | <u>2,702,656</u>             |
| <b>CHANGE IN NET POSITION</b>                        | 112,824,639                  | 7,277,322                    |
| <b>NET POSITION—beginning of year</b>                | <u>114,048,080</u>           | <u>106,770,758</u>           |
| <b>NET POSITION—end of year</b>                      | <u><u>\$ 226,872,719</u></u> | <u><u>\$ 114,048,080</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, 2023 and 2022

|                                                                         | <b>2023</b>                  | <b>2022</b>                  |
|-------------------------------------------------------------------------|------------------------------|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |                              |                              |
| Receipts from members, applicants, grants, and other professionals      | \$ 432,279,684               | \$ 292,436,790               |
| Payments to suppliers and service providers                             | (231,322,988)                | (205,527,259)                |
| Payments to employees                                                   | (84,292,386)                 | (76,489,137)                 |
| Net cash provided by operating activities                               | <u>116,664,310</u>           | <u>10,420,394</u>            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |                              |                              |
| Proceeds from maturity and sale of investments                          | 71,625,000                   | 29,246,760                   |
| Purchases of investments                                                | (73,811,742)                 | (19,515,843)                 |
| Interest received from investments                                      | 8,437,345                    | 373,407                      |
| Cash received from rental income                                        | 2,863,042                    | 3,480,444                    |
| Net cash provided by investing activities                               | <u>9,113,645</u>             | <u>13,584,768</u>            |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>         |                              |                              |
| Purchase of capital assets                                              | (4,204,661)                  | (3,965,686)                  |
| Payment of obligations under loan agreement                             | (2,789,746)                  | (2,718,583)                  |
| Interest paid on debt                                                   | (718,712)                    | (789,699)                    |
| Proceeds from sale of San Francisco building                            | 29,971,657                   | -                            |
| Lease principal payments                                                | (1,284,335)                  | (494,665)                    |
| Lease interest payments                                                 | (311,757)                    | (21,574)                     |
| Subscription principal payments                                         | (1,410,987)                  | -                            |
| Subscription interest payments                                          | (104,352)                    | -                            |
| Net cash provided by (used in) capital and related financing activities | <u>19,147,107</u>            | <u>(7,990,207)</u>           |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                              | 144,925,062                  | 16,014,955                   |
| <b>CASH AND CASH EQUIVALENTS—Beginning of year</b>                      | <u>142,645,846</u>           | <u>126,630,891</u>           |
| <b>CASH AND CASH EQUIVALENTS—End of year</b>                            | <u><u>\$ 287,570,908</u></u> | <u><u>\$ 142,645,846</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, 2023 and 2022

|                                                                                         | <u>2023</u>           | <u>2022</u>           |
|-----------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  |                       |                       |
| Operating Income                                                                        | \$ 101,452,059        | \$ 4,574,666          |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                       |                       |
| Depreciation and amortization                                                           | 8,686,611             | 7,226,941             |
| Loss on disposals of capital assets                                                     | -                     | 1,230,164             |
| Office rent paid through escrow                                                         | 509,746               | -                     |
| Changes in assets and liabilities:                                                      |                       |                       |
| Net pension liability                                                                   | 10,937,257            | 60,005,553            |
| Deferred outflows and inflows of resources related to pension items                     | (4,070,725)           | (60,437,633)          |
| Net OPEB liability                                                                      | (1,620,044)           | (223,707)             |
| Deferred outflows and inflows of resources related to OPEB items                        | (139,513)             | (822,950)             |
| Accounts and other receivables                                                          | (7,326,842)           | (10,386,750)          |
| Other current assets                                                                    | (341,926)             | 56,040                |
| Accounts payable and other liabilities                                                  | (417,010)             | 2,099,188             |
| Unearned fees collected in advance                                                      | 8,994,697             | 7,098,882             |
| Net cash provided by operating activities                                               | <u>\$ 116,664,310</u> | <u>\$ 10,420,394</u>  |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>    |                       |                       |
| Cash and cash equivalents                                                               | 287,570,908           | 133,357,937           |
| Restricted cash                                                                         | -                     | 9,287,909             |
| Total cash and cash equivalents                                                         | <u>\$ 287,570,908</u> | <u>\$ 142,645,846</u> |
| <b>Noncash transaction:</b>                                                             |                       |                       |
| Loans and loan interest payoff through escrow                                           | \$ 16,673,496         | \$ -                  |
| Net book value of capital assets sold                                                   | 34,199,046            | -                     |
| Termination loss of lessor leases                                                       | 595,705               | -                     |
| Commission rebate from San Francisco building sale                                      | 364,327               | -                     |
| Transfer of tenant security deposits & prepaid rent through escrow                      | 361,195               | -                     |
| Acquisition of capital assets through leases and subscriptions                          | 55,423,752            | -                     |

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, 2023 and 2022

**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 (“Board”). 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 non-attorney 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 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, 2023 and 2022

**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 statements of net position based on final approved applications by the Client Security Fund Commission. For 2023 and 2022 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 and activities to enhance access, fairness, and diversity in the legal profession and elimination of bias in the practice of law. In the 2023 and 2022 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. This fund was closed as of December 31, 2022.

***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, 2023 and 2022

**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 license 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, short-term investments, 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, 2023 and 2022

**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*** – As of December 31, 2022, the State Bar’s restricted cash included loan proceeds from the loan agreement with Sterling Bank that were to be used for specified capital projects. On November 14, 2023, the State Bar paid off the restricted portion of its loan with Sterling Bank using proceeds from the sale of the San Francisco office building. Remaining loan funds are classified as cash and cash equivalents at the end of 2023 as the restrictions on the use was removed.

***Capital Assets*** – 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. 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 are amortized over the shorter of the term of the lease or its useful life.

Lease and subscription assets are defined as a contract that conveys control of the right to use another entity’s underlying asset or information technology software, alone or in combination with tangible capital assets, for a specified period. The State Bar has established capitalization thresholds of \$10,000 for leases and \$25,000 for subscription assets. Lease and subscription assets are amortized on a straight-line basis over the contract term.

***Unearned Fees Collected in Advance*** – Unearned fees collected in advance are recognized as income when earned and are presented in the accompanying statements of net position. Accordingly, fees are recorded as revenue in the year to which the fees apply.

***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. 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.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Nonoperating Revenues and Expenses*** – Nonoperating revenues and expenses consist of investment income, realized and unrealized gains or losses on investments, rental income, and interest expenses on loans, leases, and subscriptions. The gain or loss from the sale or disposition of capital assets is also reported as nonoperating revenue or expense.

***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, 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 Commission, it will be recognized as an outstanding obligation in the State Bar’s financial statements. Application reimbursements in the CSF were approximately \$6.2 million and \$3.8 million for the years ended December 31, 2023 and 2022, respectively.

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

***Restricted Net Position*** – Restricted net position reflects the portion of 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 \$219.7 million as of December 31, 2023, of which \$218.4 million was restricted by enabling legislation; and \$85.5 million as of December 31, 2022, of which \$85.0 million was restricted by enabling legislation.

***Net Investment in Capital Assets*** – Net investment in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization, 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 \$43.6 million as of December 31, 2023, and negative \$47.0 million as of December 31, 2022.

***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, 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.

***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 that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

***Leases and Subscription-Based Information Technology Arrangements (SBITAs)*** – Leases are defined as contracts that conveys control 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. SBITAs are defined as a contract that conveys control of the right-to-use another entity’s IT software, alone or in combination with tangible capital assets for a specified period. The State Bar is a lessee and lessor for various leases of building and equipment. The State Bar has noncancellable subscription IT arrangements for the right-to-use various information technology hardware and software (SBITAs).

For short-term leases and SBITAs with a maximum possible term of 12 months or less at commencement, the State Bar recognizes lease revenues or expenses based on the payment provisions of the lease agreements or SBITAs.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement of Lease or Subscription Amounts as Lessee or Subscriber*

As lessee or subscriber, the State Bar recognizes a lease or subscription liability and an intangible right-to-use asset at the beginning of the lease or subscription. The State Bar's lease and subscription liability is measured as the net present value of future minimum lease or subscription payments expected to be made during the lease term, less any lease incentives received or reasonably expected to be received, as of the date of commencement. The lease or subscription liability is reduced by the principal portion of the lease payments subsequently made. The lease or subscription asset is measured as the initial amount of the lease or subscription liability, less payments made at or before the lease or subscription commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any incentives received at or before the commencement date. For SBITAs, subscription assets also include qualifying software implementation costs. The lease or subscription asset is subsequently amortized on a straight-line basis over the lease or subscription term.

*Measurement of Lease Amounts as Lessor*

As lessor, the State Bar recognizes a lease receivable based on the net present value of future lease payments expected to be received during the lease term and a deferred inflow of resources based on the net present value plus any payments received at or before the commencement date that relate to future periods. Amortization of the receivable is reported as lease and interest revenues. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease.

*Estimates and Judgments*

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

*Lease or Subscription Term*

The lease or subscription term includes the noncancellable period of the lease or subscription, plus any additional periods covered by either the State Bar's or the other party's unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised.

*Discount Rates*

As lessor, the State Bar discounts future lease payments to be received using the interest rate implicit in the lease.

The State Bar was the lessor for the San Francisco building prior to the building sale and is the lessor for the Los Angeles building. 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 were used for the lessor interest rates. The State Bar applied 2.76% to the San Francisco building leases and 2.3% to one Los Angeles building lease.

As lessee, the State Bar generally uses its estimated incremental borrowing rate (IBR) as the discount rate for leases and subscriptions unless the rate is implicit in the lease or SBITA.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
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Years Ended December 31, 2023 and 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The IBR is based on the rate of interest the State Bar would need to pay it if it borrowed an amount equal to the lease or subscription payments under similar terms at the commencement or remeasurement date.

For leases executed prior to the implementation date of GASB 87, the State Bar used an IBR of 1.83% that 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%). IBRs for subsequent leases were calculated by taking the 30-day average SOFR on the contract execution date plus 175 basis points.

For subscription arrangements entered into prior to the implementation date of GASB 96, the State Bar used an IBR of 5.88% based on the 30-Day Average Federal Reserve Bank of New York SOFR of 4.13% plus 175 basis points. For SBITAs executed in 2023, an annual IBR of 6.78% was applied. The 2023 annual IBR was calculated by taking the average of the 90-day average SOFR on the last day of each quarter in 2023 plus 175 basis points. The State Bar will create an annual IBR going forward and apply it to new contracts without discount rates specified in the contracts.

*Presentation in Statements of Net Position*

Lease and subscription assets are reported in both current and noncurrent assets. Lease and subscription liabilities are reported with current and noncurrent liabilities in the statements of net position.

**Effects of New Pronouncements** – During the years ended December 31, 2023 and 2022, the State Bar implemented the following GASB Statements:

**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 financing of the right-to-use an underlying asset. The State Bar implemented this statement in 2022. See note 8 to the financial statements for further information.

**GASB Statement No. 94** – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves 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). The State Bar implemented this statement in 2023, which did not have a significant impact on its financial statements.

**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. The State Bar implemented this statement in 2023. See note 9 to the financial statements for further information.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
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Years Ended December 31, 2023 and 2022

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. 99*** – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022* to address a variety of topics. The requirements related to leases, public-private partnerships (PPPs), and SBITAs are effective for the State Bar’s year ended 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.

***GASB Statement No. 102*** – In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement requires governments to assess and disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints. GASB 102 is effective for the State Bar’s year ending December 31, 2025.

**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash, cash equivalents, and investments as of December 31, 2023 and 2022 are classified in the financial statements as follows:

|                           | 2023                  | 2022                  |
|---------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 287,570,908        | \$ 133,357,937        |
| Investments               | 26,071,310            | 22,583,103            |
| Restricted cash           | -                     | 9,287,909             |
| Totals                    | <u>\$ 313,642,218</u> | <u>\$ 165,228,949</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, 2023, the carrying amount of the State Bar’s unrestricted deposits is \$287,570,908 and the bank balance is \$288,591,267. 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. The State Bar had restricted deposits held by the bank in the amount of \$9,287,909 at December 31, 2022. After the State Bar’s San Francisco office building was sold in November 2023, the cash in the loan proceeds accounts are no longer restricted and there is no restricted deposit at December 31, 2023. 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.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

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

The State Bar’s pooled cash and cash equivalents at December 31, 2023 and 2022 is composed of:

|                 | 2023                  | 2022                  |
|-----------------|-----------------------|-----------------------|
| LAIF            | \$ 33,720,952         | \$ 73,995,648         |
| Other cash      | 253,849,956           | 59,362,289            |
| Restricted cash | -                     | 9,287,909             |
| Total           | <u>\$ 287,570,908</u> | <u>\$ 142,645,846</u> |

The State Bar is a voluntary participant in the California Local Agency Investment Fund (“LAIF”) that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (“LIAB”). The LIAB consists of five members as designated by state statute. The fair value of the State Bar’s investment in the LAIF pool is reported in the financial statements at amounts based upon the State Bar’s pro-rata share of the fair value provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the State Bar’s position in the LAIF pool.

LAIF is part of the State’s Pooled Money Investment Account (“PMIA”) that allows state and local government agencies to place money into the fund. LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than \$5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit but are limited to one withdrawal every 30 days.

As of December 31, 2023, the PMIA balance is \$158.0 billion, of which 97.95% is invested in nonderivative financial products with 2.05% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$21.0 billion, and the State Bar’s investment in LAIF is \$33.7 million. The average maturity of PMIA investments is 230 days as of December 31, 2023. 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 \$74.8 million. The average maturity of PMIA investments is 287 days as of December 31, 2022.

**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.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

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

***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 in 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 that do not have a readily available market price; 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 data and that are significant to the fair value of the assets or liabilities.

The fair value measurements of investments at December 31, 2023 and 2022, are as follows:

| Description                              | 12/31/2023            | Fair value measurements using |                       |             |
|------------------------------------------|-----------------------|-------------------------------|-----------------------|-------------|
|                                          |                       | Level 1                       | Level 2               | Level 3     |
| Investments by fair value level          |                       |                               |                       |             |
| U.S. government agencies*                | \$ 111,665,755        | \$ -                          | \$ 111,665,755        | \$ -        |
| Municipal bond                           | 1,246,650             | -                             | 1,246,650             | -           |
| U.S. treasury securities                 | 4,947,656             | 4,947,656                     | -                     | -           |
| Commercial paper                         | 4,821,950             | 4,821,950                     | -                     | -           |
| Common stock                             | 208,235               | 208,235                       | -                     | -           |
| Total investments measured at fair value | <u>\$ 122,890,246</u> | <u>\$ 9,977,841</u>           | <u>\$ 112,912,405</u> | <u>\$ -</u> |

\*Includes \$96,818,936 U.S. government agency securities with less than 3 months maturity at purchase and classified as cash equivalent.

| 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> |

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

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

Common stock, commercial paper and U.S. treasury securities 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.

**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, 2023 and 2022, are as follows:

| <b>Issuer</b>          | <b>Investment Type</b>    | <b>2023<br/>Fair Value</b> | <b>Percentage<br/>of Portfolio</b> |
|------------------------|---------------------------|----------------------------|------------------------------------|
| Federal Home Loan Bank | U.S government agencies * | \$ 111,665,755             | 90.9%                              |

\*Includes \$96,818,936 U.S. government agency securities with less than 3 months maturity at purchase and classified as cash equivalent.

| <b>Issuer</b>                                | <b>Investment Type</b>  | <b>2022<br/>Fair Value</b> | <b>Percentage<br/>of Portfolio</b> |
|----------------------------------------------|-------------------------|----------------------------|------------------------------------|
| 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%                              |

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**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, 2023 and 2022, are as follows:

|                          | <u>Fair value</u>     | <u>Fair value as a<br/>percentage of fixed<br/>income securities</u> | <u>Weighted average<br/>maturity (years)</u> |
|--------------------------|-----------------------|----------------------------------------------------------------------|----------------------------------------------|
| <b>December 31, 2023</b> |                       |                                                                      |                                              |
| U.S government agencies* | \$ 111,665,755        | 91.0%                                                                | 0.3                                          |
| Municipal bonds          | 1,246,650             | 1.0%                                                                 | 0.1                                          |
| U.S. treasury securities | 4,947,656             | 4.0%                                                                 | 0.5                                          |
| Commercial paper         | 4,821,950             | 4.0%                                                                 | 0.7                                          |
|                          | <u>\$ 122,682,011</u> | <u>100.0%</u>                                                        |                                              |

\*Includes \$96,818,936 U.S. government agency securities with less than 3 months maturity at purchase and classified as cash equivalent.

|                          | <u>Fair value</u>    | <u>Fair value as a<br/>percentage of fixed<br/>income securities</u> | <u>Weighted average<br/>maturity (years)</u> |
|--------------------------|----------------------|----------------------------------------------------------------------|----------------------------------------------|
| <b>December 31, 2022</b> |                      |                                                                      |                                              |
| 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                                          |
| Commercial paper         | 4,886,553            | 21.9%                                                                | 0.5                                          |
|                          | <u>\$ 22,356,987</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, 2023 and 2022, are as follows:

|                               | <u>2023</u>           |                                                             | <u>2022</u>          |                                                             |
|-------------------------------|-----------------------|-------------------------------------------------------------|----------------------|-------------------------------------------------------------|
| <b>S&amp;P's rating</b>       | <u>Fair value</u>     | <u>Fair value as a %<br/>of fixed income<br/>securities</u> | <u>Fair value</u>    | <u>Fair value as a %<br/>of fixed income<br/>securities</u> |
| AA+                           | \$ 9,986,579          | 8.0%                                                        | \$ 4,844,159         | 21.7%                                                       |
| AA-                           | -                     | 0.0%                                                        | 1,216,000            | 5.4%                                                        |
| A+                            | -                     | 0.0%                                                        | 1,624,204            | 7.3%                                                        |
| A-1                           | 4,821,950             | 4.0%                                                        | 4,886,553            | 21.9%                                                       |
| NR*                           | 107,873,482           | 88.0%                                                       | 9,786,071            | 43.7%                                                       |
| Total fixed income securities | <u>\$ 122,682,011</u> | <u>100.0%</u>                                               | <u>\$ 22,356,987</u> | <u>100.0%</u>                                               |

\*2023 includes \$96,818,936 U.S. government agency securities with less than 3 months maturity at purchase and classified as cash equivalent.

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**5. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2023 and 2022, are as follows:

|                                                           | <b>Balance<br/>January 1, 2023</b> | <b>Increases</b>     | <b>Decreases</b>       | <b>Balance<br/>December 31, 2023</b> |
|-----------------------------------------------------------|------------------------------------|----------------------|------------------------|--------------------------------------|
| Capital assets, not being depreciated:                    |                                    |                      |                        |                                      |
| Land                                                      | \$ 19,537,615                      | \$ -                 | \$ (1,212,615)         | \$ 18,325,000                        |
| Work in progress                                          | 2,537,836                          | 2,890,453            | (5,335,018)            | 93,271                               |
| Total capital assets, not being depreciated               | <u>22,075,451</u>                  | <u>2,890,453</u>     | <u>(6,547,633)</u>     | <u>18,418,271</u>                    |
| Capital assets, being depreciated:                        |                                    |                      |                        |                                      |
| Buildings and leasehold improvements                      | 94,960,294                         | 1,038,556            | (43,994,837)           | 52,004,013                           |
| 180 Howard Tenant Improvements                            | 15,330,940                         | -                    | (15,330,940)           | -                                    |
| Equipment and software                                    | 21,489,818                         | 1,616,832            | (7,382,612)            | 15,724,038                           |
| Furniture and fixtures                                    | 5,512,099                          | 161,444              | -                      | 5,673,543                            |
| Total capital assets, being depreciated                   | <u>137,293,151</u>                 | <u>2,816,832</u>     | <u>(66,708,389)</u>    | <u>73,401,594</u>                    |
| Less accumulated depreciation for:                        |                                    |                      |                        |                                      |
| Buildings and leasehold improvements                      | (35,727,391)                       | (3,129,798)          | 25,929,441             | (12,927,748)                         |
| 180 Howard Tenant Improvements                            | (4,235,269)                        | (6,718)              | 4,241,987              | -                                    |
| Equipment and software                                    | (15,969,806)                       | (2,955,822)          | 7,366,833              | (11,558,795)                         |
| Furniture and fixtures                                    | (5,128,428)                        | (426,564)            | -                      | (5,554,992)                          |
| Total accumulated depreciation                            | <u>(61,060,894)</u>                | <u>(6,518,902)</u>   | <u>37,538,261</u>      | <u>(30,041,535)</u>                  |
| Total capital assets, being depreciated, net              | <u>76,232,257</u>                  | <u>(3,702,070)</u>   | <u>(29,170,128)</u>    | <u>43,360,059</u>                    |
| Right-to-use assets, being amortized:                     |                                    |                      |                        |                                      |
| Right-to-use lease assets (Note 8)                        | 1,830,804                          | 51,501,897           | -                      | 53,332,701                           |
| Less accumulated amortization for lease assets            | (1,001,875)                        | (962,648)            | -                      | (1,964,523)                          |
| Right-to-use subscription assets (Note 9)                 | -                                  | 3,921,855            | -                      | 3,921,855                            |
| Less accumulated amortization for subscription assets     | -                                  | (1,205,061)          | -                      | (1,205,061)                          |
| Total right-to-use assets, being amortized, net           | <u>828,929</u>                     | <u>53,256,043</u>    | <u>-</u>               | <u>54,084,972</u>                    |
| Total capital assets, being depreciated or amortized, net | <u>\$ 99,136,637</u>               | <u>\$ 52,444,426</u> | <u>\$ (35,717,761)</u> | <u>\$ 115,863,302</u>                |

  

|                                                           | <b>Balance<br/>January 1, 2022</b> | <b>Increases</b>      | <b>Decreases</b>      | <b>Balance<br/>December 31, 2022</b> |
|-----------------------------------------------------------|------------------------------------|-----------------------|-----------------------|--------------------------------------|
| 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:                     |                                    |                       |                       |                                      |
| Right-to-use lease assets (Note 8)                        | 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>                 |

**THE STATE BAR OF CALIFORNIA**  
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**5. CAPITAL ASSETS (Continued)**

Depreciation expenses for the years ended December 31, 2023 and 2022 was \$6,518,902 and \$6,718,638, respectively. Amortization expenses for right-to-use assets for the years ended December 31, 2023 and 2022 was \$2,167,709 and \$508,303 respectively.

**6. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

At December 31, 2023 and 2022, accounts payable and other current liabilities consisted of the following:

|                                              | <u>2023</u>          | <u>2022</u>          |
|----------------------------------------------|----------------------|----------------------|
| Accounts payable                             | \$ 5,356,695         | \$ 6,879,077         |
| Compensated absences, current portion        | 3,426,188            | 2,881,476            |
| Other liabilities                            | <u>4,505,778</u>     | <u>4,884,743</u>     |
| Total accounts payable and other liabilities | <u>\$ 13,288,661</u> | <u>\$ 14,645,296</u> |

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><br><u>January 1, 2023</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u><br><u>December 31, 2023</u> | <u>Amount</u><br><u>Due Within</u><br><u>One Year</u> |
|----------------------|------------------------------------------|------------------|-------------------|--------------------------------------------|-------------------------------------------------------|
| Compensated absences | \$ 7,203,690                             | \$ 7,785,743     | \$ (6,423,965)    | \$ 8,565,468                               | \$ 3,426,188                                          |

  

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

**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 Improvements 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. On November 14, 2023, the State Bar's San Francisco building was sold and both taxable and tax-exempt loans related to the San Francisco building were paid off through escrow with sale proceeds from the building. The outstanding loan balance of the San Francisco loan was \$18,582,990 as of December 31, 2022, and there is no outstanding San Francisco loan balance as of December 31, 2023.

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Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**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, 2023 and 2022, the outstanding loan balance was \$11,596,000 and \$12,426,000, respectively.

|               | <b>Balance</b>           |                        | <b>Balance</b>           | <b>Amount</b>     |
|---------------|--------------------------|------------------------|--------------------------|-------------------|
|               | <b>December 31, 2022</b> | <b>Repayments</b>      | <b>December 31, 2023</b> | <b>Due Within</b> |
|               |                          |                        |                          | <b>One Year</b>   |
| San Francisco | \$ 18,582,990            | \$ (18,582,990)        | \$ -                     | \$ -              |
| Los Angeles   | 12,426,000               | (830,000)              | 11,596,000               | 849,000           |
| Total         | <u>\$ 31,008,990</u>     | <u>\$ (19,412,990)</u> | <u>\$ 11,596,000</u>     | <u>\$ 849,000</u> |

  

|               | <b>Balance</b>           |                       | <b>Balance</b>           | <b>Amount</b>       |
|---------------|--------------------------|-----------------------|--------------------------|---------------------|
|               | <b>December 31, 2021</b> | <b>Repayments</b>     | <b>December 31, 2022</b> | <b>Due Within</b>   |
|               |                          |                       |                          | <b>One Year</b>     |
| San Francisco | \$ 20,490,573            | \$ (1,907,583)        | \$ 18,582,990            | \$ 1,959,746        |
| Los Angeles   | 13,237,000               | (811,000)             | 12,426,000               | 830,000             |
| Total         | <u>\$ 33,727,573</u>     | <u>\$ (2,718,583)</u> | <u>\$ 31,008,990</u>     | <u>\$ 2,789,746</u> |

The annual repayment schedule as of December 31, 2023, is as follows:

| Year Ending December 31, | <b>Principal</b>     | <b>Interest</b>     |
|--------------------------|----------------------|---------------------|
| 2024                     | \$ 849,000           | \$ 259,423          |
| 2025                     | 869,000              | 239,723             |
| 2026                     | 889,000              | 219,564             |
| 2027                     | 909,000              | 198,944             |
| 2028                     | 931,000              | 177,848             |
| 2029-2033                | 4,988,000            | 555,128             |
| 2034-2035                | <u>2,161,000</u>     | <u>56,292</u>       |
| Total                    | <u>\$ 11,596,000</u> | <u>\$ 1,706,922</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 State Bar, and require the State Bar 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.

**THE STATE BAR OF CALIFORNIA**  
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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 16 years.

A summary of intangible right-to-use lease activities for the years ended December 31, 2023 and 2022, are as follows:

|                                | <u>Balance</u><br><u>January 1, 2023</u> | <u>Additions</u> | <u>Remeasurements</u> | <u>Deductions</u> | <u>Balance</u><br><u>December 31, 2023</u> |
|--------------------------------|------------------------------------------|------------------|-----------------------|-------------------|--------------------------------------------|
| Right-to-use assets:           |                                          |                  |                       |                   |                                            |
| Building                       | \$ 421,110                               | \$ 51,287,572    | \$ -                  | \$ -              | \$ 51,708,682                              |
| Equipment                      | 1,409,694                                | 184,339          | 29,986                | -                 | 1,624,019                                  |
| Total lease assets             | 1,830,804                                | 51,471,911       | 29,986                | -                 | 53,332,701                                 |
| Less accumulated amortization: |                                          |                  |                       |                   |                                            |
| Right-to-use assets:           |                                          |                  |                       |                   |                                            |
| Building                       | (190,692)                                | (512,607)        | -                     | -                 | (703,299)                                  |
| Equipment                      | (811,183)                                | (450,041)        | -                     | -                 | (1,261,224)                                |
| Total accumulated amortization | (1,001,875)                              | (962,648)        | -                     | -                 | (1,964,523)                                |
| Total lease assets, net        | \$ 828,929                               | \$ 50,509,263    | \$ 29,986             | \$ -              | \$ 51,368,178                              |
|                                |                                          |                  |                       |                   |                                            |
|                                | <u>Balance</u><br><u>January 1, 2022</u> | <u>Additions</u> | <u>Remeasurements</u> | <u>Deductions</u> | <u>Balance</u><br><u>December 31, 2022</u> |
| Right-to-use assets:           |                                          |                  |                       |                   |                                            |
| Building                       | \$ 421,110                               | \$ -             | \$ -                  | \$ -              | \$ 421,110                                 |
| Equipment                      | 1,409,694                                | -                | -                     | -                 | 1,409,694                                  |
| Total lease assets             | 1,830,804                                | -                | -                     | -                 | 1,830,804                                  |
| Less accumulated amortization: |                                          |                  |                       |                   |                                            |
| Right-to-use assets:           |                                          |                  |                       |                   |                                            |
| Building                       | (95,346)                                 | (95,346)         | -                     | -                 | (190,692)                                  |
| Equipment                      | (398,226)                                | (412,957)        | -                     | -                 | (811,183)                                  |
| Total accumulated amortization | (493,572)                                | (508,303)        | -                     | -                 | (1,001,875)                                |
| Total lease assets, net        | \$ 1,337,232                             | \$ (508,303)     | \$ -                  | \$ -              | \$ 828,929                                 |

On November 14, 2023, the State Bar entered into a sale-leaseback transaction for its San Francisco office building. Accordingly, the State Bar removed the carrying values of the building and related capital assets and recorded the lease asset and related liabilities. The difference between the net proceeds from the sale and the carrying value of the capital assets resulted in a gain of \$13.1 million that is reported as a deferred inflow of resources related to lease items to be recognized over the term of the lease.

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**8. LEASES (Continued)**

A summary of changes in the related lease liabilities for the years ended December 31, 2023 and 2022, are as follows:

|                 | <u>Balance</u><br><u>January 1, 2023</u> | <u>Additions</u> | <u>Remeasurements</u> | <u>Deductions</u> | <u>Balance</u><br><u>December 31, 2023</u> | <u>Amounts due</u><br><u>within one year</u> |
|-----------------|------------------------------------------|------------------|-----------------------|-------------------|--------------------------------------------|----------------------------------------------|
| Lease Liability | \$ 791,906                               | \$ 51,471,911    | \$ 29,986             | \$ (1,284,335)    | \$ 51,009,468                              | \$ 2,633,338                                 |

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

Future annual lease payments as of the year ended December 31, 2023, is as follows:

| Year ending December 31:                  | <u>Principal</u><br><u>amount</u> | <u>Interest</u><br><u>amount</u> | <u>Total</u>         |
|-------------------------------------------|-----------------------------------|----------------------------------|----------------------|
| 2024                                      | \$ 2,633,338                      | \$ 3,505,861                     | \$ 6,139,199         |
| 2025                                      | 1,123,277                         | 3,385,752                        | 4,509,029            |
| 2026                                      | 1,286,671                         | 3,303,259                        | 4,589,930            |
| 2027                                      | 1,470,617                         | 3,205,253                        | 4,675,870            |
| 2028                                      | 1,723,043                         | 3,093,161                        | 4,816,204            |
| 2029-2033                                 | 13,262,528                        | 13,073,043                       | 26,335,571           |
| 2034-2038                                 | 23,863,563                        | 6,666,494                        | 30,530,057           |
| 2039                                      | 5,646,431                         | 194,693                          | 5,841,124            |
| Total                                     | 51,009,468                        | <u>\$36,427,516</u>              | <u>\$ 87,436,984</u> |
| Less: Current Portion                     | <u>(2,633,338)</u>                |                                  |                      |
| Long-term portion as of December 31, 2023 | <u>\$ 48,376,130</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, 2023 and 2022.

**State Bar as Lessor**

The State Bar was a lessor for its San Francisco building before the building was sold on November 14, 2023. It also leases certain space of its Los Angeles building to one tenant as retail space. The term for the Los Angeles lease is 20 years.

Total lease revenue and interest revenue recognized under GASB 87 during the years ended December 31, 2023, and December 31, 2022, were \$2,617,421 and \$3,674,473, 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 \$46,970 and \$36,057 during the years ended December 31, 2023 and 2022, respectively.

Principal and interest requirements to maturity for the lease receivable for the year ended December 31, 2023, are as follows:

| Year ending December 31:                  | Principal<br>amount | Interest<br>amount | Total        |
|-------------------------------------------|---------------------|--------------------|--------------|
| 2023                                      | \$ 365,164          | \$ 90,990          | \$ 456,154   |
| 2024                                      | 373,652             | 82,502             | 456,154      |
| 2025                                      | 382,337             | 73,817             | 456,154      |
| 2026                                      | 391,224             | 64,930             | 456,154      |
| 2027                                      | 421,427             | 55,635             | 477,062      |
| 2028-2032                                 | 2,188,965           | 126,019            | 2,314,984    |
| Total                                     | 4,122,769           | \$ 493,893         | \$ 4,616,662 |
| Less: Current Portion                     | (365,164)           |                    |              |
| Long-term portion as of December 31, 2023 | \$ 3,757,605        |                    |              |

**9. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)**

The State has subscription arrangements for the right-to-use various information technology hardware and software. Some of these arrangements cover a period of multiple years and are subject to the provisions of GASB Statement No. 96.

A summary of intangible right-to-use subscription IT assets for the year ended December 31, 2023, are as follows:

|                                | Balance<br>January 1, 2023 | Additions    | Remeasurements | Deductions | Balance<br>December 31, 2023 |
|--------------------------------|----------------------------|--------------|----------------|------------|------------------------------|
| Subscription assets            | \$ -                       | \$ 3,921,855 | \$ -           | \$ -       | \$ 3,921,855                 |
| Less accumulated amortization: | -                          | (1,205,061)  | -              | -          | (1,205,061)                  |
| Total subscription assets, net | \$ -                       | \$ 2,716,794 | \$ -           | \$ -       | \$ 2,716,794                 |

A summary of changes in the related subscription liabilities for the year ended December 31, 2023, is as follows:

|                        | Balance<br>January 1, 2023 | Additions    | Remeasurements | Deductions     | Balance<br>December 31, 2023 | Amounts due<br>within one year |
|------------------------|----------------------------|--------------|----------------|----------------|------------------------------|--------------------------------|
| Subscription liability | \$ -                       | \$ 3,921,855 | \$ -           | \$ (1,410,987) | \$ 2,510,868                 | \$ 1,234,596                   |

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**9. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)**  
**(Continued)**

Future annual subscription payments as of the year ended December 31, 2023, are as follows:

| Year ending December 31:                  | <b>Principal<br/>amount</b> | <b>Interest<br/>amount</b> | <b>Total</b>        |
|-------------------------------------------|-----------------------------|----------------------------|---------------------|
| 2024                                      | \$ 1,234,596                | \$ 143,555                 | \$ 1,378,151        |
| 2025                                      | 826,961                     | 69,931                     | 896,892             |
| 2026                                      | 264,247                     | 20,635                     | 284,882             |
| 2027                                      | 185,064                     | 4,857                      | 189,921             |
| Total                                     | 2,510,868                   | <u>\$ 238,978</u>          | <u>\$ 2,749,846</u> |
| Less: Current Portion                     | <u>(1,234,596)</u>          |                            |                     |
| Long-term portion as of December 31, 2023 | <u>\$ 1,276,272</u>         |                            |                     |

**Variable SBITA Payments** – Variable SBITA payments based on usage, future performance of a government, number of user seats, or not considered fixed in substance are excluded from the measurement of the subscription liabilities. They are recognized as subscription expenses in the period incurred. The amount recognized as expenses for variable SBITA payments and not included in the measurement of the subscription liabilities was \$1,300,495 for the year ended December 31, 2023.

**Restatement** – The State Bar did not restate prior year's financial statement as it was not practical given the immaterial impact. Restating would have been a time-consuming process considering the current limitations of the reporting tools.

**10. 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 full-time 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.

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**10. PENSION PLAN (Continued)**

**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, 2023, the most recent information available, the State Bar’s pension plan included 577 active employees, 483 inactive employees entitled to but not yet receiving benefits, and 634 inactive employees or beneficiaries currently receiving benefits. All members are eligible for non-duty disability benefits after 10 years of service.

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, 2023 and 2022, are summarized as follows:

| Hire Date                                                     | Prior to<br>January 1, 2013 | On or after<br>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 employer contribution rates - 7/1/2021 to 6/30/2022  | 20.30%                      | 20.30%                         |
| Required employer contribution rates - 7/1/2022 to 6/30/2023  | 19.85%                      | 19.85%                         |
| Required employer contribution rates - 7/1/2023 to 12/31/2023 | 17.26%                      | 17.26%                         |

**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.

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**10. PENSION PLAN (Continued)**

**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, 2023, the total pension liability for the Plan is measured as of June 30, 2023, using an annual actuarial valuation as of June 30, 2022, rolled forward to June 30, 2023, using standard procedures. 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.

**Actuarial Assumptions** – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2023, and 2022, are as follows:

|                                  |                                            |               |
|----------------------------------|--------------------------------------------|---------------|
| Valuation Date                   | June 30, 2022                              | June 30, 2021 |
| Measurement Date                 | June 30, 2023                              | June 30, 2022 |
| Actuarial Cost Method            | Entry-Age Normal Cost                      |               |
| Actuarial Assumptions:           |                                            |               |
| Discount Rate                    | 6.90%                                      | 6.90%         |
| Inflation                        | 2.30%                                      | 2.30%         |
| Payroll Growth                   | 2.80%                                      | 2.80%         |
| Projected Salary Increase        | Varies by entry age and service            |               |
| Post Retirement Benefit Increase | (1)                                        |               |
| Mortality                        | Derived using CalPERS' membership data (2) |               |

(1) During the measurement period 2023 and 2022, the lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter.

(2) The mortality table used was developed based on CalPERS-specific data. As of June 30, 2023, and June 30, 2022, the probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 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 that can be found on the CalPERS website.

The actuarial assumptions used in the June 30, 2022, and June 30, 2021, valuations 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. Further details of the experience study can be found on the CalPERS website.

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**10. PENSION PLAN (Continued)**

**Discount Rate** – The discount rate used to measure the total pension liability for the Plan as of June 30, 2023, and 2022, was 6.90 percent. 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, 2023, and June 30, 2022, are as follows:

| <u>Asset Class</u>               | <u>Assumed asset<br/>Allocation</u> | <u>Real return (a), (b)</u> |
|----------------------------------|-------------------------------------|-----------------------------|
| 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                            | 100.00%                             |                             |

(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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**10. PENSION PLAN (Continued)**

***Changes in the Net Pension Liability*** – The changes in the Net Pension Liability for the Plan for the year ended December 31, 2023 and 2022, are as follows:

|                                                               | Increase (Decrease)     |                             |                       |
|---------------------------------------------------------------|-------------------------|-----------------------------|-----------------------|
|                                                               | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| <b>Balance at June 30, 2022</b>                               | <b>\$ 463,211,034</b>   | <b>\$ 381,861,682</b>       | <b>\$ 81,349,352</b>  |
| <b>Changes in the year:</b>                                   |                         |                             |                       |
| Service cost                                                  | 10,687,502              | -                           | 10,687,502            |
| Interest on the total pension liability                       | 32,099,352              | -                           | 32,099,352            |
| Changes of benefit terms                                      | 445,283                 | -                           | 445,283               |
| Differences between actual and expected experience            | 8,648,044               | -                           | 8,648,044             |
| Contribution - employer                                       | -                       | 13,004,411                  | (13,004,411)          |
| Contribution - employee                                       | -                       | 4,860,008                   | (4,860,008)           |
| Net investment income                                         | -                       | 23,359,308                  | (23,359,308)          |
| Administrative expenses                                       | -                       | (280,803)                   | 280,803               |
| Benefit payments, including refunds of employee contributions | (24,880,232)            | (24,880,232)                | -                     |
| <b>Net changes</b>                                            | <b>26,999,949</b>       | <b>16,062,692</b>           | <b>10,937,257</b>     |
| <b>Balance at June 30, 2023</b>                               | <b>\$ 490,210,983</b>   | <b>\$ 397,924,374</b>       | <b>\$ 92,286,609</b>  |

|                                                               | Increase (Decrease)     |                             |                       |
|---------------------------------------------------------------|-------------------------|-----------------------------|-----------------------|
|                                                               | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| <b>Balance at June 30, 2021</b>                               | <b>\$ 439,966,442</b>   | <b>\$ 418,622,643</b>       | <b>\$ 21,343,799</b>  |
| <b>Changes in the year:</b>                                   |                         |                             |                       |
| 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)                | -                     |
| <b>Net changes</b>                                            | <b>23,244,592</b>       | <b>(36,760,961)</b>         | <b>60,005,553</b>     |
| <b>Balance at June 30, 2022</b>                               | <b>\$ 463,211,034</b>   | <b>\$ 381,861,682</b>       | <b>\$ 81,349,352</b>  |

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**10. PENSION PLAN (Continued)**

***Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*** – The State Bar recognized pension expense of \$19,483,021 for the year ended December 31, 2023, and pension expense of \$12,012,240 for the year ended December 31, 2022. Deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

|                                                                             | <b>2023</b>                                   |                                              |
|-----------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
|                                                                             | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
| Changes in assumptions                                                      | \$ 2,574,238                                  | \$ -                                         |
| Differences between actual and expected experience                          | 6,245,810                                     | (882,497)                                    |
| Contributions made after the measurement date: June 30, 2023                | 5,851,627                                     | -                                            |
| Net differences between projected and actual earning<br>on plan investments | 18,383,201                                    | -                                            |
| Total                                                                       | <u>\$ 33,054,876</u>                          | <u>\$ (882,497)</u>                          |

|                                                                             | <b>2022</b>                                   |                                              |
|-----------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
|                                                                             | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
| 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<br>on plan investments | 19,448,877                                    | -                                            |
| Total                                                                       | <u>\$ 30,143,693</u>                          | <u>\$ (2,042,039)</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, 2023 and 2022, the State Bar reported \$5,851,627 and \$6,239,549, 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, 2024 and 2023, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension as of December 31, 2023, will be recognized as pension expense as follows:

| <u><b>Year Ending December 31</b></u> |                      |
|---------------------------------------|----------------------|
| 2024                                  | \$ 6,604,599         |
| 2025                                  | 5,221,140            |
| 2026                                  | 13,952,375           |
| 2027                                  | <u>542,638</u>       |
| Total                                 | <u>\$ 26,320,752</u> |

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**10. PENSION PLAN (Continued)**

***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 State Bar’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:

|                              | <b>1% Decrease<br/>5.90%</b> | <b>Current Discount Rate<br/>6.90%</b> | <b>1% Increase<br/>7.90%</b> |
|------------------------------|------------------------------|----------------------------------------|------------------------------|
| As of December 31, 2023      |                              |                                        |                              |
| Plan's net pension liability | \$ 154,709,615               | \$ 92,286,609                          | \$ 40,511,385                |
| As of December 31, 2022      |                              |                                        |                              |
| Plan's net pension liability | \$ 140,964,080               | \$ 81,349,352                          | \$ 31,864,486                |

**11. 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 service 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.

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**11. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)**

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 \$151 per month for 2023 but is adjusted by CalPERS on an annual basis. In 2023, the State Bar contributed \$151 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, 2023, 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. On April 16, 2020, an Amended and Restated Plan was adopted by the Board of Trustees.

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.

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**11. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)**

***Net OPEB Liability and Assumptions:*** The net OPEB liability for the OPEB Plan is measured as the total OPEB liability, less the OPEB plan’s fiduciary net position. For the years ended December 31, 2023 and 2022, the total OPEB liability for the OPEB Plan is measured as of June 30, 2023 and 2022, respectively, using an annual actuarial valuation as of January 1, 2022.

The total OPEB liability in the January 1, 2022, actuarial valuation was 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          | 6.50%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 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 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. |
| 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.

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**11. 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<br/>Return (30 yrs)</u> |
|-----------------------------------------|-------------------------|-------------------------------------------------------|
| Global Equity                           | 36%                     | 8.77%                                                 |
| U.S. Fixed Income                       | 37%                     | 4.57%                                                 |
| Treasury Inflation-Protected Securities | 7%                      | 4.08%                                                 |
| Real Estate Investment Trusts           | 17%                     | 9.84%                                                 |
| Commodities                             | 3%                      | 5.36%                                                 |
| Total                                   | <u>100%</u>             |                                                       |

Expected Geometric Return (30 yrs) - 6.52%

The discount rate used to measure the total OPEB liability was 6.50 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.

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**11. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)**

***Changes in the Net OPEB Liability*** The changes in the net OPEB liability of the OPEB Plan, measured as of June 30, 2023 and 2022, are as follows:

|                                                                                                         | Increase (Decrease)             |                                        |                               |
|---------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------------|-------------------------------|
|                                                                                                         | <b>Total OPEB<br/>Liability</b> | <b>Plan Fiduciary<br/>Net Position</b> | <b>Net OPEB<br/>Liability</b> |
| <b>Balance at June 30, 2022</b>                                                                         | \$ 44,029,471                   | \$ 36,636,168                          | \$ 7,393,303                  |
| <b>Changes in the year:</b>                                                                             |                                 |                                        |                               |
| Service cost                                                                                            | 2,113,304                       | -                                      | 2,113,304                     |
| Interest on the total OPEB liability                                                                    | 2,714,466                       | -                                      | 2,714,466                     |
| Differences between actual and expected<br>experience with regard to economic<br>or demographic factors | 1,628,896                       | -                                      | 1,628,896                     |
| Changes in assumptions                                                                                  | (2,764,054)                     | -                                      | (2,764,054)                   |
| Benefit payments                                                                                        | (1,827,741)                     | (1,827,741)                            | -                             |
| Contributions from employer                                                                             | -                               | 4,628,741                              | (4,628,741)                   |
| Net investment income                                                                                   | -                               | 702,503                                | (702,503)                     |
| Administrative expenses                                                                                 | -                               | (18,588)                               | 18,588                        |
| <b>Net changes</b>                                                                                      | <b>1,864,871</b>                | <b>3,484,915</b>                       | <b>(1,620,044)</b>            |
| <b>Balance at June 30, 2023</b>                                                                         | <b>\$ 45,894,342</b>            | <b>\$ 40,121,083</b>                   | <b>\$ 5,773,259</b>           |

  

|                                                                                                         | Increase (Decrease)             |                                        |                               |
|---------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------------|-------------------------------|
|                                                                                                         | <b>Total OPEB<br/>Liability</b> | <b>Plan Fiduciary<br/>Net Position</b> | <b>Net OPEB<br/>Liability</b> |
| <b>Balance at June 30, 2021</b>                                                                         | \$ 45,289,136                   | \$ 37,672,126                          | \$ 7,617,010                  |
| <b>Changes in the year:</b>                                                                             |                                 |                                        |                               |
| Service cost                                                                                            | 2,686,342                       | -                                      | 2,686,342                     |
| Interest on the total OPEB liability                                                                    | 2,835,237                       | -                                      | 2,835,237                     |
| Differences between actual and expected<br>experience with regard to economic<br>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                        |
| <b>Net changes</b>                                                                                      | <b>(1,259,665)</b>              | <b>(1,035,958)</b>                     | <b>(223,707)</b>              |
| <b>Balance at June 30, 2022</b>                                                                         | <b>\$ 44,029,471</b>            | <b>\$ 36,636,168</b>                   | <b>\$ 7,393,303</b>           |

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**11. 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current discount rate:

|                                                   | <b>1% Decrease<br/>in Discount Rate<br/>5.50%</b> | <b>Current<br/>Discount Rate<br/>6.50%</b> | <b>1% Increase<br/>in Discount Rate<br/>7.50%</b> |
|---------------------------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------------|
| Net OPEB Liability (NOL) for<br>December 31, 2023 | \$ 11,545,281                                     | \$ 5,773,259                               | \$ 896,306                                        |
|                                                   | <b>1% Decrease<br/>in Discount Rate<br/>5.00%</b> | <b>Current<br/>Discount Rate<br/>6.00%</b> | <b>1% Increase<br/>in Discount Rate<br/>7.00%</b> |
| Net OPEB Liability (NOL) for<br>December 31, 2022 | \$ 13,117,157                                     | \$ 7,393,303                               | \$ 2,577,502                                      |

***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:

|                                                   | <b>1% Decrease<br/>in Healthcare<br/>Cost Trend Rate<br/>5.50%</b> | <b>Current<br/>Healthcare Cost<br/>Trend Rate<br/>6.50%</b> | <b>1% Increase<br/>in Healthcare<br/>Cost Trend Rate<br/>7.50%</b> |
|---------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------|
| Net OPEB Liability (NOL) for<br>December 31, 2023 | \$ (553,975)                                                       | \$ 5,773,259                                                | \$ 13,590,317                                                      |
|                                                   | <b>1% Decrease<br/>in Healthcare<br/>Cost Trend Rate<br/>5.00%</b> | <b>Current<br/>Healthcare Cost<br/>Trend Rate<br/>6.00%</b> | <b>1% Increase<br/>in Healthcare<br/>Cost Trend Rate<br/>7.00%</b> |
| Net OPEB Liability (NOL) for<br>December 31, 2022 | \$ 1,495,059                                                       | \$ 7,393,303                                                | \$ 14,689,694                                                      |

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**11. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)**

***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 expenses for the years ended December 31, 2023 and 2022, was \$2,909,351 and \$3,397,423, respectively.

As of the year ended December 31, 2023, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|                                                      | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred (Inflows)<br/>of Resources</u> |
|------------------------------------------------------|-------------------------------------------|--------------------------------------------|
| Difference between expected and actual experience    | \$ 1,594,860                              | \$ (2,653,787)                             |
| Changes of assumptions                               | -                                         | (4,448,119)                                |
| Net difference between projected and actual earnings | 4,448,455                                 | -                                          |
| Contributions made subsequent to measurement date    | 3,590,724                                 | -                                          |
| Total                                                | <u>\$ 9,634,039</u>                       | <u>\$ (7,101,906)</u>                      |

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:

|                                                      | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred (Inflows)<br/>of Resources</u> |
|------------------------------------------------------|-------------------------------------------|--------------------------------------------|
| 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>                      |

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**11. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)**

At December 31, 2023, and 2022, the State Bar reported \$3,590,724 and \$3,550,557, 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 years ending December 31, 2024, and 2023, respectively. Other amounts reported as deferred inflows of resources related to OPEB as of December 31, 2023, will be recognized as OPEB expense as follows:

| <u>Year Ending December 31,</u> | <u>Deferred (Inflows)<br/>and<br/>Outflows of<br/>Resources</u> |
|---------------------------------|-----------------------------------------------------------------|
| 2024                            | \$ 412,474                                                      |
| 2025                            | 431,184                                                         |
| 2026                            | 893,707                                                         |
| 2027                            | (482,918)                                                       |
| 2028                            | (797,002)                                                       |
| Thereafter                      | (1,516,036)                                                     |
| Total                           | <u>\$ (1,058,591)</u>                                           |

**12. 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.

**13. 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, 2023, and 2022.

**Major Projects** – As of December 31, 2023, the State Bar had contracts and purchase order commitments for major projects of approximately \$2.0 million. Those commitments consist of \$0.9 million for IT subscriptions, \$0.4 million for ongoing ERP system support and licensing, \$0.4 million for leasing of laptops, and \$0.3 million for consulting services related to the IT Maturity Assessment Project.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2023 and 2022

**14. SUBSEQUENT EVENT**

After December 31, 2023, and before the issuance of financial statements dated May 21, 2024, 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

## Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited) As of December 31, 2023 Last 10 Years

| Measurement Period Ended June 30                                           | 2023                  | 2022                  | 2021                  | 2020                  | 2019                  |
|----------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>TOTAL PENSION LIABILITY</b>                                             |                       |                       |                       |                       |                       |
| Service Cost                                                               | \$ 10,687,502         | \$ 10,414,335         | \$ 9,507,566          | \$ 8,917,807          | \$ 8,457,483          |
| Interest on total pension liability                                        | 32,099,352            | 30,276,187            | 29,737,918            | 28,675,153            | 27,203,790            |
| Differences between expected and actual experience                         | 8,648,044             | (933,412)             | (3,175,437)           | 3,117,562             | 4,632,331             |
| Changes in assumptions                                                     | -                     | 5,602,752             | -                     | -                     | -                     |
| Changes in benefits                                                        | 445,283               | -                     | -                     | -                     | -                     |
| Benefit payments, including refunds of employee contributions              | (24,880,232)          | (22,115,270)          | (20,880,413)          | (18,816,672)          | (18,044,328)          |
| Net change in total pension liability                                      | 26,999,949            | 23,244,592            | 15,189,634            | 21,893,850            | 22,249,276            |
| Total pension liability - beginning                                        | 463,211,034           | 439,966,442           | 424,776,808           | 402,882,958           | 380,633,682           |
| Total pension liability - ending                                           | <u>\$ 490,210,983</u> | <u>\$ 463,211,034</u> | <u>\$ 439,966,442</u> | <u>\$ 424,776,808</u> | <u>\$ 402,882,958</u> |
| <b>PLAN FIDUCIARY NET POSITION</b>                                         |                       |                       |                       |                       |                       |
| Contributions - employer                                                   | \$ 13,004,411         | \$ 12,140,925         | \$ 10,953,471         | \$ 9,733,180          | \$ 8,155,168          |
| Contributions - employee                                                   | 4,860,008             | 4,655,824             | 4,372,707             | 4,418,214             | 3,793,577             |
| Net investment income                                                      | 23,359,308            | (31,181,663)          | 77,444,578            | 16,489,470            | 20,781,606            |
| Benefit payments, including refunds of employee contributions              | (24,880,232)          | (22,115,270)          | (20,880,413)          | (18,816,672)          | (18,044,328)          |
| Net Plan to Plan Resource Movement                                         | -                     | -                     | -                     | -                     | 745                   |
| Administrative expenses                                                    | (280,803)             | (260,777)             | (346,711)             | (473,294)             | (229,266)             |
| Other Miscellaneous Expense                                                | -                     | -                     | -                     | -                     | -                     |
| Net change in plan fiduciary net position                                  | 16,062,692            | (36,760,961)          | 71,543,632            | 11,350,898            | 14,457,502            |
| Plan fiduciary net position - beginning                                    | 381,861,682           | 418,622,643           | 347,079,011           | 335,728,113           | 321,270,611           |
| Plan fiduciary net position - ending                                       | <u>\$ 397,924,374</u> | <u>\$ 381,861,682</u> | <u>\$ 418,622,643</u> | <u>\$ 347,079,011</u> | <u>\$ 335,728,113</u> |
| Net pension liability - ending                                             | <u>\$ 92,286,609</u>  | <u>\$ 81,349,352</u>  | <u>\$ 21,343,799</u>  | <u>\$ 77,697,797</u>  | <u>\$ 67,154,845</u>  |
| Plan fiduciary net position as a percentage of the total pension liability | 81.17%                | 82.44%                | 95.15%                | 81.71%                | 83.33%                |
| Covered - employee payroll                                                 | \$ 63,578,237         | \$ 61,659,769         | \$ 58,652,475         | \$ 54,145,762         | \$ 50,333,174         |

# THE STATE BAR OF CALIFORNIA

## Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited) As of December 31, 2023 Last 10 Years

| Measurement Period Ended June 30                                           | 2018                  | 2017                  | 2016                  | 2015                  | 2014                  |
|----------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>TOTAL PENSION LIABILITY</b>                                             |                       |                       |                       |                       |                       |
| Service Cost                                                               | \$ 8,413,051          | \$ 8,895,961          | \$ 7,565,782          | \$ 7,286,606          | \$ 7,138,657          |
| Interest on total pension liability                                        | 25,675,376            | 25,355,446            | 24,173,396            | 22,279,424            | 20,821,887            |
| Differences between expected and actual experience                         | (3,317,028)           | (1,780,377)           | 6,742,939             | 1,619,738             | -                     |
| Changes in assumptions                                                     | (11,012,926)          | 21,023,063            | -                     | (5,466,470)           | -                     |
| Changes in benefits                                                        | -                     | -                     | -                     | -                     | -                     |
| Benefit payments, including refunds of employee contributions              | (16,688,769)          | (13,722,132)          | (12,312,756)          | (11,068,730)          | (10,088,607)          |
| Net change in total pension liability                                      | 3,069,704             | 39,771,961            | 26,169,361            | 14,650,568            | 17,871,937            |
| Total pension liability - beginning                                        | 377,563,978           | 337,792,017           | 311,622,656           | 296,972,088           | 279,100,151           |
| Total pension liability - ending                                           | <u>\$ 380,633,682</u> | <u>\$ 377,563,978</u> | <u>\$ 337,792,017</u> | <u>\$ 311,622,656</u> | <u>\$ 296,972,088</u> |
| <b>PLAN FIDUCIARY NET POSITION</b>                                         |                       |                       |                       |                       |                       |
| Contributions - employer                                                   | \$ 6,191,049          | \$ 5,519,957          | \$ 4,864,102          | \$ 4,167,567          | \$ 4,166,043          |
| Contributions - employee                                                   | 3,726,557             | 3,697,300             | 3,437,015             | 3,387,652             | 3,262,781             |
| Net investment income                                                      | 25,383,692            | 31,072,914            | 1,591,381             | 6,203,991             | 41,450,031            |
| Benefit payments, including refunds of employee contributions              | (16,688,769)          | (13,722,132)          | (12,312,756)          | (11,068,730)          | (10,088,607)          |
| Net Plan to Plan Resource Movement                                         | (745)                 | -                     | -                     | -                     | -                     |
| Administrative expenses                                                    | (473,766)             | (410,263)             | (170,929)             | (316,734)             | -                     |
| Other Miscellaneous Expense                                                | (899,690)             | -                     | -                     | -                     | -                     |
| Net change in plan fiduciary net position                                  | 17,238,328            | 26,157,776            | (2,591,187)           | 2,373,746             | 38,790,248            |
| Plan fiduciary net position - beginning                                    | 304,032,283           | 277,874,507           | 280,465,694           | 278,091,948           | 239,301,700           |
| Plan fiduciary net position - ending                                       | <u>\$ 321,270,611</u> | <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>\$ 59,363,071</u>  | <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 | 84.40%                | 80.52%                | 82.26%                | 90.00%                | 93.64%                |
| Covered - employee payroll                                                 | \$ 49,538,071         | \$ 50,889,313         | \$ 48,452,015         | \$ 47,369,513         | \$ 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, 2022, valuation date. This applies for voluntary benefit changes as well as any offers of two Years Additional Service Credit (a.k.a. Golden Handshakes). In 2022, SB 1168 increased the standard retiree lump sum death benefit from \$500 to \$2,000 for any death occurring on or after July 1, 2023. The impact, if any, is included in the changes of benefit terms.

**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 changes in assumptions during the measurement period 2019, 2020 and 2021. During measurement period 2022, 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. There were no changes in assumptions during measurement period 2023.

**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 related to postemployment benefits for participation in the State of California's agent (multiple-employer) OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

# THE STATE BAR OF CALIFORNIA

## Schedule of Plan Contributions - Pension (Unaudited) As of December 31, 2023 Last 10 Years

| For the Year Ended June 30                                            | 2023                 | 2022                 | 2021                 | 2020                 | 2019                 |
|-----------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Actuarially Determined Contribution                                   | \$ 13,004,411        | \$ 12,140,925        | \$ 10,953,471        | \$ 9,733,180         | \$ 8,155,168         |
| Contributions in relation to the actuarially determined contributions | <u>(13,004,411)</u>  | <u>(12,140,925)</u>  | <u>(10,953,471)</u>  | <u>(9,733,180)</u>   | <u>(8,155,168)</u>   |
| Contribution deficiency (excess)                                      | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          |
| Covered-employee payroll                                              | <u>\$ 63,578,237</u> | <u>\$ 61,659,769</u> | <u>\$ 58,652,475</u> | <u>\$ 54,145,762</u> | <u>\$ 50,333,174</u> |
| Contributions as a percentage of covered-employee payroll             | 12.50%               | 10.85%               | 18.68%               | 17.98%               | 16.20%               |

  

| For the Year Ended June 30                                            | 2018                 | 2017                 | 2016                 | 2015                 | 2014                 |
|-----------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Actuarially Determined Contribution                                   | \$ 6,191,049         | \$ 5,519,957         | \$ 4,864,102         | \$ 4,167,567         | \$ 4,166,043         |
| Contributions in relation to the actuarially determined contributions | <u>(6,191,049)</u>   | <u>(5,519,957)</u>   | <u>(4,864,102)</u>   | <u>(4,167,567)</u>   | <u>(4,166,043)</u>   |
| Contribution deficiency (excess)                                      | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          |
| Covered-employee payroll                                              | <u>\$ 49,538,071</u> | <u>\$ 50,889,313</u> | <u>\$ 48,452,015</u> | <u>\$ 46,082,759</u> | <u>\$ 43,282,954</u> |
| Contributions as a percentage of covered-employee payroll             | 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, 2023, was derived from the June 30, 2020, funding valuation report.

|                               |                                                                                                                                                                          |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial Cost Method         | Entry Age Normal Cost                                                                                                                                                    |
| Amortization Method           | Level percent of payroll                                                                                                                                                 |
| Remaining Amortization Period | 16 years as of the valuation date                                                                                                                                        |
| Asset Valuation Method        | Fair Value of Assets                                                                                                                                                     |
| Inflation                     | 2.50%                                                                                                                                                                    |
| 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. |

# THE STATE BAR OF CALIFORNIA

## Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios (Unaudited) As of December 31, 2023 Last 10 Years\*

| Measurement Period Ended June 30                                                   | 2023                | 2022                | 2021                | 2020                 | 2019                   | 2018                  |
|------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|----------------------|------------------------|-----------------------|
| <b>Total OPEB Liability</b>                                                        |                     |                     |                     |                      |                        |                       |
| Service cost                                                                       | \$ 2,113,304        | \$ 2,686,342        | \$ 2,534,285        | \$ 580,569           | \$ 547,707             | \$ 489,826            |
| Interest on total OPEB liability                                                   | 2,714,466           | 2,835,237           | 2,600,287           | 1,071,758            | 1,043,546              | 1,611,348             |
| Differences between actual and expected experience                                 | 1,628,896           | (3,420,777)         | -                   | 267,916              | -                      | -                     |
| Changes of assumptions                                                             | (2,764,054)         | (1,896,095)         | -                   | (943,036)            | -                      | -                     |
| Changes of benefit terms                                                           | -                   | -                   | -                   | 23,750,838           | -                      | (10,325,826)          |
| Benefits payments, including refunds of employee contributions                     | (1,827,741)         | (1,464,372)         | (1,281,476)         | (1,133,033)          | (1,172,820)            | (1,418,516)           |
| <b>Net change in total OPEB liability</b>                                          | 1,864,871           | (1,259,665)         | 3,853,096           | 23,595,012           | 418,433                | (9,643,168)           |
| <b>Total OPEB liability - beginning</b>                                            | 44,029,471          | 45,289,136          | 41,436,040          | 17,841,028           | 17,422,595             | 27,065,763            |
| <b>Total OPEB liability - ending</b>                                               | 45,894,342          | 44,029,471          | 45,289,136          | 41,436,040           | 17,841,028             | 17,422,595            |
| <b>Plan fiduciary net position</b>                                                 |                     |                     |                     |                      |                        |                       |
| Contributions - employer                                                           | 4,628,741           | 4,967,372           | 4,941,476           | 1,133,033            | 1,922,820              | 2,168,516             |
| Net investment income                                                              | 702,503             | (4,519,803)         | 4,209,476           | 1,776,547            | 1,892,678              | 1,111,880             |
| Benefits payments, including refunds of employee contributions                     | (1,827,741)         | (1,464,372)         | (1,281,476)         | (1,133,033)          | (1,172,820)            | (1,418,516)           |
| Administrative expense                                                             | (18,588)            | (19,155)            | (16,556)            | (14,162)             | (12,821)               | (12,109)              |
| <b>Net change in plan fiduciary net position</b>                                   | 3,484,915           | (1,035,958)         | 7,852,920           | 1,762,385            | 2,629,857              | 1,849,771             |
| <b>Plan fiduciary net position - beginning</b>                                     | 36,636,168          | 37,672,126          | 29,819,206          | 28,056,821           | 25,426,964             | 23,577,193            |
| <b>Plan fiduciary net position - ending</b>                                        | 40,121,083          | 36,636,168          | 37,672,126          | 29,819,206           | 28,056,821             | 25,426,964            |
| <b>Plan net OPEB liability (asset) - ending</b>                                    | <u>\$ 5,773,259</u> | <u>\$ 7,393,303</u> | <u>\$ 7,617,010</u> | <u>\$ 11,616,834</u> | <u>\$ (10,215,793)</u> | <u>\$ (8,004,369)</u> |
| <b>Plan fiduciary net position as a percentage of the total OPEB liability</b>     | 87.4%               | 83.2%               | 83.2%               | 72.0%                | 157.3%                 | 145.9%                |
| <b>Covered-employee payroll</b>                                                    | \$ 63,578,237       | \$ 61,659,769       | \$ 58,652,475       | \$ 54,145,762        | \$ 50,333,174          | \$ 49,538,071         |
| <b>Plan net OPEB liability (asset) as a percentage of covered-employee payroll</b> | 9.08%               | 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, \$157 for 2024 and increase by 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.

**Change in Discount Rate (liabilities) and Long Term Expected Return** - During Measurement Period 2023, the discount rate and long term expected return changed to 6.50% from 6.00% in Measurement Period 2022.

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

# THE STATE BAR OF CALIFORNIA

## Schedule of Contributions - OPEB Plan (Unaudited) As of December 31, 2023 Last 10 Years\*

|                                                          | 2023                  | 2022                  | 2021                  | 2020                | 2019                  | 2018                  |
|----------------------------------------------------------|-----------------------|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|
| Actuarially determined contribution                      | \$ 2,754,000          | \$ 2,915,000          | \$ 3,503,000          | \$ 3,660,000        | \$ -                  | \$ -                  |
| Contributions                                            | 4,234,261             | 4,158,533             | 4,623,159             | 4,603,702           | 1,150,166             | 2,179,258             |
| Contribution deficiency (excess)                         | <u>\$ (1,480,261)</u> | <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)       | \$ 63,578,237         | \$ 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%                  | 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, 2023, 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          | 6.50%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 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 valuations. Assumed the PEMCHA minimum contribution would grow with general medical inflation. The minimum amount is \$149 per month for calendar year 2022, \$151 for 2023 and \$157 for 2024 and assumed the medical CPI increase at an annual rate of 3.75% in 2025, 3.50% in 2026 and 3.25% in 2027 and after, for January 1, 2022 valuation. |

\* Year 2018 was the first year implementation of GASB Statement No. 75, therefore only six 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, 2023**

|                                                                                                    | <u>General Fund</u> | <u>Admissions</u>     | <u>Grants</u>       | <u>Client Security</u> | <u>Elimination of Bias</u> |
|----------------------------------------------------------------------------------------------------|---------------------|-----------------------|---------------------|------------------------|----------------------------|
| <b>ASSETS</b>                                                                                      |                     |                       |                     |                        |                            |
| Current assets                                                                                     |                     |                       |                     |                        |                            |
| Cash and cash equivalents                                                                          | \$ 38,226,669       | \$ 6,039,080          | \$ 32,635,368       | \$ 10,659,063          | \$ 78,461                  |
| Investments                                                                                        | 26,071,310          | -                     | -                   | -                      | -                          |
| Accounts and other receivables, net of allowance for uncollectible accounts of \$1,883,824 in 2023 | 1,409,008           | -                     | 645,211             | -                      | -                          |
| Lease receivable                                                                                   | 365,164             | -                     | -                   | -                      | -                          |
| Other current assets                                                                               | 2,883,865           | 1,647                 | -                   | -                      | -                          |
| Total current assets                                                                               | <u>68,956,016</u>   | <u>6,040,727</u>      | <u>33,280,579</u>   | <u>10,659,063</u>      | <u>78,461</u>              |
| Noncurrent assets                                                                                  |                     |                       |                     |                        |                            |
| Lease receivable                                                                                   | 3,757,605           | -                     | -                   | -                      | -                          |
| Capital assets                                                                                     |                     |                       |                     |                        |                            |
| Nondepreciable                                                                                     | 18,418,271          | -                     | -                   | -                      | -                          |
| Depreciable, net                                                                                   | 43,360,059          | -                     | -                   | -                      | -                          |
| Lease asset, net                                                                                   | 51,368,178          | -                     | -                   | -                      | -                          |
| Subscription asset, net                                                                            | 2,716,794           | -                     | -                   | -                      | -                          |
| Total noncurrent assets                                                                            | <u>119,620,907</u>  | <u>-</u>              | <u>-</u>            | <u>-</u>               | <u>-</u>                   |
| Total assets                                                                                       | <u>188,576,923</u>  | <u>6,040,727</u>      | <u>33,280,579</u>   | <u>10,659,063</u>      | <u>78,461</u>              |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                                              |                     |                       |                     |                        |                            |
| Pension items                                                                                      | 33,054,876          | -                     | -                   | -                      | -                          |
| Other postemployment benefits items                                                                | 9,634,039           | -                     | -                   | -                      | -                          |
| Total deferred outflows of resources                                                               | <u>42,688,915</u>   | <u>-</u>              | <u>-</u>            | <u>-</u>               | <u>-</u>                   |
| Total assets and deferred outflows of resources                                                    | <u>231,265,838</u>  | <u>6,040,727</u>      | <u>33,280,579</u>   | <u>10,659,063</u>      | <u>78,461</u>              |
| <b>LIABILITIES</b>                                                                                 |                     |                       |                     |                        |                            |
| Current liabilities                                                                                |                     |                       |                     |                        |                            |
| Accounts payable and other liabilities                                                             | 11,361,125          | 264,114               | 11,998              | 78,616                 | 7,157                      |
| Unearned fees collected in advance                                                                 | 19,166,986          | 6,417,371             | 27,218,593          | 1,731,085              | 73,368                     |
| Loans payable                                                                                      | 849,000             | -                     | -                   | -                      | -                          |
| Lease liability                                                                                    | 2,633,338           | -                     | -                   | -                      | -                          |
| Subscription liability                                                                             | 1,234,596           | -                     | -                   | -                      | -                          |
| Total current liabilities                                                                          | <u>35,245,045</u>   | <u>6,681,485</u>      | <u>27,230,591</u>   | <u>1,809,701</u>       | <u>80,525</u>              |
| Noncurrent liabilities                                                                             |                     |                       |                     |                        |                            |
| Unearned fees collected in advance                                                                 | -                   | -                     | 4,750,001           | -                      | -                          |
| Loans payable                                                                                      | 10,747,000          | -                     | -                   | -                      | -                          |
| Lease liability                                                                                    | 48,376,130          | -                     | -                   | -                      | -                          |
| Subscription liability                                                                             | 1,276,272           | -                     | -                   | -                      | -                          |
| Compensated absences                                                                               | 4,450,510           | 396,171               | 17,996              | 117,924                | 10,736                     |
| Net OPEB liability                                                                                 | 5,773,259           | -                     | -                   | -                      | -                          |
| Net pension liability                                                                              | 92,286,609          | -                     | -                   | -                      | -                          |
| Total noncurrent liabilities                                                                       | <u>162,909,780</u>  | <u>396,171</u>        | <u>4,767,997</u>    | <u>117,924</u>         | <u>10,736</u>              |
| Total liabilities                                                                                  | <u>198,154,825</u>  | <u>7,077,656</u>      | <u>31,998,588</u>   | <u>1,927,625</u>       | <u>91,261</u>              |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                                               |                     |                       |                     |                        |                            |
| Lease items                                                                                        | 16,880,388          | -                     | -                   | -                      | -                          |
| Pension items                                                                                      | 882,497             | -                     | -                   | -                      | -                          |
| Other postemployment benefits items                                                                | 7,101,906           | -                     | -                   | -                      | -                          |
| Total deferred inflows of resources                                                                | <u>24,864,791</u>   | <u>-</u>              | <u>-</u>            | <u>-</u>               | <u>-</u>                   |
| Total liabilities and deferred inflows of resources                                                | <u>223,019,616</u>  | <u>7,077,656</u>      | <u>31,998,588</u>   | <u>1,927,625</u>       | <u>91,261</u>              |
| <b>NET POSITION</b>                                                                                |                     |                       |                     |                        |                            |
| Net investment in capital assets                                                                   | 50,746,966          | -                     | -                   | -                      | -                          |
| Restricted for:                                                                                    |                     |                       |                     |                        |                            |
| Enabling legislation                                                                               | -                   | -                     | -                   | 8,731,438              | -                          |
| Other restrictions                                                                                 | -                   | -                     | 1,281,991           | -                      | -                          |
| Unrestricted                                                                                       | <u>(42,500,744)</u> | <u>(1,036,929)</u>    | <u>-</u>            | <u>-</u>               | <u>(12,800)</u>            |
| Total net position                                                                                 | <u>\$ 8,246,222</u> | <u>\$ (1,036,929)</u> | <u>\$ 1,281,991</u> | <u>\$ 8,731,438</u>    | <u>\$ (12,800)</u>         |

# THE STATE BAR OF CALIFORNIA

## Supplementary Information Program Funds Schedule of Net Position December 31, 2023

|                                                                                                          | Equal Access | Justice Gap Fund | Lawyers<br>Assistance<br>Program | Legislative<br>Activities | Legal Services<br>Trust |
|----------------------------------------------------------------------------------------------------------|--------------|------------------|----------------------------------|---------------------------|-------------------------|
| <b>ASSETS</b>                                                                                            |              |                  |                                  |                           |                         |
| Current assets                                                                                           |              |                  |                                  |                           |                         |
| Cash and cash equivalents                                                                                | \$ 8,625,879 | \$ 5,146,263     | \$ 1,463,057                     | \$ 252,982                | \$ 171,701,122          |
| Investments                                                                                              | -            | -                | -                                | -                         | -                       |
| Accounts and other receivables, net<br>of allowance for uncollectible accounts of<br>\$1,883,824 in 2023 | 582,825      | -                | -                                | -                         | 18,553,723              |
| Lease receivable                                                                                         | -            | -                | -                                | -                         | -                       |
| Other current assets                                                                                     | -            | -                | 14,967                           | -                         | -                       |
| Total current assets                                                                                     | 9,208,704    | 5,146,263        | 1,478,024                        | 252,982                   | 190,254,845             |
| Noncurrent assets                                                                                        |              |                  |                                  |                           |                         |
| Lease receivable                                                                                         | -            | -                | -                                | -                         | -                       |
| Capital assets                                                                                           |              |                  |                                  |                           |                         |
| Nondepreciable                                                                                           | -            | -                | -                                | -                         | -                       |
| Depreciable, net                                                                                         | -            | -                | -                                | -                         | -                       |
| Lease asset, net                                                                                         | -            | -                | -                                | -                         | -                       |
| Subscription asset, net                                                                                  | -            | -                | -                                | -                         | -                       |
| Total noncurrent assets                                                                                  | -            | -                | -                                | -                         | -                       |
| Total assets                                                                                             | 9,208,704    | 5,146,263        | 1,478,024                        | 252,982                   | 190,254,845             |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                                                    |              |                  |                                  |                           |                         |
| Pension items                                                                                            | -            | -                | -                                | -                         | -                       |
| Other postemployment benefits items                                                                      | -            | -                | -                                | -                         | -                       |
| Total deferred outflows of resources                                                                     | -            | -                | -                                | -                         | -                       |
| Total assets and deferred outflows of resources                                                          | 9,208,704    | 5,146,263        | 1,478,024                        | 252,982                   | 190,254,845             |
| <b>LIABILITIES</b>                                                                                       |              |                  |                                  |                           |                         |
| Current liabilities                                                                                      |              |                  |                                  |                           |                         |
| Accounts payable and other liabilities                                                                   | 1,062,313    | -                | 30,205                           | -                         | 237,867                 |
| Unearned fees collected in advance                                                                       | 5,425,676    | 229,345          | 451,956                          | 9,699                     | 1,592,715               |
| Loans payable                                                                                            | -            | -                | -                                | -                         | -                       |
| Lease liability                                                                                          | -            | -                | -                                | -                         | -                       |
| Subscription liability                                                                                   | -            | -                | -                                | -                         | -                       |
| Total current liabilities                                                                                | 6,487,989    | 229,345          | 482,161                          | 9,699                     | 1,830,582               |
| Noncurrent liabilities                                                                                   |              |                  |                                  |                           |                         |
| Unearned fees collected in advance                                                                       | -            | -                | -                                | -                         | -                       |
| Loans payable                                                                                            | -            | -                | -                                | -                         | -                       |
| Lease liability                                                                                          | -            | -                | -                                | -                         | -                       |
| Subscription liability                                                                                   | -            | -                | -                                | -                         | -                       |
| Compensated absences                                                                                     | 37,896       | -                | 45,307                           | -                         | 52,772                  |
| Net OPEB liability                                                                                       | -            | -                | -                                | -                         | -                       |
| Net pension liability                                                                                    | -            | -                | -                                | -                         | -                       |
| Total noncurrent liabilities                                                                             | 37,896       | -                | 45,307                           | -                         | 52,772                  |
| Total liabilities                                                                                        | 6,525,885    | 229,345          | 527,468                          | 9,699                     | 1,883,354               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                                                     |              |                  |                                  |                           |                         |
| Lease items                                                                                              | -            | -                | -                                | -                         | -                       |
| Pension items                                                                                            | -            | -                | -                                | -                         | -                       |
| Other postemployment benefits items                                                                      | -            | -                | -                                | -                         | -                       |
| Total deferred inflows of resources                                                                      | -            | -                | -                                | -                         | -                       |
| Total liabilities and deferred inflows of resources                                                      | 6,525,885    | 229,345          | 527,468                          | 9,699                     | 1,883,354               |
| <b>NET POSITION</b>                                                                                      |              |                  |                                  |                           |                         |
| Net investment in capital assets                                                                         | -            | -                | -                                | -                         | -                       |
| Restricted for:                                                                                          |              |                  |                                  |                           |                         |
| Enabling legislation                                                                                     | 2,682,819    | 4,916,918        | 950,556                          | 243,283                   | 188,371,491             |
| Other restrictions                                                                                       | -            | -                | -                                | -                         | -                       |
| Unrestricted                                                                                             | -            | -                | -                                | -                         | -                       |
| Total net position                                                                                       | \$ 2,682,819 | \$ 4,916,918     | \$ 950,556                       | \$ 243,283                | \$ 188,371,491          |

**THE STATE BAR OF CALIFORNIA**  
Supplementary Information  
Program Funds Schedule of Net Position  
December 31, 2023

|                                                                                                          | Legal<br>Specialization | Bank<br>Settlement  | Grand Total           |
|----------------------------------------------------------------------------------------------------------|-------------------------|---------------------|-----------------------|
| <b>ASSETS</b>                                                                                            |                         |                     |                       |
| Current assets                                                                                           |                         |                     |                       |
| Cash and cash equivalents                                                                                | \$ 7,665,100            | \$ 5,077,864        | \$ 287,570,908        |
| Investments                                                                                              | -                       | -                   | 26,071,310            |
| Accounts and other receivables, net<br>of allowance for uncollectible accounts of<br>\$1,883,824 in 2023 | -                       | -                   | 21,190,767            |
| Lease receivable                                                                                         | -                       | -                   | 365,164               |
| Other current assets                                                                                     | -                       | -                   | 2,900,479             |
| Total current assets                                                                                     | <u>7,665,100</u>        | <u>5,077,864</u>    | <u>338,098,628</u>    |
| Noncurrent assets                                                                                        |                         |                     |                       |
| Lease receivable                                                                                         | -                       | -                   | 3,757,605             |
| Capital assets                                                                                           |                         |                     |                       |
| Nondepreciable                                                                                           | -                       | -                   | 18,418,271            |
| Depreciable, net                                                                                         | -                       | -                   | 43,360,059            |
| Lease asset, net                                                                                         | -                       | -                   | 51,368,178            |
| Subscription asset, net                                                                                  | -                       | -                   | 2,716,794             |
| Total noncurrent assets                                                                                  | <u>-</u>                | <u>-</u>            | <u>119,620,907</u>    |
| Total assets                                                                                             | <u>7,665,100</u>        | <u>5,077,864</u>    | <u>457,719,535</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                                                    |                         |                     |                       |
| Pension items                                                                                            | -                       | -                   | 33,054,876            |
| Other postemployment benefits items                                                                      | -                       | -                   | 9,634,039             |
| Total deferred outflows of resources                                                                     | <u>-</u>                | <u>-</u>            | <u>42,688,915</u>     |
| Total assets and deferred outflows of resources                                                          | <u>7,665,100</u>        | <u>5,077,864</u>    | <u>500,408,450</u>    |
| <b>LIABILITIES</b>                                                                                       |                         |                     |                       |
| Current liabilities                                                                                      |                         |                     |                       |
| Accounts payable and other liabilities                                                                   | 5,038                   | 230,228             | 13,288,661            |
| Unearned fees collected in advance                                                                       | -                       | -                   | 62,316,794            |
| Loans payable                                                                                            | -                       | -                   | 849,000               |
| Lease liability                                                                                          | -                       | -                   | 2,633,338             |
| Subscription liability                                                                                   | -                       | -                   | 1,234,596             |
| Total current liabilities                                                                                | <u>5,038</u>            | <u>230,228</u>      | <u>80,322,389</u>     |
| Noncurrent liabilities                                                                                   |                         |                     |                       |
| Unearned fees collected in advance                                                                       | -                       | -                   | 4,750,001             |
| Loans payable                                                                                            | -                       | -                   | 10,747,000            |
| Lease liability                                                                                          | -                       | -                   | 48,376,130            |
| Subscription liability                                                                                   | -                       | -                   | 1,276,272             |
| Compensated absences                                                                                     | 7,558                   | 2,410               | 5,139,280             |
| Net OPEB liability                                                                                       | -                       | -                   | 5,773,259             |
| Net pension liability                                                                                    | -                       | -                   | 92,286,609            |
| Total noncurrent liabilities                                                                             | <u>7,558</u>            | <u>2,410</u>        | <u>168,348,551</u>    |
| Total liabilities                                                                                        | <u>12,596</u>           | <u>232,638</u>      | <u>248,670,940</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                                                     |                         |                     |                       |
| Lease items                                                                                              | -                       | -                   | 16,880,388            |
| Pension items                                                                                            | -                       | -                   | 882,497               |
| Other postemployment benefits items                                                                      | -                       | -                   | 7,101,906             |
| Total deferred inflows of resources                                                                      | <u>-</u>                | <u>-</u>            | <u>24,864,791</u>     |
| Total liabilities and deferred inflows of resources                                                      | <u>12,596</u>           | <u>232,638</u>      | <u>273,535,731</u>    |
| <b>NET POSITION</b>                                                                                      |                         |                     |                       |
| Net investment in capital assets                                                                         | -                       | -                   | 50,746,966            |
| Restricted for:                                                                                          |                         |                     |                       |
| Enabling legislation                                                                                     | 7,652,504               | 4,845,226           | 218,394,235           |
| Other restrictions                                                                                       | -                       | -                   | 1,281,991             |
| Unrestricted                                                                                             | -                       | -                   | (43,550,473)          |
| Total net position                                                                                       | <u>\$ 7,652,504</u>     | <u>\$ 4,845,226</u> | <u>\$ 226,872,719</u> |

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2023**

|                                                      | <b>General Fund</b> | <b>Admissions</b>     | <b>Grants</b>       | <b>Client Security</b> | <b>Elimination of Bias</b> |
|------------------------------------------------------|---------------------|-----------------------|---------------------|------------------------|----------------------------|
| <b>OPERATING REVENUES</b>                            |                     |                       |                     |                        |                            |
| Licensee fees and donations                          | \$ 86,200,160       | \$ 842,462            | \$ -                | \$ 8,283,581           | \$ 361,093                 |
| Examination application fees                         | -                   | 18,609,531            | -                   | -                      | -                          |
| Trust account revenue                                | -                   | -                     | -                   | -                      | -                          |
| Seminar/workshop revenue                             | 4,300               | -                     | -                   | -                      | -                          |
| Legal specialization fees                            | 126,201             | -                     | -                   | -                      | -                          |
| Law corporation registration fees                    | 2,453,552           | -                     | -                   | -                      | -                          |
| Continuing legal education fees                      | 1,510,695           | -                     | -                   | -                      | -                          |
| Grant revenue                                        | -                   | -                     | 84,414,925          | -                      | -                          |
| EAF AB145 filing fee revenue                         | -                   | -                     | -                   | -                      | -                          |
| Other revenue                                        | 936,940             | 776,722               | -                   | 112,444                | -                          |
| Total operating revenues                             | <u>91,231,848</u>   | <u>20,228,715</u>     | <u>84,414,925</u>   | <u>8,396,025</u>       | <u>361,093</u>             |
| <b>OPERATING EXPENSES</b>                            |                     |                       |                     |                        |                            |
| Chief Trial Counsel                                  | 73,021,568          | -                     | -                   | -                      | -                          |
| State Bar Court                                      | 14,591,140          | -                     | -                   | -                      | -                          |
| Professional Competence                              | 3,831,007           | -                     | -                   | -                      | -                          |
| Probation                                            | 2,119,162           | -                     | -                   | -                      | -                          |
| Mandatory Fee Arbitration                            | 995,828             | -                     | -                   | -                      | -                          |
| Judicial Evaluation                                  | 892,485             | -                     | -                   | -                      | -                          |
| Communications                                       | 1,747,465           | -                     | -                   | -                      | -                          |
| Governance                                           | 4,100,542           | -                     | -                   | -                      | -                          |
| Lawyer Assistance Program                            | -                   | -                     | -                   | -                      | -                          |
| Client Security Fund                                 | -                   | -                     | -                   | 7,583,507              | -                          |
| Public Trust Liaison                                 | 2,445,772           | -                     | -                   | -                      | -                          |
| Regulation                                           | 5,864,246           | -                     | -                   | -                      | -                          |
| Admissions                                           | -                   | 25,476,915            | -                   | -                      | -                          |
| Grants                                               | -                   | -                     | 82,931,813          | -                      | -                          |
| General and administration                           | 6,192,489           | -                     | 1,171,143           | -                      | 324,706                    |
| Total operating expenses                             | <u>115,801,704</u>  | <u>25,476,915</u>     | <u>84,102,956</u>   | <u>7,583,507</u>       | <u>324,706</u>             |
| OPERATING INCOME (LOSS)                              | (24,569,856)        | (5,248,200)           | 311,969             | 812,518                | 36,387                     |
| <b>NONOPERATING REVENUES AND EXPENSES</b>            |                     |                       |                     |                        |                            |
| Interest and investment income                       | 3,346,365           | 314,639               | 460,077             | 536,738                | 6,673                      |
| Rental income                                        | 2,554,076           | -                     | -                   | -                      | -                          |
| Interest expenses on loans, leases and subscriptions | (1,312,387)         | -                     | -                   | -                      | -                          |
| Gain on dispositions of capital assets               | 51,997              | -                     | -                   | -                      | -                          |
| Total nonoperating revenues and expenses             | <u>4,640,051</u>    | <u>314,639</u>        | <u>460,077</u>      | <u>536,738</u>         | <u>6,673</u>               |
| INCOME/(LOSS) BEFORE TRANSFERS                       | (19,929,805)        | (4,933,561)           | 772,046             | 1,349,256              | 43,060                     |
| Transfer in                                          | 62,989              | -                     | -                   | 6,090                  | -                          |
| Transfer out                                         | (467,122)           | (1,389)               | -                   | (1,852)                | -                          |
| CHANGE IN NET POSITION                               | <u>(20,333,938)</u> | <u>(4,934,950)</u>    | <u>772,046</u>      | <u>1,353,494</u>       | <u>43,060</u>              |
| NET POSITION—beginning of year                       | <u>28,580,160</u>   | <u>3,898,021</u>      | <u>509,945</u>      | <u>7,377,944</u>       | <u>(55,860)</u>            |
| NET POSITION—end of year                             | <u>\$ 8,246,222</u> | <u>\$ (1,036,929)</u> | <u>\$ 1,281,991</u> | <u>\$ 8,731,438</u>    | <u>\$ (12,800)</u>         |

**THE STATE BAR OF CALIFORNIA**  
Supplementary Information  
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position  
Year Ended December 31, 2023

|                                                      | Equal Access | Justice Gap Fund | Lawyers Assistance Program | Legislative Activities | Legal Services Trust |
|------------------------------------------------------|--------------|------------------|----------------------------|------------------------|----------------------|
| <b>OPERATING REVENUES</b>                            |              |                  |                            |                        |                      |
| Licensee fees and donations                          | \$ -         | \$ 1,797,696     | \$ 2,166,935               | \$ 47,680              | \$ 7,291,820         |
| Examination application fees                         | -            | -                | -                          | -                      | -                    |
| Trust account revenue                                | -            | -                | -                          | -                      | 176,403,380          |
| Seminar/workshop revenue                             | -            | -                | -                          | -                      | -                    |
| Legal specialization fees                            | -            | -                | -                          | -                      | -                    |
| Law corporation registration fees                    | -            | -                | -                          | -                      | -                    |
| Continuing legal education fees                      | -            | -                | -                          | -                      | -                    |
| Grant revenue                                        | 35,084,193   | -                | -                          | -                      | -                    |
| EAF AB145 filing fee revenue                         | 450,000      | -                | -                          | -                      | -                    |
| Other revenue                                        | -            | -                | -                          | -                      | -                    |
| Total operating revenues                             | 35,534,193   | 1,797,696        | 2,166,935                  | 47,680                 | 183,695,200          |
| <b>OPERATING EXPENSES</b>                            |              |                  |                            |                        |                      |
| Chief Trial Counsel                                  | -            | -                | -                          | -                      | -                    |
| State Bar Court                                      | -            | -                | -                          | -                      | -                    |
| Professional Competence                              | -            | -                | -                          | -                      | -                    |
| Probation                                            | -            | -                | -                          | -                      | -                    |
| Mandatory Fee Arbitration                            | -            | -                | -                          | -                      | -                    |
| Judicial Evaluation                                  | -            | -                | -                          | -                      | -                    |
| Communications                                       | -            | -                | -                          | -                      | -                    |
| Governance                                           | -            | -                | -                          | -                      | -                    |
| Lawyer Assistance Program                            | -            | -                | 2,643,260                  | -                      | -                    |
| Client Security Fund                                 | -            | -                | -                          | -                      | -                    |
| Public Trust Liaison                                 | -            | -                | -                          | -                      | -                    |
| Regulation                                           | -            | -                | -                          | -                      | -                    |
| Admissions                                           | -            | -                | -                          | -                      | -                    |
| Grants                                               | 34,406,184   | -                | -                          | -                      | 51,405,608           |
| General and administration                           | 1,872,487    | 9,897            | -                          | 282,475                | 2,894,608            |
| Total operating expenses                             | 36,278,671   | 9,897            | 2,643,260                  | 282,475                | 54,300,216           |
| <b>OPERATING INCOME (LOSS)</b>                       | (744,478)    | 1,787,799        | (476,325)                  | (234,795)              | 129,394,984          |
| <b>NONOPERATING REVENUES AND EXPENSES</b>            |              |                  |                            |                        |                      |
| Interest and investment income                       | 504,783      | 229,504          | 89,912                     | 16,243                 | 4,019,436            |
| Rental income                                        | -            | -                | -                          | -                      | -                    |
| Interest expenses on loans, leases and subscriptions | -            | -                | -                          | -                      | -                    |
| Gain on dispositions of capital assets               | -            | -                | -                          | -                      | -                    |
| Total nonoperating revenues and expenses             | 504,783      | 229,504          | 89,912                     | 16,243                 | 4,019,436            |
| <b>INCOME/(LOSS) BEFORE TRANSFERS</b>                | (239,695)    | 2,017,303        | (386,413)                  | (218,552)              | 133,414,420          |
| Transfer in                                          | -            | -                | 1,545                      | -                      | 1,400,000            |
| Transfer out                                         | -            | (1,000,000)      | -                          | -                      | (261)                |
| <b>CHANGE IN NET POSITION</b>                        | (239,695)    | 1,017,303        | (384,868)                  | (218,552)              | 134,814,159          |
| <b>NET POSITION—beginning of year</b>                | 2,922,514    | 3,899,615        | 1,335,424                  | 461,835                | 53,557,332           |
| <b>NET POSITION—end of year</b>                      | \$ 2,682,819 | \$ 4,916,918     | \$ 950,556                 | \$ 243,283             | \$ 188,371,491       |

**THE STATE BAR OF CALIFORNIA**  
Supplementary Information  
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position  
Year Ended December 31, 2023

|                                                      | <b>Legal<br/>Specialization</b> | <b>Bank<br/>Settlement</b> | <b>Interfunds<br/>Eliminations</b> | <b>Grand Total</b>    |
|------------------------------------------------------|---------------------------------|----------------------------|------------------------------------|-----------------------|
| <b>OPERATING REVENUES</b>                            |                                 |                            |                                    |                       |
| Licensee fees and donations                          | \$ -                            | \$ -                       | \$ -                               | \$ 106,991,427        |
| Examination application fees                         | 64,283                          | -                          | -                                  | 18,673,814            |
| Trust account revenue                                | -                               | -                          | -                                  | 176,403,380           |
| Seminar/workshop revenue                             | -                               | -                          | -                                  | 4,300                 |
| Legal specialization fees                            | 2,191,874                       | -                          | -                                  | 2,318,075             |
| Law corporation registration fees                    | -                               | -                          | -                                  | 2,453,552             |
| Continuing legal education fees                      | 82                              | -                          | -                                  | 1,510,777             |
| Grant revenue                                        | -                               | -                          | -                                  | 119,499,118           |
| EAF AB145 filing fee revenue                         | -                               | -                          | -                                  | 450,000               |
| Other revenue                                        | 36,536                          | -                          | -                                  | 1,862,642             |
| Total operating revenues                             | <u>2,292,775</u>                | <u>-</u>                   | <u>-</u>                           | <u>430,167,085</u>    |
| <b>OPERATING EXPENSES</b>                            |                                 |                            |                                    |                       |
| Chief Trial Counsel                                  | -                               | -                          | -                                  | 73,021,568            |
| State Bar Court                                      | -                               | -                          | -                                  | 14,591,140            |
| Professional Competence                              | -                               | -                          | -                                  | 3,831,007             |
| Probation                                            | -                               | -                          | -                                  | 2,119,162             |
| Mandatory Fee Arbitration                            | -                               | -                          | -                                  | 995,828               |
| Judicial Evaluation                                  | -                               | -                          | -                                  | 892,485               |
| Communications                                       | -                               | -                          | -                                  | 1,747,465             |
| Governance                                           | -                               | -                          | -                                  | 4,100,542             |
| Lawyer Assistance Program                            | -                               | -                          | -                                  | 2,643,260             |
| Client Security Fund                                 | -                               | -                          | -                                  | 7,583,507             |
| Public Trust Liaison                                 | -                               | -                          | -                                  | 2,445,772             |
| Regulation                                           | -                               | -                          | -                                  | 5,864,246             |
| Admissions                                           | -                               | -                          | -                                  | 25,476,915            |
| Grants                                               | -                               | -                          | -                                  | 168,743,605           |
| General and administration                           | 1,790,540                       | 120,179                    | -                                  | 14,658,524            |
| Total operating expenses                             | <u>1,790,540</u>                | <u>120,179</u>             | <u>-</u>                           | <u>328,715,026</u>    |
| OPERATING INCOME (LOSS)                              | 502,235                         | (120,179)                  | -                                  | 101,452,059           |
| <b>NONOPERATING REVENUES AND EXPENSES</b>            |                                 |                            |                                    |                       |
| Interest and investment income                       | 339,399                         | 215,125                    | -                                  | 10,078,894            |
| Rental income                                        | -                               | -                          | -                                  | 2,554,076             |
| Interest expenses on loans, leases and subscriptions | -                               | -                          | -                                  | (1,312,387)           |
| Gain on dispositions of capital assets               | -                               | -                          | -                                  | 51,997                |
| Total nonoperating revenues and expenses             | <u>339,399</u>                  | <u>215,125</u>             | <u>-</u>                           | <u>11,372,580</u>     |
| INCOME/(LOSS) BEFORE TRANSFERS                       | 841,634                         | 94,946                     | -                                  | 112,824,639           |
| Transfer in                                          | -                               | -                          | (1,470,624)                        | -                     |
| Transfer out                                         | -                               | -                          | 1,470,624                          | -                     |
| CHANGE IN NET POSITION                               | <u>841,634</u>                  | <u>94,946</u>              | <u>-</u>                           | <u>112,824,639</u>    |
| NET POSITION—beginning of year                       | <u>6,810,870</u>                | <u>4,750,280</u>           | <u>-</u>                           | <u>114,048,080</u>    |
| NET POSITION—end of year                             | <u>\$ 7,652,504</u>             | <u>\$ 4,845,226</u>        | <u>\$ -</u>                        | <u>\$ 226,872,719</u> |

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# The State Bar of California

## **Statement of Expenditures of Mandatory Fees and Independent Accountant's Report Year Ended December 31, 2023**

**May 21, 2024**

## 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, 2023. The expenditures of mandatory fees for the year ended December 31, 2023 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, 2023.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
May 21, 2024

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2023

|                                                              | <b>Dollar<br/>Amount</b> | <b>Percentage of<br/>Total Program<br/>Expenses</b> |
|--------------------------------------------------------------|--------------------------|-----------------------------------------------------|
| <b>CHARGEABLE EXPENSES AND RELATED<br/>PROGRAM REVENUES:</b> |                          |                                                     |
| Chief Trial Counsel                                          | \$ 73,021,568            | 66.07%                                              |
| State Bar Court                                              | 14,591,140               | 13.20%                                              |
| Client Security Fund                                         | 7,583,507                | 6.86%                                               |
| Regulation                                                   | 5,864,246                | 5.31%                                               |
| Professional Competence                                      | 3,831,007                | 3.47%                                               |
| Lawyer Assistance Program                                    | 2,643,260                | 2.39%                                               |
| Probation                                                    | 2,119,162                | 1.92%                                               |
| Communications                                               | 1,747,465                | 1.58%                                               |
| Judicial Evaluation                                          | 892,485                  | 0.81%                                               |
| Mandatory Fee Arbitration                                    | 995,828                  | 0.90%                                               |
| Public Trust Liaison                                         | 2,445,772                | 2.21%                                               |
| Program Revenues                                             | (5,214,725)              | -4.72%                                              |
| Total chargeable program expenses                            | <u>\$ 110,520,715</u>    | <u>100.00%</u>                                      |

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

**THE STATE BAR OF CALIFORNIA**  
Notes to Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2023

**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 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 2023 financial statements.

**Use of Estimates** – The preparation of the Statement requires management to make estimates and assumptions related to the amounts of chargeable expenses during the 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 expenses into chargeable and non-chargeable categories. Although derived from the State Bar’s audited 2023 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 expenses, absolute precision is not expected nor required pursuant to *Keller*, at 16, citing to procedural requirements outlined in *Chicago Teachers v. Hudson*, 475 U.S. 292, 310 (1986). Expenses included in the Statement are derived from expenses included in the General Fund (except 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, 2023

**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 2023, the legislature changed this from an optional deduction to an optional addition. In addition, 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 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 may exclude these 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, 2023.

**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, 2023

**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 the dishonest conduct of lawyers, and authorizes recovery to eligible clients out of funds collected for this purpose. (Bus. & Prof. Code §6140.5.)

d. *Regulation*

On behalf of the California Supreme Court, the Regulation Division maintains the official roll of attorneys, manages the registration of law corporations and limited partnerships, is responsible for ensuring the compliance of all licensees with various administrative requirements, and is charged with implementing the State Bar's Client Trust Account Protection Program (CTAPP).

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, 2023

**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. *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.

i. *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, 2023

**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.

j. *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. 4<sup>th</sup> 582, 622 (199).)

k. *Public Trust Liaison*

The Public Trust Liaison (PTL) receives inquiries and responds to the questions and concerns brought by members of the public that remain unresolved through other channels. The PTL also manages the Contact Center. The PTL has an independent dotted-line relationship to the Board's Audit Committee.

- l. *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, 2023

**3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)**

The 2023 State Bar indirect cost allocation to chargeable programs is summarized below:

|                                                     |                             |
|-----------------------------------------------------|-----------------------------|
| General Counsel                                     | \$ 5,478,694                |
| Finance                                             | 2,615,097                   |
| Member Billing                                      | 732,620                     |
| Human Resources                                     | 1,914,761                   |
| Recruitment & Retention                             | 1,072,647                   |
| General Services - Los Angeles                      | 4,878,153                   |
| General Services - San Francisco                    | 4,181,332                   |
| Building                                            | 868,300                     |
| Information Technology                              | 15,803,842                  |
| Governance                                          | 4,047,180                   |
| OPEB                                                | <u>2,801,000</u>            |
| Indirect Cost Pool                                  | 44,393,626                  |
| Less: Overhead Allocation Charged to Other Programs | <u>(9,824,036)</u>          |
| Overhead Allocation to Chargeable Program           | <u><u>\$ 34,569,590</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, 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 collection of member dues. Program revenues for 2023 are comprised of:

|                                   |                            |
|-----------------------------------|----------------------------|
| Law Corporation Registration Fees | \$ 2,453,552               |
| Continuing Legal Education Fees   | 1,510,695                  |
| Seminar/Workshop Revenue          | 4,300                      |
| Legal Specialization Fees         | 126,201                    |
| Other                             | <u>1,119,977</u>           |
| Total                             | <u><u>\$ 5,214,725</u></u> |

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2023

**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 \$47 for active and inactive attorneys. This amount included \$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. *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.)

b. *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.)

**5. OPTIONAL ADDITION**

The State Bar sets an amount that attorneys are not required to pay and may add to the annual licensing fees. This donation for lobbying was \$5 for active and inactive attorneys.

The donation is allowed for the following activity:

a. *Lobbying*

Attorneys who want to fund lobbying and other legislative activity may add \$5. (Bus. & Prof. Code §6140.05.)