



# The State Bar *of California*

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## **OPEN SESSION AGENDA ITEM APRIL 2020 AUDIT COMMITTEE III.C**

**DATE:** April 28, 2020

**TO:** Members, Audit Committee

**FROM:** John Adams, Chief Financial Officer

**SUBJECT:** Presentation of 2019 Annual Financial Statements and Report of Independent Auditors

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### **EXECUTIVE SUMMARY**

Business and Professions Code section 6145(a) requires the statements to be sent by April 30 of each year to the Board of Trustees, the Chief Justice of the Supreme Court, and the Assembly and Senate Committees on Judiciary. The Audit Committee Charter assigns responsibility to the Audit Committee to review reports of external auditors. This report provides the audit reports to the Audit Committee for discussion and communications with the external auditor.

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### **BACKGROUND**

The State Bar's annual financial audit was conducted by the independent accounting firm of Macias Gini & O'Connell. Macias Gini & O'Connell was appointed the State Bar's external independent auditors in September 2018. David Bullock, Partner with Macias Gini & O'Connell, met with the Audit Committee in January 2020, to discuss the scope and responsibilities of the audit for fiscal year ending December 31, 2109. On April 27, 2020, Macias Gini & O'Connell issued their reports on the following financial statements:

- Annual Audited Financial Statements;
- Legal Services Trust Fund Program Report; and
- Statement of Expenditures of Mandatory Fees.

The auditor's opinion on each of these financial statements is unmodified. Both sets of financial statements and related auditor's reports are required to be filed with the State Legislature and Supreme Court by April 30 of each year.

The State Bar's Annual Audited Financial Statements, Legal Services Trust Fund Program Report, and Statement of Expenditures of Mandatory Fees for the year ended December 31, 2019, along with the independent auditor's report from Macias Gini & O'Connell are all attached to this report and will be posted on the State Bar Website.

## **DISCUSSION**

### **A. Annual Audited Financial Statements & Independent Auditor's Report**

Business and Professions Code section 6145(a) require the State Bar to undergo an audit of its financial statements by an independent accounting firm each year. The audit is to be completed and submitted to the Board of Trustees, the Chief Justice of the Supreme Court, and to the Assembly and Senate Committees on Judiciary by April 30 each year.

The Business and Professions Code also requires the Annual Audited Financial Statements to be certified under oath by the chief financial officer of the State Bar. This certification has been completed by John Adams, Chief Financial Officer.

### **B. Legal Services Trust Fund Program Report**

To ensure the State Bar's compliance with the provisions of Business and Professions Code sections 6210-6222, grant allocations for the Legal Services Trust Fund Program were reviewed for compliance. Under the code provisions, interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After the payment of administrative costs, the State Bar distributes 85 percent of the funds to qualified legal service projects and 15 percent of the funds to qualified legal support. The report consists of an operating statement of the Legal Services Trust Fund, notes, and grant disbursements scheduled presented on a county-by-county basis.

### **C. Statement of Expenditures of Mandatory Fees**

To comply with the constitutional requirements for collection of mandatory membership fees under *Keller v. State Bar of California*, 496 U.S. 1 (1990), the State Bar must prepare each year an audited statement of its major categories of expenses showing that no mandatory fees were used for political or ideological activities not "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." The purpose of the Statement of Expenses of Mandatory Fees is to provide an explanation of the mandatory licensing fees that each State Bar licensee must pay under state law in order to practice law in California. It describes and separates expenses of mandatory licensing fees by program into "chargeable" and "nonchargeable" categories.

Because of the deductions for the full expenses of these programs and the State Bar’s policy to fund them solely with voluntary revenues received from licensees electing not to take the deductions, the statement does not present any “nonchargeable” activities that are supported by the mandatory portion of the annual licensing fees. The statement is prepared using the State Bar’s most recently completed audited financial statement and shows the major categories of expenses with a brief description of each category so that each State Bar licensee may gauge whether the expense is justified under the Keller standard. An independent auditor must verify the Statement of Expenses of Mandatory Licensing Fees. The Statement of Expenses of Mandatory Licensing Fees is then published by posting on the State Bar website at <http://www.calbar.ca.gov/About-Us/Our-Mission/Protecting-the-Public/Reports> and notice in the annual licensee billing statement to State Bar licensees.

#### **D. Report to the Audit Committee and the Board of Trustees**

The Audit Committee is chartered to assist the Board of Trustees in fulfilling its oversight responsibility as related to the integrity of accounting and financial reporting processes, the system of internal controls, and audit processes. Current audit standards require the independent auditors to meet with the Audit Committee as described under the Statement on Auditing Standards (SAS #115 – Communicating Internal Control Related Matters Identified in an Audit). The auditor shall communicate in a report to those charged with governance any material weakness or reportable conditions found during the audit, as defined by the generally accepted auditing standards. In addition, the following matters shall be reported:

- The auditor’s responsibility under generally accepted auditing standards;
- Significant accounting policies;
- Management judgments and accounting estimates;
- Significant audit adjustments;
- Disagreements with management;
- Management consultation with other accountants;
- Major issues discussed with management prior to retention; and
- Difficulties encountered in performing the audit.

Attached is the Report to the Audit Committee and Board of Trustees which addresses the items above in more detail (Attachment D).

#### **FISCAL/PERSONNEL IMPACT**

None

#### **RULE AMENDMENTS**

None

#### **BOARD BOOK AMENDMENTS**

None

## **STRATEGIC PLAN GOALS & OBJECTIVES**

None - compliance

## **RECOMMENDATIONS**

**Should the Audit Committee concur in the proposed action, passage of the following resolution is recommended:**

**RESOLVED**, that the Audit Committee hereby receives, reviews, and orders filed the State Bar's audited statements and related auditor's reports for the year ended December 31, 2019 with the State Legislature and the Supreme Court.

## **ATTACHMENT(S) LIST**

- A.** Annual Audited Financial Statements & Independent Auditor's Report
- B.** Legal Services Trust Fund Program Report
- C.** Statement of Expenditures of Mandatory Fees
- D.** Report to the Audit Committee and the Board of Trustees



# The State Bar of California

**State Bar of California**  
**Financial Statement and Report of Independent**  
**Auditors**  
**Years Ended December 31, 2019 and 2018 and Supplementary**  
**Information Year Ended December 31, 2019**

**April 30, 2020**

THE STATE BAR OF CALIFORNIA  
Financial Statements  
Year Ended December 31, 2019

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## **Independent Auditor's Report**

To the Board of Trustees  
The State Bar of California

We have audited the accompanying financial statements of the State Bar of California ("State Bar") as of and for the years ended December 31, 2019 and 2018, 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.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the State Bar as of December 31, 2019 and 2018, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

***Impact of COVID-19***

As discussed in Note 12 to the financial statements, in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The State Bar expects this outbreak to decrease revenues and impact operations. The State Bar is not able to predict the duration or magnitude of the adverse results of the outbreak and its effects on the State Bar or results of operations. Our opinion is not modified with respect to this matter.

***Other Matters***

***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 (asset) and related ratios, and the schedule of contributions – OPEB Plan, identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit 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.

***Other 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 program funds schedule of net position and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The program funds schedule of net position and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

San Francisco, California  
April 29, 2020

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion And Analysis – Unaudited  
Years Ended December 31, 2019 and 2018

## 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.

## 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 2019, the State Bar had approximately 273,100 licensees, an increase of 1.1% compared to 270,200 licensees in 2018.

Licensing fees for 2019 and 2018 were allocated to the following funds:

	2019		2018	
	Active Fee	Inactive Fee	Active Fee	Inactive Fee
General Fund - Attorney Licensing	\$ 308	\$ 68	\$ 308	\$ 68
General Fund-Discipline Activity	25	25	25	25
Legal Services Trust Fund	40	40	40	40
Legislative Activity Fund	5	5	5	5
Elimination of Bias Fund	2	2	2	2
Client Security Fund	40	10	40	10
Lawyers Assistance Program Fund	10	5	10	5
Total	\$ 430	\$ 155	\$ 430	\$ 155

The State Bar's 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 2018 statutorily approved annual fee to \$315. The licensing fees for 2019 are unchanged.

## Financial Statement Overview

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

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

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Years Ended December 31, 2019 and 2018

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

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

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

Required Supplementary Information – presents schedule of changes in pension liability and related ratios, schedule of plan contributions – pension, schedule of changes in net OPEB Liability and related ratios, schedule of contributions – OPEB Plan, and schedule of funding progress – OPEB Plan.

Other supplementary Information – presents financial information by programs.

### Financial Highlights

The following is a summary comparison of the State Bar's Statements of Net Position as of December 31, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash, cash equivalents, and investments	\$ 147,292,106	\$ 118,099,525	\$ 125,241,792
Restricted cash	7,105,000	7,105,000	7,105,000
Other assets	19,587,034	24,759,687	27,078,256
Capital assets, net	107,594,614	101,127,936	94,988,637
Deferred outflows of resources	9,507,406	14,602,756	24,566,049
Total assets and deferred outflows of resources	<u>291,086,160</u>	<u>265,694,904</u>	<u>278,979,734</u>
Current liabilities	49,479,126	37,141,210	32,606,260
Noncurrent liabilities	22,208,269	24,560,965	25,146,169
Net pension liability	67,154,845	59,363,071	73,531,695
Deferred inflows of resources	7,703,641	10,878,281	2,305,896
Total liabilities and deferred inflows of resources	<u>146,545,881</u>	<u>131,943,527</u>	<u>133,590,020</u>
Net position			
Net investments in capital assets	85,292,229	76,308,352	67,759,779
Restricted for:			
Enabling legislation	95,756,919	72,614,976	79,291,188
Other restrictions	7,551,299	7,706,309	19,452,889
Unrestricted	<u>(44,060,168)</u>	<u>(22,878,260)</u>	<u>(21,114,142)</u>
Total net position	<u>\$ 144,540,279</u>	<u>\$ 133,751,377</u>	<u>\$ 145,389,714</u>

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Years Ended December 31, 2019 and 2018

**Fiscal Year 2019 Compared to Fiscal  
Year 2018**

*Assets and Deferred Outflows of Resources* – As of December 31, 2019, the State Bar's total assets and deferred outflows of resources were \$291.1 million, up by \$25.4 million or 10% compared to \$265.7 million last year. The increase is primarily due to a \$29.2 million increase in cash, cash equivalents and investments, which resulted from increases in trust fund revenues and the increase in the annual license fee for 2020 that was collected in December. Other changes include a \$6.5 million increase in the capital assets; partially offset by a \$5.2 million decrease in other assets and \$5.1 million decrease in deferred outflows of resources from pension and other postemployment benefits items.

The State Bar records deferred outflows of resources in its financial statements for consumption of net pension assets that is applicable to future reporting periods. This balance consisted of actuarially determined deferred inflows of resources as it relates to both pension reporting under GASB 68 and other postemployment benefits reporting under GASB 75. As of December 31, 2019, the deferred outflows of resources were \$9.5 million, decreased by \$5.1 million compared to \$14.6 million last year. See accompanying notes 8 and 9 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 fees collected in advance, grants payable, loans payable, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 and GASB 75 items. As of December 31, 2019, State Bar's total liabilities and deferred inflows of resources were \$146.5 million, increased by \$14.6 million or 11% compared to \$131.9 million last year. The increase is due primarily to a \$10.2 million increase in current liabilities and \$7.8 million increase in pension liabilities; partially offset by a \$3.2 million decrease in deferred inflows of resources from GASB 68 and GASB 75 items. In current liabilities, the increase of \$13.6 million in unearned revenue is the direct result of the increase in the annual license fee and additional grant revenue received in 2019 that was for 2020.

The State Bar's total pension liability as of December 31, 2019 was \$402.9 million and the plan fiduciary net position was \$335.7 million resulting in a net pension liability of \$67.2 million, or 16.7% of the total pension liabilities. Compared to the \$59.4 million net pension liability in 2018, the 2019 net pension liability increased by \$7.8 million or 13.1%.

Deferred inflows of resources as of December 31, 2019 are \$7.7 million, representing a decrease of \$3.2 million compared to \$10.9 million last year. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension under GASB 68 and other post employment benefits ("OPEB") under GASB 75. See accompanying notes 8 and 9 to the financial statements for additional information.

*Net Position* – The State Bar's total net position as of December 31, 2019 is \$144.5 million, up by \$10.7 million or 8.0% compared to \$133.8 million in 2018. The increase represents the excess of revenues over expenses from various programs. The components of net position are:

*Restricted Net Position* – The part of net position that is subject to internal constraints and external constraints imposed by grantors, or law through constitutional provisions or enabling legislation increased by \$23 million or 28.6% from \$80.3 million in 2018 to \$103.3 million in 2019. The

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Management's Discussion And Analysis – Unaudited  
Years Ended December 31, 2019 and 2018

increase is due largely to a \$23.1 million increase in enabling legislation and a \$0.1 million decrease in other restrictions.

***Net Investments in Capital Assets*** – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets increased by \$8.9 million or 11.8% from \$76.3 million in 2018 to \$85.3 million in 2019. The net increase is primarily due to capitalization of new software and loan repayments and partially offset by normal depreciation of capital assets.

***Unrestricted Net Position*** – The part of net assets/liabilities that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2019, the unrestricted net position was negative \$44.1 million, an increase of \$21.2 million or 92.6% compared to \$22.9 million negative unrestricted net position in 2018. The change is substantially due to the investment in capital assets and the excess of expenses over revenue as detailed on the statements of revenues, expenses, and changes in net position.

#### **Fiscal Year 2018 Compared to Fiscal Year 2017**

***Assets and Deferred Outflows of Resources*** – As of December 31, 2018, the State Bar's total assets and deferred outflows of resources were \$265.7 million, down by \$13.3 million or 4% compared to \$279.0 million last year. The decrease is primarily due to a \$10.0 million decrease in deferred outflows of resources from the Governmental Accounting Standards Board Statement No. 68 ("GASB 68") pension liability adjustments and a \$4 million dollar decrease in the recognition of a net OPEB asset; partially offset by a \$6.1 million increase in capital assets.

The State Bar records deferred outflows of resources in its financial statements for consumption of net pension assets that is applicable to future reporting periods. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension reporting under GASB 68. As of December 31, 2018, the deferred outflows of resources were \$14.6 million, decreased by \$10 million compared to \$24.6 million last year. See accompanying note 8 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 fees collected in advance, grants payable, loans payable, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 adjustments. As of December 31, 2018, State Bar's total liabilities and deferred inflows of resources were \$131.9 million, down by \$1.7 million or 1.2% compared to \$133.6 million last year. The decrease is due primarily to a \$14.2 million decrease in pension liabilities; partially offset by a \$6.7 million increase in accounts payable and unearned fees collected in advance and a \$8.6 million increase in deferred inflows of resources from GASB 68 adjustments.

The State Bar's total pension liability as of December 31, 2018 was \$380.6 million and the plan fiduciary net position was \$321.3 million resulting in a net pension liability of \$59.3 million, or

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Years Ended December 31, 2019 and 2018

15.6% of the total pension liabilities. Compared to the \$73.5 million net pension liability in 2017, the 2018 net pension liability decreased by \$14.2 million or 19.3%.

Deferred inflows of resources as of December 31, 2018 are \$10.9 million, representing an increase of \$8.6 million compared to \$2.3 million last year. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension under GASB 68. See accompanying note 8 to the financial statements for additional information.

**Net Position** – The State Bar's total net position as of December 31, 2018 is \$133.8 million, down by \$11.6 million or 8.0% compared to \$145.4 million in 2017. The decrease represents the excess of expenses over revenues 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, or law through constitutional provisions or enabling legislation decreased by \$18.4 million or 18.6% from \$98.7 million in 2017 to \$80.3 million in 2018. The decrease is due largely to a \$6.7 million decrease in enabling legislation and a \$11.7 million decrease in other restrictions.

**Net Investments in Capital Assets** – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets increased by \$8.5 million or 12.5% from \$67.8 million in 2017 to \$76.3 million in 2018. The net increase is primarily due to capitalization of new software and loan repayments and partially offset by normal depreciation of capital assets.

**Unrestricted Net Position** – The part of net assets/liabilities that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2018, the unrestricted net position was negative \$22.9 million, an increase of \$1.8 million or 8.3% compared to \$21.1 million negative unrestricted net position in 2017. The change is substantially due to the excess of expenses over revenue as detailed on the statements of revenues, expenses, and changes in net position.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion And Analysis – Unaudited (Continued)  
Years Ended December 31, 2019 And 2018

**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, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>			
Program revenues	\$ 198,129,554	\$ 159,196,676	\$ 144,763,770
Affinity Insurance revenue	2,313,028	289,375	1,865,401
Other revenue	2,752,712	4,403,050	3,968,549
Total operating revenues	<u>203,195,294</u>	<u>163,889,101</u>	<u>150,597,720</u>
<b>OPERATING EXPENSES</b>			
Program expenses	187,165,226	153,597,426	146,169,564
Unallocated Pension expense	8,956,392	5,492,536	12,621,428
General and administration	3,175,817	7,367,657	4,856,701
Payment to California Lawyers Association	-	8,337,741	500,000
Total operating expenses	<u>199,297,435</u>	<u>174,795,360</u>	<u>164,147,693</u>
OPERATING INCOME	3,897,859	(10,906,259)	(13,549,973)
<b>NONOPERATING REVENUES</b>			
Special item - OPEB change in benefit terms	-	10,325,826	-
CHANGE IN NET POSITION	10,788,902	2,789,196	(10,991,908)
NET POSITION - beginning of year	133,751,377	145,389,714	156,381,622
Restatement: GASB 75 implementation(OPEB)	-	(14,427,533)	-
NET POSITION - end of year	<u>\$ 144,540,279</u>	<u>\$ 133,751,377</u>	<u>\$ 145,389,714</u>

**Fiscal Year 2019 Compared to Fiscal Year 2018**

**Operating and NonOperating Revenues** – For the year ended December 31, 2019, the State Bar's total operating and non-operating revenues were \$211.1 million, up by \$43.8 million or 22.2% compared to \$167.3 million in 2018. The increase is due largely to a \$25.5 million increase in trust account revenue because of rising interest rates; a \$10.4 million increase in grant revenue; a \$1.3 million decrease in licensee fees, reflecting fewer late penalties; a \$1.2 million increase in rental income and a \$2.0 million increase in affinity insurance revenue.

**Operating Expenses** – For fiscal year 2019, the State Bar's total operating expenses were \$199.3 million, an increase of \$24.5 million or 13.6% from \$174.8 million last year. The increase is due largely to a \$22.1 million increase in grants expense; a \$2.3 million decrease in Client Security Fund (the "CSF") payouts in 2019; a \$3.5 million increase in unallocated pension expense.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion And Analysis – Unaudited (Continued)  
Years Ended December 31, 2019 And 2018

<b>Operating Expenses by Natural Classification</b>	<b>2019</b>	<b>2018</b>	<b>Increase (Decrease)</b>
Personnel cost	\$ 76,839,410	\$ 68,963,235	\$ 7,876,175
Grant expense	71,483,139	49,418,707	22,064,432
Employer pension contribution	5,335,907	4,905,661	430,246
Unallocated Pension Expense	8,956,392	5,492,536	3,463,856
Other postemployment benefits	1,150,166	975,455	174,711
Supplies	1,145,303	1,385,537	(240,234)
Professional services	4,802,642	6,944,543	(2,141,901)
Examination	5,500,925	5,191,040	309,885
CSF Disbursement	6,893,011	9,186,376	(2,293,365)
Training & travel	1,590,332	1,569,160	21,172
Building operations	6,167,279	5,543,271	624,008
Outside services	4,419,780	4,134,551	285,229
Other	5,013,149	11,085,288	(6,072,139)
<b>Total expenses by natural classification</b>	<b>\$ 199,297,435</b>	<b>\$ 174,795,360</b>	<b>\$ 24,502,075</b>

### **Fiscal Year 2018 Compared to Fiscal Year 2017**

**Operating and NonOperating Revenues** – For the year ended December 31, 2018, the State Bar's total operating and non-operating revenues were \$167.3 million, up by \$14.1 million or 9.2% compared to \$153.2 million in 2017. The increase is due largely to a \$13.9 million increase in trust account revenue because of rising interest rates; a \$2.9 million increase in grant revenue; a \$3.2 million increase in licensee fees; a \$1.7 million increase in legal specialization fees; offset by a \$6.0 million decrease law practice fees and a \$1.6 million decrease in affinity insurance revenue.

**Operating Expenses** – For fiscal year 2018, the State Bar's total operating expenses were \$174.7 million, an increase of \$10.6 million or 6.5% from \$164.1 million last year. The increase is due largely to a \$10.5 million increase in grants expense; a \$4.0 million increase in personnel cost as a result of additional Office of the Chief Trial Counsel (the "OCTC") employees; a \$3.0 million increase in Client Security Fund (the "CSF") payouts in 2018; offset by a \$7.1 million decrease in unallocated pension expense.

### **Economic Factors Facing the State Bar**

On October 9, 2019, the Governor signed Senate Bill 176, the 2020 licensing fee legislation. This was a critical milestone in the history of the State Bar and clearly 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. For 2020, the licensing fee increased for the first time in over 20 years. There was a 21 percent increase in the General Fund fee that supports the discipline system and a 100 percent increase in Client Security Fee to pay restitution to victims of attorney theft or other losses due to attorney misconduct. The State Bar also received additional funding to support technology investments and capital maintenance. Unfortunately, the funding for capital maintenance is not sufficient to support the Five Year Capital Plan, which will require the review alternative options to support future capital needs.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion And Analysis – Unaudited (Continued)  
Years Ended December 31, 2019 And 2018

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. Funding for retiree health benefits was included in the approved fee bill for 2020. Prior to the amendment, the State Bar's Plan was 157% funded and had a \$10.2 million Net OPEB Asset, which helps support the change in retiree health benefits for rank and file employees. With the change, the OPEB liability was increased to \$10.2 million, which is a change of \$19.9 million. The annual actuarially determined contribution is \$3.6 million and will be primarily funded by a \$17 increase in the active license fee annually.

On January 24, 2020, the Board of Trustees approved the 2020 Budget. The budget reflects the impact of transformative changes to the State Bar and significant progress towards major goals of the Strategic Plan. The recent fee increase has enhanced Bar's ability to continue to advance its reform agenda, improve the performance of its discipline system, and support critical investments in our technology.

The 2020 Final Budget has total revenue of \$211.9 million with expenses of \$242.5 million. The budget utilizes \$30.6 million in reserves for planned spend downs in the Bank Settlement Fund, Equal Access Fund, Legal Services Trust Fund, and Lawyers Assistance Program. The 2020 General Fund budget projects \$94.9 million in revenue with total expenses and indirect charges of \$96.2 million. General Fund expenses will exceed revenues by approximately \$1.3 million, bringing operating reserves to \$11.3 million. The \$1.3 million deficit includes a one-time use of reserves of \$1.7 million for enhancements for the State Bar's Case Management System (CMS).

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected organizations and its workforces, as well as the economy and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many governmental organizations, including ours. This outbreak will decrease revenues and impact operations. The current reporting period was not adversely impacted by the pandemic, but future reporting periods will be. At this point, we anticipate both short-term and long-term impacts depending on the duration of the pandemic and the impacts on the economy. The short-term financial impacts will include: 1) reductions of interest earnings for 2020, 2) delay's in some rental income, currently at 5.8 percent delinquency or \$23,000 for April 2020, 3) reduction or delay in admission fees from the June/July bar exams if exams are postponed or delayed, and 4) significant reduction in trust fund revenue based on the reduction of the federal funds rate to 0% to .25%. Depending on the recovery of the economy, long-term impacts could also include: 1) pension and other post-employment benefits costs increasing based on reduced investment returns, and 2) potential reduction in both mandatory and voluntary license fees based on employment of attorney's licensed in California.

### **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 State Bar's Chief Financial Officer, John Adams at [john.adams@calbar.ca.gov](mailto:john.adams@calbar.ca.gov).

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Statements of Net Position  
 December 31, 2019 And 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 81,067,136	\$ 46,439,784
Investments	66,224,970	71,659,741
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,867,889 in 2019 and \$1,844,955 in 2018	6,496,311	14,954,251
Other current assets	<u>2,874,930</u>	<u>1,801,067</u>
Total current assets	<u>156,663,347</u>	<u>134,854,843</u>
Noncurrent assets		
Restricted cash	7,105,000	7,105,000
Net OPEB asset	10,215,793	8,004,369
Capital assets		
Nondepreciable	19,537,615	19,537,615
Depreciable, net	<u>88,056,999</u>	<u>81,590,321</u>
Total noncurrent assets	<u>124,915,407</u>	<u>116,237,305</u>
Total assets	<u>281,578,754</u>	<u>251,092,148</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension items	9,056,541	13,477,274
Other postemployment benefits items	<u>450,865</u>	<u>1,125,482</u>
Total deferred outflows of resources	<u>9,507,406</u>	<u>14,602,756</u>
Total assets and deferred outflows of resources	<u>291,086,160</u>	<u>265,694,904</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and other liabilities	11,930,862	13,289,653
Unearned fees collected in advance	34,918,299	21,334,358
Loans payable	<u>2,629,965</u>	<u>2,517,199</u>
Total current liabilities	<u>49,479,126</u>	<u>37,141,210</u>
Noncurrent liabilities		
Loans payable	19,672,420	22,302,385
Compensated absences	2,535,849	2,258,580
Net pension liability	<u>67,154,845</u>	<u>59,363,071</u>
Total noncurrent liabilities	<u>89,363,114</u>	<u>83,924,036</u>
Total liabilities	<u>138,842,240</u>	<u>121,065,246</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension items	7,622,166	10,878,281
Other postemployment benefits items	<u>81,475</u>	<u>-</u>
Total deferred inflows of resources	<u>7,703,641</u>	<u>10,878,281</u>
Total liabilities and deferred inflows of resources	<u>146,545,881</u>	<u>131,943,527</u>
<b>NET POSITION</b>		
Net investments in capital assets	85,292,229	76,308,352
Restricted for:		
Enabling legislation	95,756,919	72,614,976
Other restrictions	7,551,299	7,706,309
Unrestricted	<u>(44,060,168)</u>	<u>(22,878,260)</u>
Total net position	<u>\$ 144,540,279</u>	<u>\$ 133,751,377</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Licensee fees and donations	\$ 86,765,558	\$ 88,070,309
Examination application fees	19,167,933	20,022,016
Trust account revenue	46,454,116	20,910,031
Seminar/workshop revenue	47,789	61,450
Legal specialization fees	2,204,755	2,216,461
Law corporation registration fees	2,059,509	1,416,918
Continuing legal education fees	923,122	921,764
Grant revenue	35,642,592	20,651,054
EAF AB145 filing fee revenue	4,864,180	4,926,673
Affinity Insurance revenue	2,313,028	289,375
Other revenue	2,752,712	4,403,050
	<u>203,195,294</u>	<u>163,889,101</u>
<b>OPERATING EXPENSES</b>		
Chief Trial Counsel	53,219,213	44,895,235
State Bar Court	13,290,841	11,893,784
Attorney Regulation and Consumer Resources	5,806,587	4,883,781
Professional Competence	3,074,341	2,485,557
Probation	1,713,928	1,396,083
Mandatory Fee Arbitration	80,938	182,420
Judicial Evaluation	400,019	721,208
Commission on Access to Justice	7,141	24,136
Center on Access to Justice	1,805,813	1,303,049
Communications	895,980	769,496
Governance	3,360,368	3,770,604
Lawyer Assistance Program	2,092,933	1,830,540
Client Security Fund	8,538,317	10,904,222
Admissions	21,395,668	19,108,919
Grants	71,483,139	49,418,707
Sections	-	9,685
Unallocated Pension Expense	8,956,392	5,492,536
General and Administration	3,175,817	7,367,657
Payment to California Lawyers Association	-	8,337,741
	<u>199,297,435</u>	<u>174,795,360</u>
<b>OPERATING INCOME (LOSS)</b>	<u>3,897,859</u>	<u>(10,906,259)</u>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Investment income	4,525,160	2,349,711
Rental income	3,391,708	2,154,063
Interest expense on loan	(1,025,825)	(1,134,145)
	<u>6,891,043</u>	<u>3,369,629</u>
Special item - OPEB effect of change in benefit terms	-	10,325,826
<b>CHANGE IN NET POSITION</b>	<u>10,788,902</u>	<u>2,789,196</u>
<b>NET POSITION—beginning of year</b>	<u>133,751,377</u>	<u>130,962,181</u>
<b>NET POSITION—end of year</b>	<u>\$ 144,540,279</u>	<u>\$ 133,751,377</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from members, applicants, grants, and other professionals	\$ 225,237,175	\$ 165,786,701
Payments to suppliers and service providers	(120,975,197)	(103,809,195)
Payments to employees	(69,119,694)	(60,494,563)
Net cash provided by operating activities	<u>35,142,284</u>	<u>1,482,943</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of investments	40,665,318	43,056,230
Purchases of investments	(34,059,989)	(72,394,852)
Interest received from investments	3,354,602	2,349,711
Cash received from rental income	3,391,708	2,154,063
Net cash (used in) provided by investing activities	<u>13,351,639</u>	<u>(24,834,848)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(10,323,547)	(9,585,565)
Payment of obligations under loan agreement	(2,517,199)	(2,409,274)
Interest paid on debt	(1,025,825)	(1,134,145)
Net cash used in capital and related financing activities	<u>(13,866,571)</u>	<u>(13,128,984)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>34,627,352</u>	<u>(36,480,889)</u>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>53,544,784</u>	<u>90,025,673</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$ 88,172,136</u>	<u>\$ 53,544,784</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (loss)	\$ 3,897,859	\$ (10,906,259)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,856,869	3,446,266
OPEB change in benefit terms	-	10,325,826
Changes in assets and liabilities:		
Net pension liability	7,791,774	(14,168,624)
Deferred outflows and inflows of resources related to pension items	1,164,618	19,661,160
Net OPEB asset	(2,211,424)	(11,492,939)
Deferred outflows and inflows of resources related to OPEB items	756,092	83,776
Accounts and other receivables	8,457,940	(1,790,398)
Other current assets	(1,073,863)	(34,885)
Accounts payable and other liabilities	(1,081,522)	2,671,022
Unearned fees collected in advance	13,583,941	3,687,998
Net cash provided by operating activities	<u>\$ 35,142,284</u>	<u>\$ 1,482,943</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>		
Cash and cash equivalents	\$ 81,067,136	\$ 46,439,784
Restricted cash	7,105,000	7,105,000
Total cash and cash equivalents	<u>\$ 88,172,136</u>	<u>\$ 53,544,784</u>

See accompanying notes to the financial statements.

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**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements  
Years Ended December 31, 2019 and 2018

## 1. DESCRIPTION OF ENTITY

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

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

## 2. BASIS OF PRESENTATION

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

The accounts of the State Bar are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund net position, revenues and expenditures or 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 15 sub-funds, as described below:

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

***S.F. Tenant Improvement Fund*** – The Tenant Improvement Fund was established to support the tenant improvement work at the State Bar’s 180 Howard Street location. The State Bar secured a \$10 million dollar loan in 2016 to provide funding for tenant improvements.

***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**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**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.

**Sections Fund** – The Sections Fund accounted for the activities of sixteen sections, which consisted of specific practice areas or areas of professional interest and provided members with a vehicle for communicating with each other, educating themselves, and commenting on relevant legislation. Resources were provided through assessments of the Sections’ membership and revenue from seminars and workshops.

The State Bar remitted to the California Lawyer Association (“CLA”) \$500,000 on October 26, 2017, \$1.0 million on January 17, 2018 and approximately \$6.3 million on January 31, 2018. Together these payments represent transfer of the Sections' financial reserves to CLA in accordance with Senate Bill 36 (2017). Senate Bill 36 also redirects all of the State Bar's affinity program revenue and 75% of its insurance program revenue to other entities beginning January 1, 2018, resulting in revenue reduction of approximately \$1.5 million.

This fund was closed during 2018.

**Client Security Fund** – The Client Security Fund maintains funds from which licensees’ clients can be reimbursed for pecuniary losses resulting from dishonest conduct on the part of their attorneys. Such reimbursement is discretionary and, currently, is not to exceed \$100,000 per application for reimbursement on any one transaction, as prescribed by the Board of Trustees. Obligations are accrued in the statement of net position based on final approved applications by the Client Security Fund Commission. This fund is replenished through annual assessments of \$40 per active member and \$10 per inactive member.

**Elimination of Bias Fund** – The Elimination of Bias Fund (formerly Elimination of Bias and Bar Relations) supports certain programs similar to those once undertaken by Access & Inclusion, Program Development, and Bar Relations Offices. The fee of \$5 was collected in 2016, but was an optional donation in 2017. Further, the Bar Relations Program was discontinued in 2017. In the 2018 bill year, the deduction for the remaining Elimination of Bias program was reset to \$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.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**2. BASIS OF PRESENTATION (Continued)**

***Information Technology Special Assessment Fund*** – The Information Technology Special Assessment Fund is used to upgrade the information technology system, including purchasing and maintenance costs of both computer hardware and software. This fund is supported by a special assessment fee of \$10 from active licensees, which sunsetted after December 31, 2013.

***Justice Gap Fund*** – The Justice Gap Fund is used to help close the justice gap for needy Californians by voluntary donations to legal aid, pursuant to AB 2301. 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.

***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 \$40 of the licensee fee to the Trust Fund. Under the legislation, licensees may elect to reduce their fees by this amount if they choose not to support the activities authorized under this bill.

***Legal Specialization Fund*** – The Legal Specialization Fund accounts for the certification of legal specialists in areas of family law; criminal law, taxation law, immigration and nationality law, workers' compensation law, personal and small business bankruptcy law, estate planning, trust and probate law, and appellate law. Resources are provided by application fees, certification fees, recertification fees and annual licensing fees.

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

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

### 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. At December 31, 2019 and 2018, cash equivalents consisted of demand deposit accounts, money market accounts, and deposits in the California Local Agency Investment Fund (LAIF).

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

***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*** – The State Bar's loan agreement contains certain covenants that include the maintenance of a \$7.1 million deposit with Bank of America as a debt service reserve fund, which is classified as restricted cash as of December 31, 2019 and 2018.

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

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

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

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

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

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

***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 position 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 position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Client Security Fund (“CSF”) Application*** – CSF application liabilities are determined in accordance with Business and Professions Code section 6140.5. This section authorizes the State Bar to establish the CSF to “relieve or mitigate pecuniary losses caused by the dishonest conduct of those active licensees of the bar.” Payment from CSF is completely discretionary. The State Bar is free to prescribe applicable regulations and conditions for payments and no applicant to the program has any right to payment. In 2012, the State Bar conducted a legal analysis of CSF and the governing rules of the program and determined that when a CSF application is finally approved by the Committee, it will be recognized as an outstanding obligation in the State Bar’s financial statement. There are 2,381 applications pending for processing as of December 31, 2019, in the amount of \$47.7 million, and for December 31, 2018, there were 2,891 pending applications in the amount of \$51.7 million. As of December 31, 2019 and 2018, estimated application payout amounts were \$7.0 million and \$9.2 million, respectively, based on a rolling average of 24 months’ historical applications payout ratio of 35.4% in 2019 and 38.2% in 2018. Cash and investments available for application reimbursement in the CSF were approximately \$0.02 million and \$0.4 million as of December 31, 2019 and 2018, respectively.

***Restricted Net Position*** – Restricted net position reflects the net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, trust agreements, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Restricted net position was \$103.3 million as of December 31, 2019, of which \$95.8 million was restricted by enabling legislation; and \$80.3 million as of December 31, 2018, of which \$72.6 million was restricted by enabling legislation.

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

***Unrestricted Net Position*** – Unrestricted net position includes all resources for which management or the Board of Trustees holds discretion over their use in advancement of the State Bar’s objectives. Unrestricted Net Position was negative \$44.1 million as of December 31, 2019, and negative \$22.9 million as of December 31, 2018.

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

***Special Items*** – Special items are transactions or events that are within the control of the State Bar and are either unusual in nature or infrequent in occurrence. During the year ended December 31, 2018, the State Bar transitioned its health coverage to CalPERS health and the net impact of \$10,325,826 was reported as a special item to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

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

*Reclassifications* – Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

*Effects of New Pronouncements* - During the year ended December 31, 2019, the State Bar implemented the following GASB Statements:

*GASB Statement No. 83* – In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. Implementation of this statement did not have a significant impact on the State Bar's financial statement for the year ended December 31, 2019.

*GASB Statement No. 84* – In January 2017, GASB issued Statement No. 84 – *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The Statement provides separate criteria to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. If applicable, the Statement identifies four funds that should be reported: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Implementation of this statement did not have a significant impact on the State Bar's financial statement for the year ended December 31, 2019.

*GASB Statement No. 88* – In April 2018, GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. See Note 7 for the application of this Statement on the State Bar's financial statements.

*GASB Statement No. 90* – In August 2018, GASB issued Statement No. 90, *Minority Equity Interests-An Amendment of GASB Statement No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. Implementation of this statement did not have a significant impact on the State Bar's financial statement for the year ended December 31, 2019.

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. 87** – In June 2017, GASB issued Statement No. 87 – *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 is effective for the State Bar's year ending December 31, 2020.

**GASB Statement No. 89** – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expenditure/expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. GASB 89 is effective for the State Bar's year ending December 31, 2020.

**GASB Statement No. 91** – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 91 is effective for the State Bar's year ending December 31, 2020.

**GASB Statement No. 92** – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. This statement will enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 92 is effective for the State Bar's year ending December 31, 2021.

**GASB Statement No. 93** – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement will provide guidance to some governments that have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) - most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. GASB 93 is effective for the State Bar's year ending December 31, 2021, except for paragraph 11b that is effective for the State Bar's year ending December 31, 2022.

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

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

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

Cash, cash equivalents, and investments as of December 31, 2019 and 2018 are classified in the financial statements as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 81,067,136	\$ 46,439,784
Investments	66,224,970	71,659,741
Restricted cash	<u>7,105,000</u>	<u>7,105,000</u>
Total	<u>\$ 154,397,106</u>	<u>\$ 125,204,525</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. Cash equivalents consisted of demand deposit accounts, money market accounts, and deposits in LAIF. As of December 31, 2019, the carrying amount of the State Bar’s unrestricted deposits is \$81,067,136 and the bank balance is \$81,850,955. As of December 31, 2018, the carrying amount of the State Bar’s unrestricted deposits is \$46,439,784 and the bank balance is \$46,420,966. At December 31, 2019 and 2018, the State Bar had restricted deposits held by the bank in the amount of \$7,105,000. 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 invests in LAIF. LAIF is part of the State of California Pooled Money Investment Account (“PMIA”). The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. PMIA is not SEC-registered and is not rated, but is required to invest according to the California State Government Code. The Local Investment Advisory Board, which consists of five members designated by state statutes, has oversight responsibility for LAIF.

As of December 31, 2019, the PMIA balance is \$88.9 billion, of which 100% is invested in nonderivative financial products with 2.79% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$26.7 billion, and the State Bar’s investment in LAIF is \$65.2 million. The average maturity of PMIA investments is 226 days as of December 31, 2019. As of December 31, 2018, the PMIA balance is \$83.6 billion, of which 100% is invested in nonderivative financial products with 2.67% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$21.3 billion, and the State Bar’s investment in LAIF is \$37.1 million. The average maturity of PMIA investments is 192 days as of December 31, 2018.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

The State Bar's pooled cash and cash equivalents at December 31, 2019 and 2018 is composed of:

	2019	2018
LAIF	\$ 65,224,363	\$ 37,175,962
Money Market	6,035,826	5,901,795
Other Cash	9,806,947	3,362,027
Restricted Cash	7,105,000	7,105,000
Total Cash and Cash Equivalents	\$ 88,172,136	\$ 53,544,784

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

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

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

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

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

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

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

The fair value measurements of investments for December 31, 2019 and 2018 are as follows:

Description	12/31/2019	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Government agencies	\$ 33,781,431	\$ -	\$ 33,781,431	\$ -
Municipal bond	4,324,358	-	4,324,358	-
Corporate bonds	19,022,937	-	19,022,937	-
Commercial paper	8,936,160	8,936,160	-	-
Common stock	160,083	160,083	-	-
Total investments measured at fair value	<u>\$ 66,224,970</u>	<u>\$ 9,096,243</u>	<u>\$ 57,128,726</u>	<u>\$ -</u>

Description	12/31/2018	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Government agencies	\$ 46,902,106	\$ -	\$ 46,902,106	\$ -
Municipal bond	2,990,659	-	2,990,659	-
Corporate bonds	21,638,316	-	21,638,316	-
Common stock	128,660	128,660	-	-
Total investments measured at fair value	<u>\$ 71,659,741</u>	<u>\$ 128,660</u>	<u>\$ 71,531,081</u>	<u>\$ -</u>

Common stock and commercial paper are classified in Level 1 and valued using prices quoted in active markets for those securities. Government agencies securities are classified in Level 2 and valued using quoted prices for identical securities in markets that are not active. Corporate bonds and municipal bond 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 deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state laws (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

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

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

<u>Issuer</u>	<u>Investment Type</u>	<u>2019</u>		<u>2018</u>	
		<u>Fair Value</u>		<u>Fair Value</u>	
Federal Home Loan Bank	U.S. government agencies	\$ 25,592,422	44.7%	\$ 25,306,358	35.3%
Federal Farm Credit Bank	U.S. government agencies	5,130,449	9.1%	3,109,531	4.4%
Federal Home Loan Mortgage Corp	U.S. government agencies	3,058,560	5.3%	12,280,092	17.1%
Federal National Mortgage Assoc.	U.S. government agencies	-	0.0%	6,206,125	8.7%
State of California	Municipal bond	4,324,358	7.6%	2,990,659	4.2%
Corporate bonds	Corporate bonds	19,022,937	33.3%	21,638,316	30.3%
		<u>\$ 57,128,726</u>	<u>100.0%</u>	<u>\$ 71,531,081</u>	<u>100.0%</u>

**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, 2019 and 2018, are as follows:

	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>	<u>Weighted Average Maturity (Years)</u>
<b>December 31, 2019</b>			
U.S. government agencies	\$ 33,781,431	59.0%	0.64
Municipal bonds	4,324,358	8.0%	2.78
Corporate bonds	19,022,937	33.0%	0.69
	<u>\$ 57,128,726</u>	<u>100.0%</u>	
<b>December 31, 2018</b>			
U.S. government agencies	\$ 46,902,106	66.0%	1.75
Municipal bonds	2,990,659	4.0%	3.25
Corporate bonds	21,638,316	30.0%	2.21
	<u>\$ 71,531,081</u>	<u>100.0%</u>	

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

**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, 2019 and 2018, are as follows:

	2019		2018	
	Fair Value	Fair Value as a Percentage of Fixed Income Securities	Fair Value	Fair Value as a Percentage of Fixed Income Securities
S & P's rating				
AAA	\$ 6,275,813	11.0%	\$ 6,181,969	8.6%
AA+	40,213,874	70.4%	53,169,666	74.4%
A+	-	0.0%	3,109,125	4.3%
AA-	10,639,040	18.6%	9,070,321	12.7%
Total fixed income securities	\$ 57,128,727	100.0%	\$ 71,531,081	100.0%

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**5. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2019 and 2018, are as follows:

	<u>Balance January 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2019</u>
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	88,601,937	3,462,766	-	92,064,703
180 Howard Tenant Improvements	11,645,162	3,524,545	-	15,169,707
Equipment and software	14,873,371	3,336,236	-	18,209,607
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	<u>120,632,569</u>	<u>10,323,547</u>	<u>-</u>	<u>130,956,116</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(24,806,313)	(2,384,787)	-	(27,191,100)
180 Howard Tenant Improvements	(2,113,009)	(475,423)	-	(2,588,432)
Equipment and software	(8,563,571)	(578,596)	-	(9,142,167)
Furniture and fixtures	(3,559,355)	(418,063)	-	(3,977,418)
Total accumulated depreciation	<u>(39,042,248)</u>	<u>(3,856,869)</u>	<u>-</u>	<u>(42,899,117)</u>
Total capital assets, being depreciated, net	<u>81,590,321</u>	<u>6,466,678</u>	<u>-</u>	<u>88,056,999</u>
Capital assets, net	<u>\$ 101,127,936</u>	<u>\$ 6,466,678</u>	<u>\$ -</u>	<u>\$ 107,594,614</u>
	<u>Balance January 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	88,601,937	-	-	88,601,937
180 Howard Tenant Improvements	6,275,656	5,369,506	-	11,645,162
Equipment and software	10,657,312	4,216,059	-	14,873,371
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	<u>111,047,004</u>	<u>9,585,565</u>	<u>-</u>	<u>120,632,569</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(22,540,343)	(2,265,970)	-	(24,806,313)
180 Howard Tenant Improvements	(1,637,586)	(475,423)	-	(2,113,009)
Equipment and software	(8,242,370)	(321,201)	-	(8,563,571)
Furniture and fixtures	(3,175,683)	(383,672)	-	(3,559,355)
Total accumulated depreciation	<u>(35,595,982)</u>	<u>(3,446,266)</u>	<u>-</u>	<u>(39,042,248)</u>
Total capital assets, being depreciated, net	<u>75,451,022</u>	<u>6,139,299</u>	<u>-</u>	<u>81,590,321</u>
Capital assets, net	<u>\$ 94,988,637</u>	<u>\$ 6,139,299</u>	<u>\$ -</u>	<u>\$ 101,127,936</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$3,856,869 and \$3,446,266 respectively.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**5. CAPITAL ASSETS (Continued)**

The State Bar leases certain office space at its facilities in San Francisco and Los Angeles, California, to tenants under various lease agreements. The carrying amounts of the leased portions of the San Francisco and Los Angeles buildings have not been determined. Future minimum lease revenue under these noncancelable operating leases at December 31, 2019, are as follows:

Year Ending December 31:	<u>Future Minimum Revenue</u>	
	<u>San Francisco</u>	<u>Los Angeles</u>
2020	\$ 3,618,943	\$ 396,655
2021	3,216,376	396,655
2022	3,215,346	396,655
2023	3,310,182	406,572
2024	2,844,401	406,572
Thereafter	8,991,647	3,793,850
	<u>\$ 25,196,895</u>	<u>\$ 5,796,959</u>

**6. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

At December 31, 2019 and 2018, accounts payable and other current liabilities consisted of the following:

	<u>2019</u>	<u>2018</u>
Accounts payable	\$ 4,434,410	\$ 9,756,306
Compensated absences, current portion	1,690,566	1,505,721
Other liabilities	5,805,886	2,027,626
Total accounts payable and other liabilities	<u>\$ 11,930,862</u>	<u>\$ 13,289,653</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 January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2019</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 3,764,301	\$ 5,097,141	\$(4,635,025)	\$ 4,226,417	\$ 1,690,566

  

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2018</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 3,694,468	\$ 4,338,499	\$(4,268,666)	\$ 3,764,301	\$ 1,505,721

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**7. LOANS PAYABLE**

On November 1, 2012, the State Bar entered into a Real Estate Loan Agreement in the amount of \$25,500,000 with Bank of America, N.A. for the purpose of financing the costs of purchasing real property located at 845 South Figueroa Street, Los Angeles. The loan bears a tax-exempt fixed rate of 4.26% per year and is due on November 1, 2027, with a monthly payment of \$191,802. The loan agreement contains certain covenants including the maintenance of a \$4.6 million deposit with Bank of America as debt service reserve fund, which is reported as restricted cash on the accompanying Statement of Net Position. As of December 31, 2019 and 2018 the outstanding loan balance was \$15,443,719 and \$17,050,127, respectively.

On April 22, 2016, the State Bar entered into a Real Estate Loan Agreement in the amount of \$10,000,000 with Bank of America, N.A. for the purpose of financing the costs of Tenant Improvement located at 180 Howard Street, San Francisco. The loan bears a tax-exempt fixed rate of 4.26% per year and is due on April 1, 2026, with a monthly payment of \$104,218. The loan agreement contains certain covenants including the maintenance of a \$2.5 million deposit with Bank of America as debt service reserve fund, which is reported as restricted cash on the accompanying Statement of Net Position. As of December 31, 2019 and 2018, the outstanding loan balance of the San Francisco loan was \$6,858,666 and \$7,769,457, respectively.

	<u>San Francisco</u>	<u>Los Angeles</u>	<u>Total</u>
Term loan - Bank of America, December 31, 2018	\$ 7,769,457	\$ 17,050,127	\$ 24,819,584
Additions	-	-	-
Repayments	<u>(910,791)</u>	<u>(1,606,408)</u>	<u>(2,517,199)</u>
Balance as of December 31, 2019	<u>\$ 6,858,666</u>	<u>\$ 15,443,719</u>	<u>\$ 22,302,385</u>
Current loan payable	\$ 953,772	\$ 1,676,193	\$ 2,629,965
Noncurrent loan payable	<u>5,904,894</u>	<u>13,767,526</u>	<u>19,672,420</u>
Balance as of December 31, 2019	<u>\$ 6,858,666</u>	<u>\$ 15,443,719</u>	<u>\$ 22,302,385</u>

	<u>San Francisco</u>	<u>Los Angeles</u>	<u>Total</u>
Term loan - Bank of America, December 31, 2017	\$ 8,639,203	\$ 18,589,656	\$ 27,228,859
Additions	-	-	-
Repayments	<u>(869,746)</u>	<u>(1,539,529)</u>	<u>(2,409,275)</u>
Balance as of December 31, 2018	<u>\$ 7,769,457</u>	<u>\$ 17,050,127</u>	<u>\$ 24,819,584</u>
Current loan payable	\$ 910,791	\$ 1,606,408	\$ 2,517,199
Noncurrent loan payable	<u>6,858,666</u>	<u>15,443,719</u>	<u>22,302,385</u>
Balance as of December 31, 2018	<u>\$ 7,769,457</u>	<u>\$ 17,050,127</u>	<u>\$ 24,819,584</u>

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**7. LOANS PAYABLE (Continued)**

The annual repayment schedule as of December 31, 2019, is as follows:

Year Ending December 31,	Principal	Interest
2020	\$ 2,629,965	\$ 922,268
2021	2,747,791	804,442
2022	2,870,906	681,329
2023	2,999,544	552,691
2024	3,133,956	418,279
2025-2027	7,920,223	464,371
<b>Total</b>	<b>\$ 22,302,385</b>	<b>\$ 3,843,380</b>

***Loan Covenant, Events of Default, Termination Events and Acceleration Clauses*** - The State Bar's loan agreement contains certain covenants that include the maintenance of a \$7.1 million deposit with Bank of America as a debt service reserve fund, which is classified as restricted cash as of December 31, 2019 and 2018. 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 occurs, the Bank may do one or more of the following without prior notice: declare that an Event of Default has occurred, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately. If a Default or Event of Default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under the loan agreement. In addition, if any Event of Default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with the loan agreement, as well as all rights and remedies available at law or in equity.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**8. 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.

**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, 2018, the most recent information available, the State Bar’s pension plan included 526 active members, 441 inactive employees entitled to but not yet receiving benefits, and 524 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, 2019 and 2018, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.0%	6.5%
Required employer contribution rates - 1/1/18 to 6/30/18	12.338%	12.338%
Required employer contribution rates - 7/1/18 to 6/30/19	15.017%	15.017%
Required employer contribution rates - 7/1/19 to 12/31/19	17.720%	17.720%

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**8. PENSION PLAN (Continued)**

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

**Net Pension Liability** – The net pension liability for the Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. For the year ended December 31, 2019, the total pension liability for the Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019 using standard procedures. For the year ended December 31, 2018, the total pension liability for the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018 using standard procedures.

**Actuarial assumptions** – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2019 and 2018 are as follows:

Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost	
Actuarial Assumptions:		
Discount Rate	7.15%	
Inflation	2.50%	
Payroll Growth	2.75%	
Projected Salary Increase	Varies by entry age and service	
Investment Rate of Return	(1)	
Mortality	Derived using CalPERS' membership data for all Funds (2)	

- (1) The lesser of contract COLA or 2.50% until Purchasing Power Allowance floor on purchasing power applies, 2.50% thereafter.
- (2) The mortality table used was developed based on CalPERS’ specific data. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on the table, refer to the CalPERS 2017 experience study report available on the CalPERS website.

All other actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of the CalPERS 2017 experience study for the period 1997 to 2015, including updates to salary

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**8. PENSION PLAN (Continued)**

increase, mortality and retirement rates. Further details of the experience study can be found on the CalPERS website.

**Change of Assumptions** – For the June 30, 2017 actuarial valuations, the inflation rate reduced from 2.75 percent to 2.50 percent, while the demographic assumptions were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

**Discount Rate** – The discount rate used to measure the total pension liability as of June 30, 2019 and 2018 was 7.15 percent for the Plan. The projection of cash flows used to determine the discount rate assumed that the 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 best-estimate ranges of 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 as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The long-term expected real rates of return by asset class and the target allocation adopted by the CalPERS Board for the actuarial valuations of June 30, 2018 and 2017 are as follows:

<u>Asset Class</u>	<u>Current Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	50.00%	4.80%	5.98%
Global fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100%</u>		

(a) An expected inflation of 2.0% used for this period.

(b) An expected inflation of 2.92% used for this period.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**8. 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, 2019 and 2018 are as follows:

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
<b>Balance at June 30, 2018</b>	\$ 380,633,682	\$ 321,270,611	\$ 59,363,071
<b>Changes in the year:</b>			
Service cost	\$ 8,457,483	\$ -	\$ 8,457,483
Interest on the total pension liability	27,203,790	-	27,203,790
Differences between actual and expected experience	4,632,331	-	4,632,331
Contribution - employer	-	8,155,168	(8,155,168)
Contribution - employee	-	3,793,577	(3,793,577)
Net investment income	-	20,781,606	(20,781,606)
Administrative expenses	-	(229,266)	229,266
Benefit payments, including refunds of employee contributions	(18,044,328)	(18,044,328)	-
Other Miscellaneous Income (Expense)	-	745	(745)
<b>Net changes</b>	<u>22,249,276</u>	<u>14,457,502</u>	<u>7,791,774</u>
<b>Balance at June 30, 2019</b>	<u>\$ 402,882,958</u>	<u>\$ 335,728,113</u>	<u>\$ 67,154,845</u>

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
<b>Balance at June 30, 2017</b>	\$ 377,563,978	\$ 304,032,283	\$ 73,531,695
<b>Changes in the year:</b>			
Service cost	\$ 8,413,051	\$ -	\$ 8,413,051
Interest on the total pension liability	25,675,376	-	25,675,376
Changes of Assumptions	(11,012,926)	-	(11,012,926)
Differences between actual and expected experience	(3,317,028)	-	(3,317,028)
Net Plan to Plan Resource Movement	-	(745)	745
Contribution - employer	-	6,191,049	(6,191,049)
Contribution - employee	-	3,726,557	(3,726,557)
Net investment income	-	25,383,692	(25,383,692)
Administrative expenses	-	(473,766)	473,766
Benefit payments, including refunds of employee contributions	(16,688,769)	(16,688,769)	-
Other Miscellaneous ncome(Expense)	-	(899,690)	899,690
<b>Net changes</b>	<u>3,069,704</u>	<u>17,238,328</u>	<u>(14,168,624)</u>
<b>Balance at June 30, 2018</b>	<u>\$ 380,633,682</u>	<u>\$ 321,270,611</u>	<u>\$ 59,363,071</u>

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**8. PENSION PLAN (Continued)**

*Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions* – For the years ended December 31, 2019 and 2018, the State Bar recognized pension expense of \$17,341,376 and 8,007,157, respectively. Deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	<b>2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 3,003,296	\$ (4,534,734)
Differences between actual and expected experience	3,308,808	(1,620,176)
Contributions made after the measurement date: June 30, 2019	2,744,437	-
Net differences between protected and actual earning on plan investments	-	(1,467,256)
Total	\$ 9,056,541	\$ (7,622,166)

	<b>2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 9,009,885	\$ (7,773,830)
Differences between actual and expected experience	1,123,822	(3,104,451)
Contributions made after the measurement date: June 30, 2018	2,514,621	-
Net differences between protected and actual earning on plan investments	828,946	-
Total	\$ 13,477,274	\$ (10,878,281)

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. At December 31, 2019 and 2018, the State Bar reported \$2,744,437 and \$2,514,621, 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, 2020 and 2019, respectively.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

**8. PENSION PLAN (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension as of December 31, 2019 will be recognized as pension expense as follows:

<u>Year Ended December 31</u>		
2020	\$	1,102,286
2021		(3,051,244)
2022		254,042
2023		384,854
		384,854
	\$	(1,310,062)

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

	<b>1% Decrease 6.15%</b>	<b>Current Discount Rate 7.15%</b>	<b>1% Increase 8.15%</b>
As of December 31, 2019			
Plan's net pension liability	\$ 119,157,587	\$ 67,154,845	\$ 23,941,172

  

	<b>1% Decrease 6.15%</b>	<b>Current Discount Rate 7.15%</b>	<b>1% Increase 8.15%</b>
As of December 31, 2018			
Plan's net pension liability	\$ 109,009,686	\$ 59,363,071	\$ 18,079,067

**9. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”)**

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

For executive staff employed as of August 19, 2006, eligibility requires 15 years of services to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires 15 years of service to the State Bar as a regular employee, with at least the last ten years of service preceding retirement as an executive staff employee. The employee must also elect to receive retirement benefits effective within 120 days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age. As of December 31, 2019, the OPEB Plan included 46 active executive staff and 65 executive staff retirees receiving benefits. The State Bar has the right to modify plan provisions prospectively at its discretion.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

On December 15, 2008, the State Bar created an irrevocable trust for the OPEB Plan (“OPEB Trust”) to set aside assets to fund the cost of retiree health care benefits to eligible executive employees. In 2012 and 2013 the State Bar transferred funds from the OPEB Trust to a higher-yielding CERBT managed by CalPERS. On an ongoing basis, the State Bar makes annual transfers to the CERBT to pay its Annual Required Contribution as determined by the State Bar’s actuary. The State Bar decided to leave the OPEB Trust dormant rather than terminating it so that there is flexibility to reactivate it in the future if necessary. CalPERS issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, California, 95814.

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 \$133 per month, but is adjusted by CalPERS on an annual basis. Beginning May 2018, the State Bar contributes \$133 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, 2019, the OPEB Plan included 491 active non-executive staff and 53 non-executive staff retirees receiving benefits.

The State Bar contracts with CalPERS for health coverage and provides life time 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 \$15.40, \$22.34, and \$40.06 for retiree, couple, and family, respectively.

***Net OPEB Liability (Asset) and assumptions:*** The net OPEB liability (asset) for the OPEB Plan is measured as the total OPEB liability, less the OPEB plan’s fiduciary net position. For the year ended December 31, 2019 and 2018, the total OPEB liability for the OPEB Plan is measured as of June 30, 2019 and 2018, respectively, using an annual actuarial valuation as of January 1, 2018, rolled forward to June 30, 2019 and 2018, respectively, using standard procedures.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

The total OPEB liability in the January 1, 2018 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	6.00%
Inflation	2.50%
Healthcare Trend Rate	Trend assumption based on the "Getsen" model developed by the Society of Actuaries. Assumed the vision cost would increase at a rate of 3.25% per year. Assumed the PEMCHA minimum contribution would grow with general medical inflation, and assumed the medical CPI to be 3.25% per year.
Mortality	CalPERS Mortality rates which include 15 years of projected on -going improvement using 90 percent of scale MP-16.

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 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	22%	8.08%
U.S. Fixed Income	49%	5.88%
Treasury Inflation-Protected Securities	16%	3.67%
Real Estate Investment Trusts	8%	7.91%
Commodities	5%	5.38%
Total	100%	

Expected Geometric Return (5.0 yrs) 5.92%

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

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

Changes in the Net OPEB Liability (Asset): The changes in the net OPEB liability (asset) of the OPEB Plan, measured as of June 30, 2019 and 2018 are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
<b>Balance at June 30, 2018</b>	\$ 17,422,595	\$ 25,426,964	\$ (8,004,369)
<b>Changes in the year:</b>			
Service cost	\$ 547,707	\$ -	\$ 547,707
Interest on the total OPEB liability	1,043,546	-	1,043,546
Benefit payments, including	(1,172,820)	(1,172,820)	-
Contributions from employer	-	1,922,820	(1,922,820)
Net investment income	-	1,892,678	(1,892,678)
Administrative expenses	-	(12,821)	12,821
<b>Net changes</b>	<u>418,433</u>	<u>2,629,857</u>	<u>(2,211,424)</u>
<b>Balance at June 30, 2019</b>	<u>\$ 17,841,028</u>	<u>\$ 28,056,821</u>	<u>\$ (10,215,793)</u>

  

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
<b>Balance at June 30, 2017</b>	\$ 27,065,763	\$ 23,577,193	\$ 3,488,570
<b>Changes in the year:</b>			
Service cost	\$ 489,826	\$ -	\$ 489,826
Interest on the total OPEB liability	1,611,348	-	1,611,348
Changes in benefit terms	(10,325,826)	-	(10,325,826)
Benefit payments, including	(1,418,516)	(1,418,516)	-
Contributions from employer	-	2,168,516	(2,168,516)
Net investment income	-	1,111,880	(1,111,880)
Administrative expenses	-	(12,109)	12,109
<b>Net changes</b>	<u>(9,643,168)</u>	<u>1,849,771</u>	<u>(11,492,939)</u>
<b>Balance at June 30, 2018</b>	<u>\$ 17,422,595</u>	<u>\$ 25,426,964</u>	<u>\$ (8,004,369)</u>

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

	1% Decrease in Discount Rate 5.00%	Current Discount Rate 6.00%	1% Increase in Discount Rate 7.00%
Net OPEB Liability (Asset) for December 31, 2019	\$ (7,961,058)	\$ (10,215,793)	\$ (12,109,242)
Net OPEB Liability (Asset) for December 31, 2018	\$ (5,802,965)	\$ (8,004,369)	\$ (9,846,965)

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

***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 in Healthcare Costs Trend Rate</b>	<b>Current Healthcare Costs Trend Rate</b>	<b>1% Increase in Healthcare Costs Trend Rate</b>
Net OPEB Liability (Asset) for year ended December 31, 2019	\$ (12,517,151)	\$ (10,215,793)	\$ (7,429,778)
Net OPEB Liability (Asset) for year ended December 31, 2018	\$ (10,088,966)	\$ (8,004,369)	\$ (5,486,965)

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, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811

***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, 2019 and 2018 was \$ 1,455,333 and \$ 975,455, respectively.

As of fiscal year ended December 31, 2019, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Net difference between projected and actual earnings	\$ -	\$ (81,475)
Contributions made subsequent to measurement date	450,865	-
Total	<u>\$ 450,865</u>	<u>\$ (81,475)</u>

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

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

As of fiscal year ended December 31, 2018, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Net difference between projected and actual earnings	\$ 259,652	\$ -
Contributions made subsequent to measurement date	<u>865,830</u>	<u>-</u>
Total	<u>\$ 1,125,482</u>	<u>\$ -</u>

At December 31, 2019 and 2018, the State Bar reported \$450,865 and \$865,830, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction (addition) to the net OPEB liability (asset) during the fiscal year ending December 31, 2020 and 2019, respectively. Other amounts reported as deferred inflows of resources related to OPEB as of December 31, 2019 will be recognized as OPEB expense as follows:

<u>Year Ending December 31,</u>	<u>Deferred (Inflows) and Outflows of Resources</u>
2020	\$ (4,140)
2021	(4,140)
2022	(4,140)
2023	<u>(69,055)</u>
	<u>\$ (81,475)</u>

**10. 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.

**THE STATE BAR OF CALIFORNIA**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018

## 11. 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, 2019 and 2018.

**Major Projects** – As of the first quarter of 2020, the State Bar had contracts and purchase order commitments for major projects of approximately \$2.4 million. Those commitments consist of approximately \$0.8 million for elevator replacement and \$1.6 million for implementation of an Enterprise Resource Planning System.

As of December 31, 2018, the State Bar had contracts and purchase order commitments for major projects of approximately \$3.9 million. Those commitments consist of approximately \$0.8 million for implementation of an Admissions Information Management System, \$1.6 million for implementation of an Enterprise Resource Planning System, and \$1.5 million for implementation of a Case Management System.

## 12. SUBSEQUENT EVENT

**Retiree Health** –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. 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.

**COVID-19** – In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected organizations and its workforces, as well as the economy and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many governmental organizations, including ours. This outbreak will decrease revenues and impact operations. The current reporting period was not adversely impacted by the pandemic, but future reporting periods will be. At this point, it is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our agency or results of operations at this time.

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**REQUIRED SUPPLEMENTARY INFORMATION**

Draft 4/27/2020

**THE STATE BAR OF CALIFORNIA**  
Schedules of Changes in Net Pension Liability and Related Ratios (Unaudited)  
As of December 31, 2019  
Last 10 Years \*

Measurement Period Ended June 30	2019	2018	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>						
Service Cost	\$ 8,457,483	\$ 8,413,051	\$ 8,895,961	\$ 7,565,782	\$ 7,286,606	\$ 7,138,657
Interest on total pension liability	27,203,790	25,675,376	25,355,446	24,173,396	22,279,424	20,821,887
Differences between expected and actual experience	4,632,331	(3,317,028)	(1,780,377)	6,742,939	1,619,738	-
Changes in assumptions	-	(11,012,926)	21,023,063	-	(5,466,470)	-
Benefit payments, including refunds of employee contributions	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net change in total pension liability	22,249,276	3,069,704	39,771,961	26,169,361	14,650,568	17,871,937
Total pension liability - beginning	380,633,682	377,563,978	337,792,017	311,622,656	296,972,088	279,100,151
Total pension liability - ending	<u>\$ 402,882,958</u>	<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	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102	\$ 4,167,567	\$ 4,166,043
Contributions - employee	3,793,577	3,726,557	3,697,300	3,437,015	3,387,652	3,262,781
Net investment income	20,781,606	25,383,692	31,072,914	1,591,381	6,203,991	41,450,031
Benefit payments, including refunds of employee contributions	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net Plan to Plan Resource Movement	745	(745)	-	-	-	-
Administrative expenses	(229,266)	(473,766)	(410,263)	(170,929)	(316,734)	-
Other Miscellaneous Income/(Expense)	-	(899,690)	-	-	-	-
Net change in plan fiduciary net position	14,457,502	17,238,328	26,157,776	(2,591,187)	2,373,746	38,790,248
Plan fiduciary net position - beginning	321,270,611	304,032,283	277,874,507	280,465,694	278,091,948	239,301,700
Plan fiduciary net position - ending	<u>\$ 335,728,113</u>	<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>\$ 67,154,845</u>	<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	83.33%	84.40%	80.52%	82.26%	90.00%	93.64%
Covered - employee payroll	\$ 50,333,174	\$ 49,538,071	\$ 50,889,313	\$ 48,452,015	\$ 47,369,513	\$ 43,282,954
Net pension liability as percentage of covered-employee payroll	133.42%	119.83%	144.49%	123.66%	65.77%	43.62%

**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, 2018 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50% to 7.65%. There is 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 is no change in assumptions during measurement period 2019.

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

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

**THE STATE BAR OF CALIFORNIA**  
 Schedule of Plan Contributions - Pension (Unaudited)  
 As of December 31, 2019  
 Last 10 Years \*

For the Year Ended	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102	\$ 4,167,567	\$ 4,166,043
Contributions in relation to the actuarially determined contributions	<u>(8,155,168)</u>	<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>					
Covered-employee payroll	<u>\$ 50,333,174</u>	<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	16.20%	12.50%	10.85%	10.04%	9.04%	9.63%

**Notes to Schedule**

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended June 30, 2019 was derived from the June 30, 2016 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of payroll
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.375% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

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

**THE STATE BAR OF CALIFORNIA**  
Schedules of Changes in Net OPEB Liability (Asset) and Related Ratios (Unaudited)  
As of December 31, 2019  
Last 10 Years \*

	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 547,707	\$ 489,826
Interest on total OPEB liability	1,043,547	1,611,348
Changes of benefit terms	-	(10,325,826)
Benefits payments, including refunds of employee contributions	(1,172,820)	(1,418,516)
	<hr/>	<hr/>
<b>Net change in total OPEB liability</b>	418,434	(9,643,168)
<b>Total OPEB liability - beginning</b>	17,422,595	27,065,763
<b>Total OPEB liability - ending</b>	<u>17,841,029</u>	<u>17,422,595</u>
<b>Plan fiduciary net position</b>		
Contributions - Employer	1,922,820	2,168,516
Net investment income	1,892,678	1,111,880
Benefits payments, including refunds of employee contributions	(1,172,820)	(1,418,516)
Administrative expense	(12,820)	(12,109)
	<hr/>	<hr/>
<b>Net change in plan fiduciary net position</b>	2,629,858	1,849,771
<b>Plan fiduciary net position - beginning</b>	25,426,964	23,577,193
<b>Plan fiduciary net position - ending</b>	<u>28,056,822</u>	<u>25,426,964</u>
<b>Plan net OPEB liability (asset) - ending</b>	<u>\$ (10,215,793)</u>	<u>\$ (8,004,369)</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	157.3%	145.9%
<b>Covered-employee payroll</b>	\$ 50,333,174	\$ 49,538,071
<b>Plan net OPEB (Asset) as a percentage of covered-employee payroll</b>	-20.30%	-16.16%

**Notes to Schedule:**

**Changes in assumptions** - There were no changes in assumptions.

**Changes in benefit terms** - During Measurement Period 2018, the State Bar transitioned its health coverage to CalPERS health.

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

**THE STATE BAR OF CALIFORNIA**  
Schedules of Contribution - OPEB Plan (Unaudited)  
As of December 31, 2019  
Last 10 Years \*

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ -	\$ -
Contributions	<u>1,150,166</u>	<u>2,179,258</u>
Contribution deficiency (excess)	<u>\$ (1,150,166)</u>	<u>\$ (2,179,258)</u>
Covered payroll	\$ 50,333,174	\$ 49,538,071
Contribution as a percentage of covered-employee payroll	2.3%	4.4%

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

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2019**

	<u>General Fund</u>	<u>SF Tenant Improvement</u>	<u>Admissions</u>	<u>Grants</u>	<u>Client Security</u>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ (27,655,330)	\$ (1,032,700)	\$ 13,852,980	\$ 160,457	\$ 3,416,688
Investments	66,224,970	-	-	-	-
Accounts and other receivables, net	1,338,583	-	-	-	-
Other current assets	2,695,577	-	151,565	-	-
Total current assets	<u>42,603,800</u>	<u>(1,032,700)</u>	<u>14,004,545</u>	<u>160,457</u>	<u>3,416,688</u>
<b>Noncurrent assets</b>					
Restricted cash	4,610,000	2,495,000	-	-	-
Other postemployment benefits assets	10,215,793	-	-	-	-
<b>Capital assets:</b>					
Nondepreciable	19,537,615	-	-	-	-
Depreciable, net	82,990,599	5,066,400	-	-	-
Total noncurrent assets	<u>117,354,007</u>	<u>7,561,400</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	159,957,807	6,528,700	14,004,545	160,457	3,416,688
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension items	9,056,541	-	-	-	-
Other postemployment benefit items	450,865	-	-	-	-
Total deferred outflows of resources	<u>9,507,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>169,465,213</u>	<u>6,528,700</u>	<u>14,004,545</u>	<u>160,457</u>	<u>3,416,688</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable and other liabilities	11,553,374	26,406	152,593	1,935	63,109
Unearned fees collected in advance	16,755,706	-	5,204,284	-	3,251,964
Loans payable	1,676,194	953,771	-	-	-
Total current liabilities	<u>29,985,274</u>	<u>980,177</u>	<u>5,356,877</u>	<u>1,935</u>	<u>3,315,073</u>
<b>Noncurrent liabilities</b>					
Loans payable	13,767,526	5,904,894	-	-	-
Compensated absences	2,160,495	-	229,879	2,745	82,021
Net pension liability	67,154,845	-	-	-	-
Total noncurrent liabilities	<u>83,082,866</u>	<u>5,904,894</u>	<u>229,879</u>	<u>2,745</u>	<u>82,021</u>
Total liabilities	113,068,140	6,885,071	5,586,756	4,680	3,397,094
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension items	7,622,166	-	-	-	-
Other postemployment benefit items	81,475	-	-	-	-
Total deferred inflows of resources	<u>7,703,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>120,771,781</u>	<u>6,885,071</u>	<u>5,586,756</u>	<u>4,680</u>	<u>3,397,094</u>
<b>NET POSITION</b>					
Net investment in capital assets	87,084,494	(1,792,265)	-	-	-
<b>Restricted for:</b>					
Enabling legislation	-	-	8,417,789	-	19,594
Other restrictions	4,610,000	2,495,000	-	155,777	-
Unrestricted	(43,001,062)	(1,059,106)	-	-	-
Total net position	<u>\$ 48,693,432</u>	<u>(356,371)</u>	<u>\$ 8,417,789</u>	<u>\$ 155,777</u>	<u>\$ 19,594</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2019**

	<b>Elimination of Bias</b>	<b>Equal Access</b>	<b>Information Technology Special Assessment</b>	<b>Justice Gap Fund</b>	<b>Lawyers Assistance Program</b>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 363,146	\$ 14,429,908	\$ 210,942	\$ 3,190,922	\$ 3,719,958
Investments	-	-	-	-	-
Accounts and other receivables, net	-	1,456,458	-	-	-
Other current assets	-	-	-	-	27,788
Total current assets	<u>363,146</u>	<u>15,886,366</u>	<u>210,942</u>	<u>3,190,922</u>	<u>3,747,746</u>
<b>Noncurrent assets</b>					
Restricted cash	-	-	-	-	-
Other postemployment benefits assets	-	-	-	-	-
<b>Capital assets:</b>					
Nondepreciable	-	-	-	-	-
Depreciable, net	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>363,146</u>	<u>15,886,366</u>	<u>210,942</u>	<u>3,190,922</u>	<u>3,747,746</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>Pension items</b>					
Pension items	-	-	-	-	-
<b>Other postemployment benefit items</b>					
Other postemployment benefit items	-	-	-	-	-
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>363,146</u>	<u>15,886,366</u>	<u>210,942</u>	<u>3,190,922</u>	<u>3,747,746</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable and other liabilities	-	100,168	-	-	16,200
Unearned fees collected in advance	72,624	7,039,200	204,718	219,776	38,342
Loans payable	-	-	-	-	-
Total current liabilities	<u>72,624</u>	<u>7,139,368</u>	<u>204,718</u>	<u>219,776</u>	<u>54,542</u>
<b>Noncurrent liabilities</b>					
Loans payable	-	-	-	-	-
Compensated absences	-	-	-	-	29,192
Net pension liability	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,192</u>
Total liabilities	<u>72,624</u>	<u>7,139,368</u>	<u>204,718</u>	<u>219,776</u>	<u>83,734</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
<b>Pension items</b>					
Pension items	-	-	-	-	-
<b>Other postemployment benefit items</b>					
Other postemployment benefit items	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>72,624</u>	<u>7,139,368</u>	<u>204,718</u>	<u>219,776</u>	<u>83,734</u>
<b>NET POSITION</b>					
Net investment in capital assets	-	-	-	-	-
<b>Restricted for:</b>					
Enabling legislation	-	8,746,998	6,224	2,971,146	3,664,012
Other restrictions	290,522	-	-	-	-
Unrestricted	-	-	-	-	-
Total net position	<u>\$ 290,522</u>	<u>\$ 8,746,998</u>	<u>\$ 6,224</u>	<u>\$ 2,971,146</u>	<u>\$ 3,664,012</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2019**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Total
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 664,892	\$ 44,390,724	\$ 4,886,447	\$ 20,468,102	\$ 81,067,136
Investments	-	-	-	-	66,224,970
Accounts and other receivables, net	-	3,701,270	-	-	6,496,311
Other current assets	-	-	-	-	2,874,930
Total current assets	<u>664,892</u>	<u>48,091,994</u>	<u>4,886,447</u>	<u>20,468,102</u>	<u>156,663,347</u>
<b>Noncurrent assets</b>					
Restricted cash	-	-	-	-	7,105,000
Other postemployment benefits assets	-	-	-	-	10,215,793
<b>Capital assets:</b>					
Nondepreciable	-	-	-	-	19,537,615
Depreciable, net	-	-	-	-	88,056,999
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,915,407</u>
Total assets	664,892	48,091,994	4,886,447	20,468,102	281,578,754
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	9,056,541
Other postemployment benefit items	-	-	-	-	450,865
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,507,406</u>
Total assets and deferred outflows of resources	<u>664,892</u>	<u>48,091,994</u>	<u>4,886,447</u>	<u>20,468,102</u>	<u>291,086,160</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable and other liabilities	3,927	11,615	1,535	-	11,930,862
Unearned fees collected in advance	172,325	1,444,390	514,970	-	34,918,299
Loans payable	-	-	-	-	2,629,965
Total current liabilities	<u>176,252</u>	<u>1,456,005</u>	<u>516,505</u>	<u>-</u>	<u>49,479,126</u>
<b>Noncurrent liabilities</b>					
Loans payable	-	-	-	-	19,672,420
Compensated absences	3,962	23,232	4,323	-	2,535,849
Net pension liability	-	-	-	-	67,154,845
Total noncurrent liabilities	<u>3,962</u>	<u>23,232</u>	<u>4,323</u>	<u>-</u>	<u>89,363,114</u>
Total liabilities	180,214	1,479,237	520,828	-	138,842,240
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	7,622,166
Other postemployment benefit items	-	-	-	-	81,475
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,703,641</u>
Total liabilities and deferred inflows of resources	<u>180,214</u>	<u>1,479,237</u>	<u>520,828</u>	<u>-</u>	<u>146,545,881</u>
<b>NET POSITION</b>					
Net investment in capital assets	-	-	-	-	85,292,229
<b>Restricted for:</b>					
Enabling legislation	484,678	46,612,757	4,365,619	20,468,102	95,756,919
Other restrictions	-	-	-	-	7,551,299
Unrestricted	-	-	-	-	(44,060,168)
Total net position	<u>\$ 484,678</u>	<u>\$ 46,612,757</u>	<u>\$ 4,365,619</u>	<u>\$ 20,468,102</u>	<u>\$ 144,540,279</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2019**

	<b>Consolidated General Fund</b>	<b>SF Tenant Improvement</b>	<b>Admissions</b>	<b>Grants</b>	<b>Client Security</b>
<b>OPERATING REVENUES</b>					
Licenses fees and donations	\$ 66,753,406	\$ -	\$ 953,231	\$ -	\$ 7,952,208
Examination application fees	-	-	19,167,933	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	45,235	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	2,059,509	-	-	-	-
Continuing legal education fees	903,572	-	600	-	-
Grant revenue	400	-	-	265,000	-
EAF AB145 filing fee revenue	-	-	-	-	-
Affinity Insurance revenue	2,313,028	-	-	-	-
Other revenue	856,680	-	1,290,810	-	10,150
Total operating revenues	<u>72,931,830</u>	<u>-</u>	<u>21,412,574</u>	<u>265,000</u>	<u>7,962,358</u>
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	53,219,213	-	-	-	-
State Bar Court	13,290,841	-	-	-	-
Attorney Regulation and Consumer Resources	5,806,587	-	-	-	-
Professional Competence	3,074,341	-	-	-	-
Probation	1,713,928	-	-	-	-
Mandatory Fee Arbitration	80,938	-	-	-	-
Judicial Evaluation	400,019	-	-	-	-
Commission on Access to Justice	7,141	-	-	-	-
Center on Access to Justice	1,805,813	-	-	-	-
Communications	895,980	-	-	-	-
Governance	3,360,368	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-
Client Security Fund	-	-	-	-	8,538,317
Admissions	-	-	21,395,668	-	-
Grants	-	-	-	-	-
Unallocated Pension Expense	8,956,392	-	-	-	-
General and Administration	<u>(2,254,159)</u>	<u>(250,849)</u>	<u>-</u>	<u>579,292</u>	<u>-</u>
Total operating expenses	<u>90,357,402</u>	<u>(250,849)</u>	<u>21,395,668</u>	<u>579,292</u>	<u>8,538,317</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>(17,425,572)</u>	<u>250,849</u>	<u>16,906</u>	<u>(314,292)</u>	<u>(575,959)</u>
<b>NONOPERATING REVENUES</b>					
Investment income	2,591,909	18,762	352,071	-	105,134
Rental income	3,391,708	-	-	-	-
Interest expense on loan	<u>(689,508)</u>	<u>(336,317)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues	<u>5,294,109</u>	<u>(317,555)</u>	<u>352,071</u>	<u>-</u>	<u>105,134</u>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<u>(12,131,463)</u>	<u>(66,706)</u>	<u>368,977</u>	<u>(314,292)</u>	<u>(470,825)</u>
Transfers in	1,080,558	-	-	616	4,890
Transfers out	<u>(1,080,420)</u>	<u>-</u>	<u>(101,451)</u>	<u>-</u>	<u>(1,592)</u>
Change in net position	<u>(12,131,325)</u>	<u>(66,706)</u>	<u>267,526</u>	<u>(313,676)</u>	<u>(467,527)</u>
NET POSITION—beginning of year	60,824,757	(289,665)	8,150,263	469,453	487,121
NET POSITION—end of year	<u>\$ 48,693,432</u>	<u>\$ (356,371)</u>	<u>\$ 8,417,789</u>	<u>\$ 155,777</u>	<u>\$ 19,594</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2019**

	Elimination of Bias	Equal Access	Information Technology Special Assessment	Justice Gap	Lawyers Assistance Program
<b>OPERATING REVENUES</b>					
Licensee fees and donations	\$ 314,750	\$ -	\$ -	\$ 1,537,668	\$ 2,086,931
Examination application fees	-	-	-	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	2,554	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	-	-	-	-	-
Continuing legal education fees	-	-	-	-	-
Grant revenue	-	35,376,591	-	-	-
EAF AB145 filing fee revenue	-	4,864,180	-	-	-
Affinity Insurance revenue	-	-	-	-	-
Other revenue	-	593,540	-	-	-
Total operating revenues	<u>317,304</u>	<u>40,834,311</u>	<u>-</u>	<u>1,537,668</u>	<u>2,086,931</u>
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	-	-	-	-	-
State Bar Court	-	-	-	-	-
Attorney Regulation and Consumer Resources	-	-	-	-	-
Professional Competence	-	-	-	-	-
Probation	-	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-	-
Judicial Evaluation	-	-	-	-	-
Commission on Access to Justice	-	-	-	-	-
Center on Access to Justice	-	-	-	-	-
Communications	-	-	-	-	-
Governance	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	2,092,933
Client Security Fund	-	-	-	-	-
Admissions	-	-	-	-	-
Grants	-	34,567,326	-	-	-
Unallocated Pension Expense	-	-	-	-	-
General and Administration	166,923	593,540	-	7,000	-
Total operating expenses	<u>166,923</u>	<u>35,160,866</u>	<u>-</u>	<u>7,000</u>	<u>2,092,933</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>150,381</u>	<u>5,673,445</u>	<u>-</u>	<u>1,530,668</u>	<u>(6,002)</u>
<b>NONOPERATING REVENUES</b>					
Investment income	8,285	52,697	6,224	89,068	103,527
Rental income	-	-	-	-	-
Interest expense on loan	-	-	-	-	-
Total nonoperating revenues	<u>8,285</u>	<u>52,697</u>	<u>6,224</u>	<u>89,068</u>	<u>103,527</u>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<u>158,666</u>	<u>5,726,142</u>	<u>6,224</u>	<u>1,619,736</u>	<u>97,525</u>
Transfers in	-	-	-	-	(2,224)
Transfers out	-	258,637	-	(2,750,000)	-
Change in net position	<u>158,666</u>	<u>5,984,779</u>	<u>6,224</u>	<u>(1,130,264)</u>	<u>95,301</u>
NET POSITION—beginning of year	<u>131,856</u>	<u>2,762,219</u>	<u>-</u>	<u>4,101,410</u>	<u>3,568,711</u>
NET POSITION—end of year	<u>\$ 290,522</u>	<u>\$ 8,746,998</u>	<u>\$ 6,224</u>	<u>\$ 2,971,146</u>	<u>\$ 3,664,012</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2019**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Interfund Elimination	Total
<b>OPERATING REVENUES</b>						
Licenses fees and donations	\$ 734,670	\$ 6,432,694	\$ -	\$ -	\$ -	\$ 86,765,558
Examination application fees	-	-	-	-	-	19,167,933
Trust account revenue	-	46,454,116	-	-	-	46,454,116
Seminar/workshop revenue	-	-	-	-	-	47,789
Legal specialization fees	-	-	2,204,755	-	-	2,204,755
Law corporation registration fees	-	-	-	-	-	2,059,509
Continuing legal education fees	-	-	18,950	-	-	923,122
Grant revenue	-	-	-	601	-	35,642,592
EAF AB145 filing fee revenue	-	-	-	-	-	4,864,180
Affinity Insurance revenue	-	-	-	-	-	2,313,028
Other revenue	-	-	1,532	-	-	2,752,712
Total operating revenues	<u>734,670</u>	<u>52,886,810</u>	<u>2,225,237</u>	<u>601</u>	<u>-</u>	<u>203,195,294</u>
<b>OPERATING EXPENSES</b>						
Chief Trial Counsel	-	-	-	-	-	53,219,213
State Bar Court	-	-	-	-	-	13,290,841
Attorney Regulation and Consumer Resources	-	-	-	-	-	5,806,587
Professional Competence	-	-	-	-	-	3,074,341
Probation	-	-	-	-	-	1,713,928
Mandatory Fee Arbitration	-	-	-	-	-	80,938
Judicial Evaluation	-	-	-	-	-	400,019
Commission on Access to Justice	-	-	-	-	-	7,141
Center on Access to Justice	-	-	-	-	-	1,805,813
Communications	-	-	-	-	-	895,980
Governance	-	-	-	-	-	3,360,368
Lawyer Assistance Program	-	-	-	-	-	2,092,933
Client Security Fund	-	-	-	-	-	8,538,317
Admissions	-	-	-	-	-	21,395,668
Grants	-	27,463,024	-	9,452,789	-	71,483,139
Unallocated Pension Expense	-	-	-	-	-	8,956,392
General and Administration	654,866	1,856,242	1,479,384	343,578	-	3,175,817
Total operating expenses	<u>654,866</u>	<u>29,319,266</u>	<u>1,479,384</u>	<u>9,796,367</u>	<u>-</u>	<u>199,297,435</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>79,804</u>	<u>23,567,544</u>	<u>745,853</u>	<u>(9,795,766)</u>	<u>-</u>	<u>3,897,859</u>
<b>NONOPERATING REVENUES</b>						
Investment income	18,296	572,672	109,417	497,098	-	4,525,160
Rental income	-	-	-	-	-	3,391,708
Interest expense on loan	-	-	-	-	-	(1,025,825)
Total nonoperating revenues	<u>18,296</u>	<u>572,672</u>	<u>109,417</u>	<u>497,098</u>	<u>-</u>	<u>6,891,043</u>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<u>98,100</u>	<u>24,140,216</u>	<u>855,270</u>	<u>(9,298,668)</u>	<u>-</u>	<u>10,788,902</u>
Transfers in	-	2,750,000	100,001	-	(3,933,841)	-
Transfers out	(383)	(258,635)	-	3	3,933,841	-
Change in net position	<u>97,717</u>	<u>26,631,581</u>	<u>955,271</u>	<u>(9,298,665)</u>	<u>-</u>	<u>10,788,902</u>
<b>NET POSITION—beginning of year</b>	<u>386,961</u>	<u>19,981,176</u>	<u>3,410,348</u>	<u>29,766,767</u>	<u>-</u>	<u>133,751,377</u>
<b>NET POSITION—end of year</b>	<u>\$ 484,678</u>	<u>\$ 46,612,757</u>	<u>\$ 4,365,619</u>	<u>\$ 20,468,102</u>	<u>\$ -</u>	<u>\$ 144,540,279</u>



# The State Bar of California

## Draft 4/27/2020

OFFICE OF ACCESS & INCLUSION

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Title of Report: 2019 Annual Legal Services Trust Fund Program Report

Statutory Citation: Business and Professions Code section 6022 and 6145

Date of Report: April 30, 2020

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The State Bar of California submits this 2019 Annual Legal Services Trust Fund Program Report to the Chief Justice of California and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code sections 6145 and 6222.

In 1981, legislation was enacted by the State of California 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 the provisions of Business and Professions Code sections 6210-6228, interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After the payment of administrative costs, the State Bar distributes eighty-five percent of the funds to qualified legal service projects and fifteen percent of the funds to qualified legal support centers.

This report consists of an operating statement of the Legal Services Trust Fund (LSTF) for the year ending December 31, 2019, notes to the operating statement, and grant disbursements schedules presented on a county by county basis. The operating statement summarizes the revenue sources of the LSTF funds, grant disbursements, and expenditures for administrative costs under Article 14 of the Business and Professions Code.

The notes to the operating statement present the highlights of the financial activities of the funds, and are designed to provide readers with information that the State Bar believes to be necessary to understand the report.

This summary of the report and the report are submitted in compliance with Government Code section 9795. The full report and attachments are available for download on the State Bar website at:

<http://www.calbar.ca.gov/About-Us/Our-Mission/Protecting-the-Public/Reports>.

A printed copy may be obtained by calling (415) 538-2252.

**Independent Accountant's Report**

To the Boards of Directors  
State Bar of California

We have examined the State Bar of California's ("State Bar") compliance with the requirements described in the California Business and Professions Code, Article 14 Funds for the Provision of Legal Services to Indigent Persons, sections 6210-6228 (the Code) for the year ended December 31, 2019, whereby interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After the payment of administrative costs, the State Bar distributes eighty-five percent of the funds to qualified legal service projects and fifteen percent of the funds to qualified support centers. The financial activity of the Legal Services Trust Fund is included in the accompanying Operating Statement (the Operating Statement) and related notes. Management is responsible for the State Bar's compliance with those requirements. Our responsibility is to express an opinion on the State Bar's compliance 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 the State Bar's compliance with the requirements of the Code, in all material respects. An examination involves performing procedures to obtain evidence about the State Bar's compliance with the requirements of the Code. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the State Bar's compliance with the requirements of the Code, 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. Our examination does not provide a legal determination of the State Bar's compliance with specified requirements.

In our opinion, the State Bar complied with the aforementioned requirements of the Code for the year ended December 31, 2019, in all material respects.

Our examination was conducted for the purpose of assessing compliance with the Code, as reported in the Operating Statement. The supplementary information in Schedule 1, Schedule 1a and Schedule 2 are presented for the purposes of additional analysis and are not a required part of the Operating Statement. The supplementary information has not been subjected to the compliance procedures of the Code and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Boards of Trustees and Management of the State Bar of California, and it is not intended to be, and should not be, used by anyone other than these specified parties.

San Francisco, California  
April 29, 2020

**The State Bar of California  
Office of Access & Inclusion  
Legal Services Trust Fund Operating Statement  
For the Year Ended December 31, 2019**

		<u>2019</u>
<b>Revenues:</b>		
Trust Account Revenue	\$ 46,454,116	
Fee Statement Donations	6,255,553	
Transfers from Justice Gap Fund	2,750,000	
Investment Income	572,672	
Tax-Intercept Funds	177,141	
<b>Total Revenues (Note 2)</b>		<u><b>\$ 56,209,482</b></u>
<b>Expenses:</b>		
<b>Grant Allocation Expenses:</b>		
Grants to Legal Services Projects (Schedule 1A)	21,622,730	
Additional Grants to Pro Bono Programs (Schedule 1A)	1,699,850	
Grants to Support Centers (Schedule 2)	4,140,444	
<b>Total Grant Allocation Expenses (Note 3)</b>		<u><b>27,463,024</b></u>
<b>Additional Expenses:</b>		
Administrative Costs (Note 4)	1,856,242	
Transfers to the Equal Access Fund	258,635	
<b>Total Additional Expenses</b>		<u><b>2,114,877</b></u>
<b>Total Expenses</b>		<u><b>29,577,901</b></u>
Net Operating Surplus (Note 5)		26,631,581
Beginning Fund Balance		<u>19,981,176</u>
<b>Ending Fund Balance (Note 6)</b>		<u><b>\$ 46,612,757</b></u>

See Accompanying Notes to Operating Statement

**The State Bar of California**  
**Office of Access & Inclusion**  
**Notes to the Legal Services Trust Fund Operating Statement**  
**For the Year Ended December 31, 2019**

(1) Legal Services Trust Fund

In 1981, legislation was enacted by the State of California 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 the provisions of Business and Professions Code sections 6210-6228, interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After the payment of administrative costs, the State Bar distributes eighty-five percent of the funds to qualified legal services projects and fifteen percent of the funds to qualified legal support centers.

(2) Total Revenues

The State Bar's policy is to recognize revenue for the calendar year in which interest is earned on IOLTA accounts. This report also includes other revenue sources that are distributed with IOLTA funds.

(3) Grant Allocation

IOLTA grants are allocated on a calendar year basis beginning January 1 and ending December 31. The total amount allocated for grants each year is determined by considering the projected fund balance as of January 1 and the projected income and expenses for the grant year. The 2019 grant allocation was calculated as follows:

Projected Net Assets as of January 1, 2019	\$ 15,870,274
Projected IOLTA Interest Revenue	20,750,000
Legal Services Contributions from Fee Statement	6,200,000
Projected Justice Gap Revenue	1,000,000
Investment Income	77,901
Net Administrative Expenses	(2,000,000)
Net Assets/Reserve Balance	(14,295,175)
Adjustments to Grants	(139,976)
<b>2019 Calendar Year Grant Allocation</b>	<b><u>\$ 27,463,024</u></b>

(4) Administrative Costs

Operating expenses of \$2,114,877 incurred to administer the program are deducted from the Trust Fund revenue. Administrative costs include direct (\$1,298,777) and indirect (\$816,100) costs. For indirect cost allocation, the State Bar adopted a standardized cost

The State Bar of California  
Office of Access & Inclusion  
Notes to the Legal Services Trust Fund Operating Statement  
For the Year Ended December 31, 2019

allocation methodology (CAM), which distributes to individual functional programs the central administrative costs captured in the State Bar's support and administrative cost centers including, Human Resources, Finance, Information Technology, Board of Trustees, General Services and General Counsel.

(5) Net Operating Surplus

Grants are recognized as an expense in the year in which they are allocated rather than when they are actually paid out and revenues are recognized as earned. "Net Operating Surplus" represents the excess of total revenues over expenses in a calendar-year.

(6) Ending Fund Balance

The Ending Fund Balance is reserved for future grant allocations and administration expenses. Grant payments are to be made from funds received pursuant to Business and Professions Code section 6212, voluntary contributions, and the income earned from investment of such funds. All grant agreements provide that payment of grants is contingent upon the State Bar having sufficient funds on hand from such sources to make the scheduled payments.

(7) Grant Distribution

Section 6216 sets forth the system for distributing grants as follows: "The State Bar shall distribute all moneys received under the program established by this article for the provision of civil legal services to indigent persons. The funds first shall be distributed 18 months from the effective date of this article, or upon such a date, as shall be determined by the State Bar, that adequate funds are available to initiate the program. Thereafter, the funds shall be distributed on an annual basis. All distributions of funds shall be made in the following order and in the following manner:

Administrative Costs. Section 6216(a). To pay the actual administrative costs of the program, including any costs incurred after the adoption of this article and a reasonable reserve therefore.

Legal Services Project Grants. Section 6216(b). Eighty-five percent of the funds remaining after payment of administrative costs allocated pursuant to this article shall be distributed to qualified legal services projects. Distribution shall be by a pro rata county-by-county formula based upon the number of persons whose income is 125 percent or less of the current poverty threshold per county. For the purposes of this section, the source of data

The State Bar of California  
Office of Access & Inclusion  
Notes to the Legal Services Trust Fund Operating Statement  
For the Year Ended December 31, 2019

identifying the number of persons per county shall be the latest available figures from the United States Department of Commerce, Bureau of the Census. Projects from more than one county may pool their funds to operate a joint, multicounty legal services project serving each of their respective counties.

Section 6216(b)(1)(A). In any county which is served by more than one qualified legal services project, the State Bar shall distribute funds for the county to those projects which apply on a pro rata basis, based upon the amount of their total budget expended in the prior year for legal services in that county as compared to the total expended in the prior year for legal services by all qualified legal services projects applying therefore in the county. In determining the amount of funds to be allocated to a qualified legal services project specified in paragraph (2) of subdivision (a) Section 6213, the State Bar shall recognize only expenditures attributable to the representation of indigent persons as constituting the budget of the program.

Pro Bono Grants. Section 6216(b)(1)(B). The State Bar shall reserve 10 percent of the funds allocated to the county for distribution to programs meeting the standards of subparagraph (A) of paragraph (3) and paragraphs (1) and (2) of subdivision (b) of Section 6214 and which perform the services described in subparagraph (A) of paragraph (3) of Section 6214 as their principal means of delivering legal services. The State Bar shall distribute the funds for that county to those programs which apply on a pro rata basis, based upon the amount of their total budget expended for free legal services in that county as compared to the total expended for free legal services by all programs to meeting the standards of subparagraph (A) of paragraph (3) and paragraphs (1) and (2) of subdivision (b) of Section 6214 in that county. The State Bar shall distribute any funds for which no program has qualified pursuant hereto, in accordance with the provisions of subparagraph (A) of paragraph (1) of this subdivision.

Support Center Grants. Section 6216(c). Fifteen percent of the funds remaining after payment of administrative costs allocated for the purposes of this article shall be distributed equally by the State Bar to qualified support centers which apply for the funds. The funds provided to support centers shall be used only for the provision of legal services within California. Qualified support centers that receive funds to provide services to qualified legal services projects from sources other than this article, shall submit and shall have approved by the State Bar a plan assuring that the services funded under this article are in addition to those already funded for qualified legal services projects by other sources.”

**The State Bar of California  
Office of Access & Inclusion  
Notes to the Legal Services Trust Fund Operating Statement  
For the Year Ended December 31, 2019**

- (8) The detailed breakdown of grants by county is set forth in Schedule 1 (2019 Grants by County). The detailed breakdown of grants to qualified legal services projects can be found in Schedule 1A (2019 Grants to Legal Services Projects by County). Grants to qualified Support Centers are described in Schedule 2 (2019 Grants to Support Centers).

## SCHEDULE 1

**The State Bar of California  
Office of Access & Inclusion  
2019 Grants by County**

COUNTY	GRANTS	COUNTY	GRANTS
Alameda	\$ 730,890	Orange	\$ 1,523,760
Alpine	740	Placer	122,880
Amador	14,490	Plumas	10,460
Butte	178,420	Riverside	1,471,610
Calaveras	21,370	Sacramento	985,230
Colusa	12,320	San Benito	26,730
Contra Costa	441,330	San Bernardino	1,511,400
Del Norte	19,860	San Diego	1,726,200
El Dorado	70,630	San Francisco	400,490
Fresno	935,240	San Joaquin	473,420
Glenn	20,710	San Luis Obispo	141,340
Humboldt	107,190	San Mateo	232,690
Imperial	153,620	Santa Barbara	263,900
Inyo	7,800	Santa Clara	679,580
Kern	733,910	Santa Cruz	150,890
Kings	95,490	Shasta	120,170
Lake	58,130	Sierra	1,390
Lassen	13,280	Siskiyou	36,170
Los Angeles	6,943,540	Solano	208,400
Madera	125,650	Sonoma	225,990
Marin	76,430	Stanislaus	370,350
Mariposa	10,060	Sutter	67,060
Mendocino	67,250	Tehama	52,650
Merced	235,230	Trinity	10,550
Modoc	5,780	Tulare	463,520
Mono	4,990	Tuolumne	29,060
Monterey	275,760	Ventura	352,380
Napa	55,660	Yolo	143,630
Nevada	46,790	Yuba	58,120
			\$ 23,322,580
			\$ 4,140,444
			<b>\$ 27,463,024</b>

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<b>Alameda</b>	ADVANCING JUSTICE - ASIAN LAW CAUCUS	\$ 11,620	\$ -	\$ 11,620
	AIDS LEGAL REFERRAL PANEL	2,150	-	2,150
	ALAMEDA COUNTY HOMELESS ACTION CENTER	121,260	-	121,260
	ASIAN PACIFIC ISLANDER LEGAL OUTREACH	19,850	-	19,850
	BAY AREA LEGAL AID	175,480	-	175,480
	CALIFORNIA INDIAN LEGAL SERVICES	480	-	480
	CENTRO LEGAL DE LA RAZA	56,710	-	56,710
	DISABILITY RIGHTS CALIFORNIA	27,910	-	27,910
	EAST BAY COMMUNITY LAW CENTER	124,750	-	124,750
	FAMILY VIOLENCE LAW CENTER	14,190	-	14,190
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	9,920	-	9,920
	LA RAZA CENTRO LEGAL	590	-	590
	LAWYERS' COMMITTEE FOR CIVIL RIGHTS	7,640	23,600	31,240
	LEGAL ACCESS ALAMEDA	16,020	49,490	65,510
	LEGAL AID AT WORK	16,130	-	16,130
	LEGAL ASSISTANCE FOR SENIORS	36,910	-	36,910
	LEGAL SERVICES FOR CHILDREN	10,340	-	10,340
	PRISON LAW OFFICE	2,570	-	2,570
	PUBLIC ADVOCATES INC.	3,280	-	3,280
	<b>Alameda Total</b>		<b>657,800</b>	<b>73,090</b>
<b>Alpine</b>	CALIFORNIA INDIAN LEGAL SERVICES	700	-	700
	DISABILITY RIGHTS CALIFORNIA	20	-	20
	PRISON LAW OFFICE	10	-	10
	PUBLIC ADVOCATES INC.	10	-	10
<b>Alpine Total</b>	<b>740</b>	<b>-</b>	<b>740</b>	
<b>Amador</b>	CALIFORNIA INDIAN LEGAL SERVICES	10	-	10
	DISABILITY RIGHTS CALIFORNIA	3,870	-	3,870
	LEGAL SERVICES OF NORTHERN CALIFORNIA	9,970	-	9,970
	PRISON LAW OFFICE	420	-	420
	PUBLIC ADVOCATES INC.	220	-	220
<b>Amador Total</b>	<b>14,490</b>	<b>-</b>	<b>14,490</b>	
<b>Butte</b>	CALIFORNIA INDIAN LEGAL SERVICES	8,010	-	8,010
	DISABILITY RIGHTS CALIFORNIA	53,750	-	53,750
	LEGAL AID AT WORK	1,260	-	1,260
	LEGAL SERVICES OF NORTHERN CALIFORNIA	108,290	-	108,290
	PRISON LAW OFFICE	4,010	-	4,010
	PUBLIC ADVOCATES INC.	3,100	-	3,100
<b>Butte Total</b>	<b>178,420</b>	<b>-</b>	<b>178,420</b>	
<b>Calaveras</b>	CALIFORNIA INDIAN LEGAL SERVICES	2,700	-	2,700
	DISABILITY RIGHTS CALIFORNIA	8,470	-	8,470
	LEGAL AID AT WORK	1,630	-	1,630
	LEGAL SERVICES OF NORTHERN CALIFORNIA	6,310	-	6,310
	PRISON LAW OFFICE	1,160	-	1,160
	PUBLIC ADVOCATES INC.	1,100	-	1,100
<b>Calaveras Total</b>	<b>21,370</b>	<b>-</b>	<b>21,370</b>	
<b>Colusa</b>	CALIFORNIA INDIAN LEGAL SERVICES	570	-	570
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	2,980	-	2,980
	DISABILITY RIGHTS CALIFORNIA	1,190	-	1,190
	LEGAL SERVICES OF NORTHERN CALIFORNIA	2,260	-	2,260
	PRISON LAW OFFICE	5,190	-	5,190
	PUBLIC ADVOCATES INC.	130	-	130
<b>Colusa Total</b>	<b>12,320</b>	<b>-</b>	<b>12,320</b>	

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<b>Contra Costa</b>	ADVANCING JUSTICE - ASIAN LAW CAUCUS	68,020	-	68,020
	AIDS LEGAL REFERRAL PANEL	1,820	-	1,820
	ASIAN PACIFIC ISLANDER LEGAL OUTREACH	16,400	-	16,400
	BAY AREA LEGAL AID	102,170	-	102,170
	CALIFORNIA INDIAN LEGAL SERVICES	1,480	-	1,480
	CENTRO LEGAL DE LA RAZA	49,210	-	49,210
	CONTRA COSTA SENIOR LEGAL SERVICES	23,040	-	23,040
	DISABILITY RIGHTS CALIFORNIA	44,850	-	44,850
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	7,840	-	7,840
	LA RAZA CENTRO LEGAL	38,510	-	38,510
	LAWYERS' COMMITTEE FOR CIVIL RIGHTS	4,720	44,130	48,850
	LEGAL AID AT WORK	28,510	-	28,510
	LEGAL SERVICES FOR CHILDREN	7,630	-	7,630
	PRISON LAW OFFICE	100	-	100
PUBLIC ADVOCATES INC.	2,900	-	2,900	
<b>Contra Costa Total</b>		<b>397,200</b>	<b>44,130</b>	<b>441,330</b>
<b>Del Norte</b>	CALIFORNIA INDIAN LEGAL SERVICES	4,860	-	4,860
	DISABILITY RIGHTS CALIFORNIA	5,320	-	5,320
	LEGAL AID AT WORK	280	-	280
	LEGAL SERVICES OF NORTHERN CALIFORNIA	8,610	-	8,610
	PRISON LAW OFFICE	450	-	450
PUBLIC ADVOCATES INC.	340	-	340	
<b>Del Norte Total</b>		<b>19,860</b>	-	<b>19,860</b>
<b>El Dorado</b>	CALIFORNIA INDIAN LEGAL SERVICES	950	-	950
	DISABILITY RIGHTS CALIFORNIA	13,410	-	13,410
	LEGAL AID AT WORK	450	-	450
	LEGAL SERVICES OF NORTHERN CALIFORNIA	52,750	-	52,750
	PRISON LAW OFFICE	1,870	-	1,870
PUBLIC ADVOCATES INC.	1,200	-	1,200	
<b>El Dorado Total</b>		<b>70,630</b>	-	<b>70,630</b>
<b>Fresno</b>	CALIFORNIA INDIAN LEGAL SERVICES	9,850	-	9,850
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	59,480	-	59,480
	CENTRAL CALIFORNIA LEGAL SERVICES	673,150	-	673,150
	DISABILITY RIGHTS CALIFORNIA	103,380	-	103,380
	DISABILITY RIGHTS LEGAL CENTER	5,840	-	5,840
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	1,540	-	1,540
	LEGAL AID AT WORK	29,750	-	29,750
	NEW AMERICAN LEGAL CLINIC	23,130	-	23,130
	PRISON LAW OFFICE	14,820	-	14,820
PUBLIC ADVOCATES INC.	14,300	-	14,300	
<b>Fresno Total</b>		<b>935,240</b>	-	<b>935,240</b>
<b>Glenn</b>	CALIFORNIA INDIAN LEGAL SERVICES	2,590	-	2,590
	DISABILITY RIGHTS CALIFORNIA	4,830	-	4,830
	LEGAL AID AT WORK	220	-	220
	LEGAL SERVICES OF NORTHERN CALIFORNIA	11,940	-	11,940
	PRISON LAW OFFICE	630	-	630
PUBLIC ADVOCATES INC.	500	-	500	
<b>Glenn Total</b>		<b>20,710</b>	-	<b>20,710</b>
<b>Humboldt</b>	CALIFORNIA INDIAN LEGAL SERVICES	12,410	-	12,410
	DISABILITY RIGHTS CALIFORNIA	20,890	-	20,890
	LEGAL AID AT WORK	600	-	600
	LEGAL SERVICES OF NORTHERN CALIFORNIA	70,810	-	70,810
	PRISON LAW OFFICE	1,170	-	1,170
PUBLIC ADVOCATES INC.	1,310	-	1,310	
<b>Humboldt Total</b>		<b>107,190</b>	-	<b>107,190</b>

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<b>Imperial</b>	CALIFORNIA INDIAN LEGAL SERVICES	1,370	-	1,370
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	99,780	-	99,780
	DISABILITY RIGHTS CALIFORNIA	19,900	-	19,900
	ELDER LAW & ADVOCACY	28,560	-	28,560
	LEGAL AID AT WORK	660	-	660
	PRISON LAW OFFICE	1,120	-	1,120
	PUBLIC ADVOCATES INC.	2,230	-	2,230
<b>Imperial Total</b>		<b>153,620</b>	-	<b>153,620</b>
<b>Inyo</b>	CALIFORNIA INDIAN LEGAL SERVICES	7,370	-	7,370
	DISABILITY RIGHTS CALIFORNIA	360	-	360
	PRISON LAW OFFICE	40	-	40
	PUBLIC ADVOCATES INC.	30	-	30
<b>Inyo Total</b>		<b>7,800</b>	-	<b>7,800</b>
<b>Kern</b>	CALIFORNIA INDIAN LEGAL SERVICES	5,990	-	5,990
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	3,840	-	3,840
	CENTRO LEGAL DE LA RAZA	97,920	-	97,920
	DISABILITY RIGHTS CALIFORNIA	83,600	-	83,600
	DISABILITY RIGHTS LEGAL CENTER	5,600	-	5,600
	GREATER BAKERSFIELD LEGAL ASSISTANCE	508,010	-	508,010
	LEGAL AID AT WORK	3,590	-	3,590
	PRISON LAW OFFICE	14,530	-	14,530
	PUBLIC ADVOCATES INC.	10,830	-	10,830
<b>Kern Total</b>		<b>733,910</b>	-	<b>733,910</b>
<b>Kings</b>	CALIFORNIA INDIAN LEGAL SERVICES	1,710	-	1,710
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	6,700	-	6,700
	CENTRAL CALIFORNIA LEGAL SERVICES	12,180	-	12,180
	DISABILITY RIGHTS CALIFORNIA	41,610	-	41,610
	LEGAL AID AT WORK	2,690	-	2,690
	NEW AMERICAN LEGAL CLINIC	5,840	-	5,840
	PRISON LAW OFFICE	18,420	-	18,420
	PUBLIC ADVOCATES INC.	6,340	-	6,340
<b>Kings Total</b>		<b>95,490</b>	-	<b>95,490</b>
<b>Lake</b>	CALIFORNIA INDIAN LEGAL SERVICES	4,160	-	4,160
	DISABILITY RIGHTS CALIFORNIA	14,680	-	14,680
	LEGAL AID AT WORK	660	-	660
	LEGAL SERVICES OF NORTHERN CALIFORNIA	36,090	-	36,090
	PRISON LAW OFFICE	1,520	-	1,520
	PUBLIC ADVOCATES INC.	1,020	-	1,020
<b>Lake Total</b>		<b>58,130</b>	-	<b>58,130</b>
<b>Lassen</b>	CALIFORNIA INDIAN LEGAL SERVICES	1,570	-	1,570
	DISABILITY RIGHTS CALIFORNIA	3,910	-	3,910
	LEGAL AID AT WORK	140	-	140
	LEGAL SERVICES OF NORTHERN CALIFORNIA	6,980	-	6,980
	PRISON LAW OFFICE	420	-	420
	PUBLIC ADVOCATES INC.	260	-	260
<b>Lassen Total</b>		<b>13,280</b>	-	<b>13,280</b>

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Los Angeles	ADVANCING JUSTICE-LOS ANGELES	868,160	-	868,160
	ALLIANCE FOR CHILDREN'S RIGHTS	340,460	126,170	466,630
	BET TZEDEK LEGAL SERVICES	524,560	194,400	718,960
	CALIFORNIA INDIAN LEGAL SERVICES	17,550	-	17,550
	CENTER FOR HEALTH CARE RIGHTS	129,290	-	129,290
	COMMUNITY LEGAL AID SOCIAL	136,260	-	136,260
	DISABILITY RIGHTS CALIFORNIA	473,630	-	473,630
	DISABILITY RIGHTS LEGAL CENTER	64,480	-	64,480
	HARRIETT BUHAI CENTER FOR FAMILY LAW	113,350	42,010	155,360
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	2,100	-	2,100
	INNER CITY LAW CENTER	343,480	-	343,480
	LACBA COUNSEL FOR JUSTICE	72,180	26,750	98,930
	LEARNING RIGHTS LAW CENTER	112,430	-	112,430
	LEGAL AID AT WORK	74,480	-	74,480
	LEGAL AID FOUNDATION OF LOS ANGELES	1,005,700	-	1,005,700
	LOS ANGELES CENTER FOR LAW AND JUSTICE	126,290	-	126,290
	MENTAL HEALTH ADVOCACY SERVICES	55,630	-	55,630
	NEIGHBORHOOD LEGAL SERVICES	777,110	-	777,110
	PRISON LAW OFFICE	88,670	-	88,670
	PUBLIC ADVOCATES INC.	49,620	-	49,620
	PUBLIC COUNSEL	816,160	302,470	1,118,630
VETERANS LEGAL INSTITUTE	6,880	2,550	9,430	
WAGE JUSTICE CENTER	50,720	-	50,720	
<b>Los Angeles Total</b>		<b>6,249,190</b>	<b>694,350</b>	<b>6,943,540</b>
Madera	CALIFORNIA INDIAN LEGAL SERVICES	3,210	-	3,210
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	93,800	-	93,800
	DISABILITY RIGHTS CALIFORNIA	17,110	-	17,110
	LEGAL AID AT WORK	1,730	-	1,730
	NEW AMERICAN LEGAL CLINIC	4,610	-	4,610
	PRISON LAW OFFICE	2,600	-	2,600
PUBLIC ADVOCATES INC.	2,590	-	2,590	
<b>Madera Total</b>		<b>125,650</b>	<b>-</b>	<b>125,650</b>
Marin	AIDS LEGAL REFERRAL PANEL	1,140	-	1,140
	BAY AREA LEGAL AID	7,340	-	7,340
	CALIFORNIA INDIAN LEGAL SERVICES	130	-	130
	DISABILITY RIGHTS CALIFORNIA	10,220	-	10,220
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	490	-	490
	LA RAZA CENTRO LEGAL	460	-	460
	LAWYERS' COMMITTEE FOR CIVIL RIGHTS	1,920	7,640	9,560
	LEGAL AID AT WORK	2,630	-	2,630
	LEGAL AID OF MARIN	43,610	-	43,610
	PRISON LAW OFFICE	440	-	440
PUBLIC ADVOCATES INC.	410	-	410	
<b>Marin Total</b>		<b>68,790</b>	<b>7,640</b>	<b>76,430</b>
Mariposa	CALIFORNIA INDIAN LEGAL SERVICES	2,230	-	2,230
	CENTRAL CALIFORNIA LEGAL SERVICES	1,370	-	1,370
	DISABILITY RIGHTS CALIFORNIA	3,590	-	3,590
	LEGAL AID AT WORK	1,980	-	1,980
	PRISON LAW OFFICE	510	-	510
	PUBLIC ADVOCATES INC.	380	-	380
<b>Mariposa Total</b>		<b>10,060</b>	<b>-</b>	<b>10,060</b>
Mendocino	CALIFORNIA INDIAN LEGAL SERVICES	5,770	-	5,770
	DISABILITY RIGHTS CALIFORNIA	10,960	-	10,960
	LEGAL AID AT WORK	340	-	340
	LEGAL SERVICES OF NORTHERN CALIFORNIA	47,870	-	47,870
	PRISON LAW OFFICE	1,270	-	1,270
	PUBLIC ADVOCATES INC.	1,040	-	1,040
<b>Mendocino Total</b>		<b>67,250</b>	<b>-</b>	<b>67,250</b>

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<b>Merced</b>	CALIFORNIA INDIAN LEGAL SERVICES	2,860	-	2,860
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	18,570	-	18,570
	CENTRAL CALIFORNIA LEGAL SERVICES	142,890	-	142,890
	DISABILITY RIGHTS CALIFORNIA	45,160	-	45,160
	LEGAL AID AT WORK	10,110	-	10,110
	PRISON LAW OFFICE	7,170	-	7,170
	PUBLIC ADVOCATES INC.	8,470	-	8,470
<b>Merced Total</b>		<b>235,230</b>	-	<b>235,230</b>
<b>Modoc</b>	CALIFORNIA INDIAN LEGAL SERVICES	2,840	-	2,840
	DISABILITY RIGHTS CALIFORNIA	1,380	-	1,380
	LEGAL SERVICES OF NORTHERN CALIFORNIA	1,230	-	1,230
	PRISON LAW OFFICE	150	-	150
	PUBLIC ADVOCATES INC.	180	-	180
<b>Modoc Total</b>		<b>5,780</b>	-	<b>5,780</b>
<b>Mono</b>	CALIFORNIA INDIAN LEGAL SERVICES	4,610	-	4,610
	DISABILITY RIGHTS CALIFORNIA	270	-	270
	PRISON LAW OFFICE	50	-	50
	PUBLIC ADVOCATES INC.	60	-	60
<b>Mono Total</b>		<b>4,990</b>	-	<b>4,990</b>
<b>Monterey</b>	CALIFORNIA INDIAN LEGAL SERVICES	2,500	-	2,500
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	136,400	-	136,400
	DISABILITY RIGHTS CALIFORNIA	20,160	-	20,160
	LEGAL AID AT WORK	1,550	-	1,550
	LEGAL SERVICES FOR SENIORS	82,020	-	82,020
	PRISON LAW OFFICE	5,150	-	5,150
	PUBLIC ADVOCATES INC.	3,200	-	3,200
	WATSONVILLE LAW CENTER	24,780	-	24,780
<b>Monterey Total</b>		<b>275,760</b>	-	<b>275,760</b>
<b>Napa</b>	BAY AREA LEGAL AID	33,960	-	33,960
	CALIFORNIA INDIAN LEGAL SERVICES	10	-	10
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	1,450	-	1,450
	DISABILITY RIGHTS CALIFORNIA	18,440	-	18,440
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	660	-	660
	LEGAL AID AT WORK	280	-	280
	PRISON LAW OFFICE	500	-	500
	PUBLIC ADVOCATES INC.	360	-	360
<b>Napa Total</b>		<b>55,660</b>	-	<b>55,660</b>
<b>Nevada</b>	CALIFORNIA INDIAN LEGAL SERVICES	90	-	90
	COMMUNITY LEGAL	9,820	4,680	14,500
	DISABILITY RIGHTS CALIFORNIA	13,450	-	13,450
	LEGAL AID AT WORK	770	-	770
	LEGAL SERVICES OF NORTHERN CALIFORNIA	16,720	-	16,720
	PRISON LAW OFFICE	430	-	430
	PUBLIC ADVOCATES INC.	830	-	830
<b>Nevada Total</b>		<b>42,110</b>	<b>4,680</b>	<b>46,790</b>
<b>Orange</b>	ADVANCING JUSTICE - LOS ANGELES	70,890	-	70,890
	CALIFORNIA INDIAN LEGAL SERVICES	5,300	-	5,300
	CHAPMAN UNIVERSITY FAMILY PROTECTION CLINIC	44,100	-	44,100
	COMMUNITY LEGAL AID SOCAL	590,160	-	590,160
	DISABILITY RIGHTS CALIFORNIA	148,470	-	148,470
	FAMILY LEGAL ASSISTANCE AT CHOC CHILDREN'S HOSPITAL	20,770	-	20,770
	LEGAL AID AT WORK	15,780	-	15,780
	PRISON LAW OFFICE	23,170	-	23,170
	PUBLIC ADVOCATES INC.	20,530	-	20,530
	PUBLIC LAW CENTER	410,770	144,820	555,590
	VETERANS LEGAL INSTITUTE	21,440	7,560	29,000
<b>Orange Total</b>	<b>1,371,380</b>	<b>152,380</b>	<b>1,523,760</b>	

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<b>Placer</b>	CALIFORNIA INDIAN LEGAL SERVICES	3,020	-	3,020
	DISABILITY RIGHTS CALIFORNIA	31,610	-	31,610
	LEGAL AID AT WORK	630	-	630
	LEGAL SERVICES OF NORTHERN CALIFORNIA	83,360	-	83,360
	PRISON LAW OFFICE	2,420	-	2,420
	PUBLIC ADVOCATES INC.	1,840	-	1,840
<b>Placer Total</b>		<b>122,880</b>	<b>-</b>	<b>122,880</b>
<b>Plumas</b>	CALIFORNIA INDIAN LEGAL SERVICES	60	-	60
	DISABILITY RIGHTS CALIFORNIA	1,680	-	1,680
	LEGAL SERVICES OF NORTHERN CALIFORNIA	8,420	-	8,420
	PRISON LAW OFFICE	150	-	150
	PUBLIC ADVOCATES INC.	150	-	150
<b>Plumas Total</b>		<b>10,460</b>	<b>-</b>	<b>10,460</b>
<b>Riverside</b>	CALIFORNIA INDIAN LEGAL SERVICES	16,880	-	16,880
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	212,610	-	212,610
	DISABILITY RIGHTS CALIFORNIA	186,700	-	186,700
	DISABILITY RIGHTS LEGAL CENTER	34,290	-	34,290
	INLAND EMPIRE LATINO LAWYERS ASSOCIATION	87,300	77,110	164,410
	INLAND COUNTIES LEGAL SERVICES	616,160	-	616,160
	LEGAL AID AT WORK	17,230	-	17,230
	LEGAL AID SOCIETY OF SAN BERNARDINO	1,660	-	1,660
	PRISON LAW OFFICE	44,570	-	44,570
	PUBLIC ADVOCATES INC.	27,460	-	27,460
RIVERSIDE LEGAL AID	79,460	70,180	149,640	
<b>Riverside Total</b>		<b>1,324,320</b>	<b>147,290</b>	<b>1,471,610</b>
<b>Sacramento</b>	ADVANCING JUSTICE - ASIAN LAW CAUCUS	97,870	-	97,870
	CALIFORNIA INDIAN LEGAL SERVICES	15,090	-	15,090
	DISABILITY RIGHTS CALIFORNIA	186,620	-	186,620
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	2,520	-	2,520
	LEGAL AID AT WORK	14,600	-	14,600
	LEGAL SERVICES OF NORTHERN CALIFORNIA	365,760	-	365,760
	MCGEORGE COMMUNITY LEGAL SERVICES	68,990	-	68,990
	PRISON LAW OFFICE	22,210	-	22,210
	PUBLIC ADVOCATES INC.	12,820	-	12,820
	UC DAVIS SCHOOL OF LAW LEGAL CLINICS	45,780	-	45,780
	VOLUNTARY LEGAL SERVICES PROGRAM OF NORTHERN CALIFORNIA	54,450	98,520	152,970
<b>Sacramento Total</b>		<b>886,710</b>	<b>98,520</b>	<b>985,230</b>
<b>San Benito</b>	CALIFORNIA INDIAN LEGAL SERVICES	120	-	120
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	15,830	-	15,830
	DISABILITY RIGHTS CALIFORNIA	2,940	-	2,940
	PRISON LAW OFFICE	390	-	390
	PUBLIC ADVOCATES INC.	260	-	260
	SENIOR CITIZENS LEGAL SERVICES	7,190	-	7,190
<b>San Benito Total</b>		<b>26,730</b>	<b>-</b>	<b>26,730</b>
<b>San Bernardino</b>	CALIFORNIA INDIAN LEGAL SERVICES	21,130	-	21,130
	DISABILITY RIGHTS CALIFORNIA	200,380	-	200,380
	DISABILITY RIGHTS LEGAL CENTER	60,510	-	60,510
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	2,280	-	2,280
	INLAND EMPIRE LATINO LAWYERS ASSOCIATION	30,360	-	30,360
	INLAND COUNTIES LEGAL SERVICES	784,220	-	784,220
	LEARNING RIGHTS LAW CENTER	11,320	-	11,320
	LEGAL AID AT WORK	39,610	-	39,610
	LEGAL AID SOCIETY OF SAN BERNARDINO	130,120	151,140	281,260
	PRISON LAW OFFICE	47,240	-	47,240
PUBLIC ADVOCATES INC.	33,090	-	33,090	
<b>San Bernardino Total</b>		<b>1,360,260</b>	<b>151,140</b>	<b>1,511,400</b>

(Continued)

The State Bar of California  
Office of Access & Inclusion  
2019 Legal Services Organizations by County

Draft 4/27/2020

COUNTY	ORGANIZATION	BASIC	PRO BONO	TOTAL
San Diego	AFFORDABLE HOUSING ADVOCATES	14,030	-	14,030
	CALIFORNIA INDIAN LEGAL SERVICES	18,220	-	18,220
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	40,100	-	40,100
	CASA CORNELIA LAW CENTER	155,130	96,380	251,510
	DISABILITY RIGHTS CALIFORNIA	188,190	-	188,190
	ELDER LAW & ADVOCACY	99,820	-	99,820
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	1,640	-	1,640
	LEGAL AID AT WORK	17,130	-	17,130
	LEGAL AID SOCIETY OF SAN DIEGO	761,400	-	761,400
	PRISON LAW OFFICE	20,570	-	20,570
	PUBLIC ADVOCATES INC.	15,340	-	15,340
	SAN DIEGO VOLUNTEER LAWYER PROGRAM, INC.	122,720	76,240	198,960
USD SCHOOL OF LAW LEGAL CLINICS	99,290	-	99,290	
<b>San Diego Total</b>		<b>1,553,580</b>	<b>172,620</b>	<b>1,726,200</b>
San Francisco	ADVANCING JUSTICE - ASIAN LAW CAUCUS	16,740	-	16,740
	AIDS LEGAL REFERRAL PANEL	20,010	-	20,010
	ASIAN PACIFIC ISLANDER LEGAL OUTREACH	35,060	-	35,060
	BAY AREA LEGAL AID	84,620	-	84,620
	CALIFORNIA INDIAN LEGAL SERVICES	1,670	-	1,670
	DISABILITY RIGHTS CALIFORNIA	10,060	-	10,060
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	1,260	-	1,260
	JUSTICE & DIVERSITY CENTER OF THE SAN FRANCISCO BAR	91,360	33,190	124,550
	LA RAZA CENTRO LEGAL	1,840	-	1,840
	LAWYERS' COMMITTEE FOR CIVIL RIGHTS	18,870	6,860	25,730
	LEGAL AID AT WORK	25,870	-	25,870
	LEGAL ASSISTANCE TO THE ELDERLY	15,540	-	15,540
	LEGAL SERVICES FOR CHILDREN	36,130	-	36,130
	PRISON LAW OFFICE	530	-	530
PUBLIC ADVOCATES INC.	880	-	880	
<b>San Francisco Total</b>		<b>360,440</b>	<b>40,050</b>	<b>400,490</b>
San Joaquin	ASIAN PACIFIC ISLANDER LEGAL OUTREACH	25,290	-	25,290
	CALIFORNIA INDIAN LEGAL SERVICES	4,590	-	4,590
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	312,310	-	312,310
	DISABILITY RIGHTS CALIFORNIA	75,290	-	75,290
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	21,680	-	21,680
	LEGAL AID AT WORK	1,130	-	1,130
	PRISON LAW OFFICE	20,350	-	20,350
	PUBLIC ADVOCATES INC.	12,780	-	12,780
<b>San Joaquin Total</b>		<b>473,420</b>	-	<b>473,420</b>
San Luis Obispo	CALIFORNIA INDIAN LEGAL SERVICES	1,490	-	1,490
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	83,660	-	83,660
	DISABILITY RIGHTS CALIFORNIA	20,690	-	20,690
	LEGAL AID AT WORK	400	-	400
	PRISON LAW OFFICE	2,090	-	2,090
	PUBLIC ADVOCATES INC.	1,930	-	1,930
	SAN LUIS OBISPO LEGAL ASSISTANCE FOUNDATION	31,080	-	31,080
<b>San Luis Obispo Total</b>		<b>141,340</b>	-	<b>141,340</b>

(Continued)

The State Bar of California  
Office of Access & Inclusion  
2019 Legal Services Organizations by County

Draft 4/27/2020

COUNTY	ORGANIZATION	BASIC	PRO BONO	TOTAL
San Mateo	ADVANCING JUSTICE - ASIAN LAW CAUCUS	6,340	-	6,340
	AIDS LEGAL REFERRAL PANEL	1,170	-	1,170
	ASIAN PACIFIC ISLANDER LEGAL OUTREACH	9,290	-	9,290
	BAY AREA LEGAL AID	18,570	-	18,570
	CALIFORNIA INDIAN LEGAL SERVICES	130	-	130
	COMMUNITY LEGAL SERVICES IN EAST PALO ALTO	72,170	22,290	94,460
	DISABILITY RIGHTS CALIFORNIA	8,050	-	8,050
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	1,330	-	1,330
	LA RAZA CENTRO LEGAL	2,550	-	2,550
	LAWYERS' COMMITTEE FOR CIVIL RIGHTS	3,160	970	4,130
	LEGAL AID AT WORK	3,340	-	3,340
	LEGAL AID SOCIETY OF SAN MATEO COUNTY	76,890	-	76,890
	LEGAL SERVICES FOR CHILDREN	4,740	-	4,740
	PRISON LAW OFFICE	950	-	950
PUBLIC ADVOCATES INC.	750	-	750	
<b>San Mateo Total</b>		<b>209,430</b>	<b>23,260</b>	<b>232,690</b>
Santa Barbara	CALIFORNIA INDIAN LEGAL SERVICES	2,100	-	2,100
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	106,380	-	106,380
	DISABILITY RIGHTS CALIFORNIA	45,510	-	45,510
	DISABILITY RIGHTS LEGAL CENTER	4,240	-	4,240
	LEGAL AID AT WORK	850	-	850
	LEGAL AID FOUNDATION OF SANTA BARBARA	98,260	-	98,260
	PRISON LAW OFFICE	3,590	-	3,590
PUBLIC ADVOCATES INC.	2,970	-	2,970	
<b>Santa Barbara Total</b>		<b>263,900</b>	<b>-</b>	<b>263,900</b>
Santa Clara	ADVANCING JUSTICE - ASIAN LAW CAUCUS	6,770	-	6,770
	BAY AREA LEGAL AID	52,880	-	52,880
	CALIFORNIA INDIAN LEGAL SERVICES	1,210	-	1,210
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	2,080	-	2,080
	COMMUNITY LEGAL SERVICES IN EAST PALO ALTO	22,830	62,410	85,240
	DISABILITY RIGHTS CALIFORNIA	26,320	-	26,320
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	1,170	-	1,170
	LA RAZA CENTRO LEGAL	5,130	-	5,130
	LAW FOUNDATION OF SILICON VALLEY	340,070	-	340,070
	LAWYERS' COMMITTEE FOR CIVIL RIGHTS	2,030	5,550	7,580
	LEGAL AID AT WORK	4,150	-	4,150
	PRISON LAW OFFICE	4,740	-	4,740
	PUBLIC ADVOCATES INC.	2,930	-	2,930
	SANTA CLARA COUNTY ASIAN LAW ALLIANCE	65,250	-	65,250
	SANTA CLARA UNIVERSITY ALEXANDER LAW CENTER	45,780	-	45,780
SENIOR ADULTS LEGAL ASSISTANCE	28,280	-	28,280	
<b>Santa Clara Total</b>		<b>611,620</b>	<b>67,960</b>	<b>679,580</b>
Santa Cruz	CALIFORNIA INDIAN LEGAL SERVICES	1,550	-	1,550
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	79,760	-	79,760
	DISABILITY RIGHTS CALIFORNIA	18,430	-	18,430
	LEGAL AID AT WORK	4,060	-	4,060
	PRISON LAW OFFICE	1,690	-	1,690
	PUBLIC ADVOCATES INC.	1,930	-	1,930
	SENIOR CITIZENS LEGAL SERVICES	20,740	-	20,740
WATSONVILLE LAW CENTER	22,730	-	22,730	
<b>Santa Cruz Total</b>		<b>150,890</b>	<b>-</b>	<b>150,890</b>
Shasta	CALIFORNIA INDIAN LEGAL SERVICES	4,460	-	4,460
	DISABILITY RIGHTS CALIFORNIA	24,300	-	24,300
	DISABILITY RIGHTS LEGAL CENTER	1,040	-	1,040
	LEGAL AID AT WORK	1,640	-	1,640
	LEGAL SERVICES OF NORTHERN CALIFORNIA	83,730	-	83,730
	PRISON LAW OFFICE	3,400	-	3,400
PUBLIC ADVOCATES INC.	1,600	-	1,600	
<b>Shasta Total</b>		<b>120,170</b>	<b>-</b>	<b>120,170</b>

(Continued)

The State Bar of California  
Office of Access & Inclusion  
2019 Legal Services Organizations by County

COUNTY	ORGANIZATION	BASIC	PRO BONO	TOTAL
Sierra	CALIFORNIA INDIAN LEGAL SERVICES	60	-	60
	COMMUNITY LEGAL	130	140	270
	DISABILITY RIGHTS CALIFORNIA	650	-	650
	LEGAL SERVICES OF NORTHERN CALIFORNIA	310	-	310
	PRISON LAW OFFICE	60	-	60
	PUBLIC ADVOCATES INC.	40	-	40
<b>Sierra Total</b>		<b>1,250</b>	<b>140</b>	<b>1,390</b>
Siskiyou	CALIFORNIA INDIAN LEGAL SERVICES	8,110	-	8,110
	DISABILITY RIGHTS CALIFORNIA	4,560	-	4,560
	LEGAL AID AT WORK	590	-	590
	LEGAL SERVICES OF NORTHERN CALIFORNIA	20,700	-	20,700
	PRISON LAW OFFICE	1,160	-	1,160
	PUBLIC ADVOCATES INC.	1,050	-	1,050
<b>Siskiyou Total</b>		<b>36,170</b>	<b>-</b>	<b>36,170</b>
Solano	AIDS LEGAL REFERRAL PANEL	520	-	520
	CALIFORNIA INDIAN LEGAL SERVICES	770	-	770
	DISABILITY RIGHTS CALIFORNIA	47,480	-	47,480
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	4,400	-	4,400
	LEGAL AID AT WORK	6,730	-	6,730
	LEGAL SERVICES FOR CHILDREN	7,460	-	7,460
	LEGAL SERVICES OF NORTHERN CALIFORNIA	87,560	-	87,560
	PRISON LAW OFFICE	3,010	-	3,010
	PUBLIC ADVOCATES INC.	2,270	-	2,270
UC DAVIS SCHOOL OF LAW LEGAL CLINICS	48,200	-	48,200	
<b>Solano Total</b>		<b>208,400</b>	<b>-</b>	<b>208,400</b>
Sonoma	AIDS LEGAL REFERRAL PANEL	2,690	-	2,690
	CALIFORNIA INDIAN LEGAL SERVICES	890	-	890
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	54,410	-	54,410
	DISABILITY RIGHTS CALIFORNIA	43,810	-	43,810
	LEGAL AID AT WORK	3,490	-	3,490
	LEGAL AID OF SONOMA COUNTY	94,270	22,600	116,870
	PRISON LAW OFFICE	2,090	-	2,090
	PUBLIC ADVOCATES INC.	1,740	-	1,740
<b>Sonoma Total</b>		<b>203,390</b>	<b>22,600</b>	<b>225,990</b>
Stanislaus	ASIAN PACIFIC ISLANDER LEGAL OUTREACH	3,790	-	3,790
	CALIFORNIA INDIAN LEGAL SERVICES	3,670	-	3,670
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	232,390	-	232,390
	DISABILITY RIGHTS CALIFORNIA	59,120	-	59,120
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	4,950	-	4,950
	LEGAL AID AT WORK	5,240	-	5,240
	PRISON LAW OFFICE	9,290	-	9,290
	PUBLIC ADVOCATES INC.	8,890	-	8,890
	SENIOR ADVOCACY NETWORK	43,010	-	43,010
<b>Stanislaus Total</b>		<b>370,350</b>	<b>-</b>	<b>370,350</b>
Sutter	CALIFORNIA INDIAN LEGAL SERVICES	2,780	-	2,780
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	42,380	-	42,380
	DISABILITY RIGHTS CALIFORNIA	3,810	-	3,810
	LEGAL AID AT WORK	970	-	970
	PRISON LAW OFFICE	1,130	-	1,130
	PUBLIC ADVOCATES INC.	1,160	-	1,160
	YUBA-SUTTER LEGAL CENTER FOR SENIORS	14,830	-	14,830
<b>Sutter Total</b>		<b>67,060</b>	<b>-</b>	<b>67,060</b>

(Continued)

The State Bar of California  
Office of Access & Inclusion  
2019 Legal Services Organizations by County

Draft 4/27/2020

COUNTY	ORGANIZATION	BASIC	PRO BONO	TOTAL
<b>Tehama</b>	CALIFORNIA INDIAN LEGAL SERVICES	3,810	-	3,810
	DISABILITY RIGHTS CALIFORNIA	5,660	-	5,660
	LEGAL AID AT WORK	29,090	-	29,090
	LEGAL SERVICES OF NORTHERN CALIFORNIA	12,530	-	12,530
	PRISON LAW OFFICE	950	-	950
	PUBLIC ADVOCATES INC.	610	-	610
<b>Tehama Total</b>		<b>52,650</b>	<b>-</b>	<b>52,650</b>
<b>Trinity</b>	CALIFORNIA INDIAN LEGAL SERVICES	260	-	260
	DISABILITY RIGHTS CALIFORNIA	3,000	-	3,000
	LEGAL SERVICES OF NORTHERN CALIFORNIA	6,750	-	6,750
	PRISON LAW OFFICE	300	-	300
	PUBLIC ADVOCATES INC.	240	-	240
<b>Trinity Total</b>		<b>10,550</b>	<b>-</b>	<b>10,550</b>
<b>Tulare</b>	CALIFORNIA INDIAN LEGAL SERVICES	7,200	-	7,200
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	48,120	-	48,120
	CENTRAL CALIFORNIA LEGAL SERVICES	220,020	-	220,020
	DISABILITY RIGHTS CALIFORNIA	94,850	-	94,850
	LEGAL AID AT WORK	32,040	-	32,040
	NEW AMERICAN LEGAL CLINIC	24,420	-	24,420
	PRISON LAW OFFICE	19,680	-	19,680
	PUBLIC ADVOCATES INC.	17,190	-	17,190
<b>Tulare Total</b>		<b>463,520</b>	<b>-</b>	<b>463,520</b>
<b>Tuolumne</b>	CALIFORNIA INDIAN LEGAL SERVICES	1,750	-	1,750
	CENTRAL CALIFORNIA LEGAL SERVICES	5,080	-	5,080
	DISABILITY RIGHTS CALIFORNIA	17,970	-	17,970
	LEGAL AID AT WORK	1,830	-	1,830
	PRISON LAW OFFICE	1,400	-	1,400
	PUBLIC ADVOCATES INC.	1,030	-	1,030
<b>Tuolumne Total</b>		<b>29,060</b>	<b>-</b>	<b>29,060</b>
<b>Ventura</b>	CALIFORNIA INDIAN LEGAL SERVICES	1,650	-	1,650
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	195,030	-	195,030
	DISABILITY RIGHTS CALIFORNIA	68,170	-	68,170
	DISABILITY RIGHTS LEGAL CENTER	7,900	-	7,900
	HOUSING AND ECONOMIC RIGHTS ADVOCATES	2,080	-	2,080
	LEARNING RIGHTS LAW CENTER	60,600	-	60,600
	LEGAL AID AT WORK	2,040	-	2,040
	PRISON LAW OFFICE	8,670	-	8,670
	PUBLIC ADVOCATES INC.	6,240	-	6,240
<b>Ventura Total</b>		<b>352,380</b>	<b>-</b>	<b>352,380</b>
<b>Yolo</b>	CALIFORNIA INDIAN LEGAL SERVICES	1,340	-	1,340
	DISABILITY RIGHTS CALIFORNIA	6,980	-	6,980
	LEGAL AID AT WORK	1,780	-	1,780
	LEGAL SERVICES OF NORTHERN CALIFORNIA	73,290	-	73,290
	PRISON LAW OFFICE	1,760	-	1,760
	PUBLIC ADVOCATES INC.	1,270	-	1,270
	UC DAVIS SCHOOL OF LAW LEGAL CLINICS	57,210	-	57,210
	<b>Yolo Total</b>		<b>143,630</b>	<b>-</b>
<b>Yuba</b>	CALIFORNIA INDIAN LEGAL SERVICES	920	-	920
	CALIFORNIA RURAL LEGAL ASSISTANCE, INC.	32,810	-	32,810
	DISABILITY RIGHTS CALIFORNIA	6,030	-	6,030
	LEGAL AID AT WORK	9,040	-	9,040
	PRISON LAW OFFICE	1,000	-	1,000
	PUBLIC ADVOCATES INC.	620	-	620
	YUBA-SUTTER LEGAL CENTER FOR SENIORS	7,700	-	7,700
<b>Yuba Total</b>		<b>58,120</b>	<b>-</b>	<b>58,120</b>
<b>Grand Total</b>		<b>\$ 21,622,730</b>	<b>\$ 1,699,850</b>	<b>\$ 23,322,580</b>

The State Bar of California  
 Office of Access & Inclusion  
 2019 Grants to Support Centers

ORGANIZATION	GRANT
CALIFORNIA ADVOCATES FOR NURSING HOME REFORM	\$ 188,202
CALIFORNIA RURAL LEGAL ASSISTANCE FOUNDATION	188,202
CALIFORNIA WOMEN'S LAW CENTER	188,202
CENTER FOR GENDER AND REFUGEE STUDIES - CALIFORNIA	188,202
CENTER FOR HUMAN RIGHTS AND CONSTITUTIONAL LAW	188,202
CHILD CARE LAW CENTER	188,202
COALITION OF CALIFORNIA WELFARE RIGHTS ORGANIZATIONS	188,202
DISABILITY RIGHTS EDUCATION AND DEFENSE FUND	188,202
FAMILY VIOLENCE APPELLATE PROJECT	188,202
IMMIGRANT LEGAL RESOURCE CENTER	188,202
IMPACT FUND	188,202
JUSTICE IN AGING	188,202
LEGAL SERVICES FOR PRISONERS WITH CHILDREN	188,202
NATIONAL CENTER FOR YOUTH LAW	188,202
NATIONAL HEALTH LAW PROGRAM	188,202
NATIONAL HOUSING LAW PROJECT	188,202
NATIONAL IMMIGRATION LAW CENTER	188,202
ONEJUSTICE	188,202
PUBLIC INTEREST LAW PROJECT	188,202
WESTERN CENTER ON LAW AND POVERTY	188,202
WORKSAFE, INC.	188,202
YOUTH LAW CENTER	188,202
<b>TOTAL</b>	<b>\$ 4,140,444</b>



# The State Bar of California

**State Bar of California**  
**Statement of Expenditures of Mandatory Fees and**  
**Independent Accountant's Report**  
**Year Ended December 31, 2019**

April 30, 2020

## Independent Accountant's Report

To the Boards of Directors  
State Bar of California

We have examined the State Bar of California's Statement of Expenditures of Mandatory Licensee Fees (the "Statement") for the year ended December 31, 2019 and the State Bar of California's 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.

The Statement is the responsibility of the State Bar of California's management. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the State Bar of California's compliance.

In our opinion, the Statement presents, in all material respects, chargeable program expenditures of the State Bar of California for the year ended December 31, 2019 and the State Bar of California complied 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, based on the criteria set forth in the note to the Statement.

This report is intended solely for the information and use of the Boards of Directors and Management of the State Bar of California, and it is not intended to be, and should not be, used by anyone other than these specified parties.

San Francisco, California  
April 29, 2020

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2019

	<u>Dollar Amount</u>	<u>Percentage of Total Program Expenses</u>
CHARGEABLE EXPENSES AND RELATED		
PROGRAM REVENUES:		
Chief Trial Counsel	\$ 53,219,213	61.18%
State Bar Court	13,290,841	15.28%
Client Security Fund	8,538,317	9.82%
Attorney Regulation and Consumer Resources	5,806,587	6.67%
Professional Competence	3,074,341	3.53%
Lawyer Assistance Program	2,092,933	2.41%
Center on Access to Justice	1,805,813	2.08%
Probation	1,713,928	1.97%
Communications	895,980	1.03%
Judicial Evaluation	400,019	0.46%
Mandatory Fee Arbitration	80,938	0.09%
Commission on Access to Justice	7,141	0.01%
Program revenues	<u>(3,935,862)</u>	<u>-4.52%</u>
Total chargeable program expenses	<u>\$ 86,990,189</u>	<u>100.0%</u>

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2019

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

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

Accounting principles generally accepted in the United States of America are applied by the State Bar in conformance with pronouncements of the Governmental Accounting Standards Board. Amounts in the Statement of Expenditures of Mandatory Fees (“Statement”) were derived from the State Bar’s audited 2019 financial statements.

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

**2. BASIS OF PRESENTATION**

The accompanying Statement was prepared for the purpose of showing the allocation of certain expenditures into chargeable and non-chargeable categories. Although derived from the State Bar’s audited 2019 financial statements, the Statement is not a substitute for the financial statements, nor is it intended to be a complete presentation of the State Bar’s revenues and expenses in conformity with accounting principles generally accepted in the United States of America. Amounts reported in the Statement can be agreed to amounts reported in the State Bar’s financial statements.

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2019

**2. BASIS OF PRESENTATION (Continued)**

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

Since January 1, 2000, the amount of expenses that the State Bar may incur for legislative activity outside of the parameters of *Keller* was restricted by statute to the total revenue collected from those licensees electing to pay the \$5 and not take the deduction from the annual fee under Cal. Bus. & Prof. Code §6140.05. Instead of categorizing its programs as within or outside of *Keller*, the State Bar has elected to restrict the expenses of all of its legislative activity to voluntary funds. Similarly, the State Bar has a \$5 deduction for activities under the State Bar's Bar Relations and Elimination of Bias program and limited its funding to voluntary fees paid by licensees not taking this deduction. Licensees who do not wish to support either the State Bar's Legislative Activities or its Bar Relations and Elimination of Bias program can deduct the amounts from their annual 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 expenditures for mandatory licensing fees for the year ended December 31, 2019.

**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 expenditures, 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.)

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

b. *State Bar Court*

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

c. *Client Security Fund*

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

d. *Attorney Regulations and Consumer Resources*

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

e. *Professional Competence*

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

f. *Lawyer Assistance Program*

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

g. *Center on Access to Justice*

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

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

**THE STATE BAR OF CALIFORNIA**  
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**3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)**

h. *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.

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.

i. *Communications*

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

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

j. *Judicial Evaluation*

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

**THE STATE BAR OF CALIFORNIA**  
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**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, subs.(a), (c).) No candidate may be appointed until the State Bar has so reported, or the time for reporting has elapsed. (Id. at subd. (k).)” Having a strong judiciary evaluation system promotes public protection by helping ensure a fair legal system.

k. *Mandatory Fee Arbitration*

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

l. *Commission on Access to Justice*

The California Commission on Access to Justice was established in 1997 to pursue long-term fundamental improvements in our civil justice system so that it is truly accessible for all, regardless of income, geography, language ability, or other factors. The commission is comprised of members from all three branches of government, as well as business, labor, academic, religious and civic organizations.

The 26-member commission of lawyers and judges, as well as academic, business, labor, and community leaders, was established to explore ways to improve access to civil justice for Californians living on low and moderate incomes. The commission was instrumental in establishing the \$10 million Equal Access Fund for civil legal services to the indigent and works closely with the Judicial Council to improve access to the courts.

The improvement of the administration of justice and the public's access to justice falls within the exclusive preserve of the judicial branch. (See *Superior Court v. Mendocino* (1996) 13 Cal.4th 45, 66 (1996).) Further, this program improves the quality of legal services available to the people of California. (See *Keller*, supra, 497 U.S. at 14.)

**THE STATE BAR OF CALIFORNIA**  
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Year Ended December 31, 2019

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

*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 2019 State Bar indirect cost allocation to chargeable programs is summarized below:

General Counsel	\$ 4,544,739
Finance	3,147,233
Member Billing	425,611
Human Resources	2,453,232
General Services - Los Angeles	3,975,105
General Services - San Francisco	5,601,811
Building Improvement/Property Related	2,743,980
Information Technology	9,174,392
Governance	3,726,371
Other - Non Departmental	15,416
Indirect Cost Pool	35,807,890
Less: Overhead Allocation to Other Programs	<u>(8,615,590)</u>
Overhead Allocation to Chargeable Program	<u>\$ 27,192,300</u>

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

- m. *Revenues* – Program revenues related to chargeable expenses from the General Fund, Building Fund, Client Security Fund, Lawyers Assistance Fund, and the Support and Administration Fund of the State Bar are held to fund the related program expenses. Program revenues for 2019 are comprised of:

Law Corporation Registration Fees	\$ 2,035,671
Continuing Legal Education Fees	927,590
Seminar/Workshop Revenue	45,055
Other	927,546
Total	<u>\$ 3,935,862</u>

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**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 \$5 fixed by the court for legislative, \$2 for elimination of bias and \$40 set by the court for the Legal Services Voluntary Assistance Option for both active and inactive attorneys.

These deductions are allowed for the following activities:

a. *Lobbying*

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

b. *Elimination of Bias*

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

c. *Legal Services Voluntary Assistance Option*

Attorneys who do not want to support nonprofit organizations that provide free legal services to persons of limited means may deduct \$40. (Bus. & Prof. Code §6140.03.)



# The State Bar of California

**State Bar of California**  
**Report to the Audit Committee and the Board**  
**of Trustees**  
**Year Ended December 31, 2019**

April 30, 2020

**STATE BAR OF CALIFORNIA**  
Report to the Audit Committee and the Board of Trustees  
For the Year Ended December 31, 2019

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To the Audit Committee and the  
Board of Trustees of the State Bar of California  
San Francisco, California

In planning and performing our audit of the basic financial statements of the State Bar of California (State Bar), as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar's internal control.

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

- *Reasonably possible.* The change of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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

We did observe a control deficiency, included as item number 2019-001, that we did not consider to be a material weakness or significant deficiency. The State Bar's written responses to the comment and recommendation identified are described in the Schedule of Comment and Response section. The State Bar's response was not subjected to the auditing procedures applied in our audit of the financial statements. We did not audit the State Bar's response and, accordingly, we express no opinion on it. In addition, we would be pleased to discuss the recommendation in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing this recommendation.

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

This communication is intended solely for the information and use of the Audit Committee, Board of Trustees, State Bar management, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

San Francisco, California  
April 29, 2020

**STATE BAR OF CALIFORNIA**  
Report to the Audit Committee and the Board of Trustees  
For the Year Ended December 31, 2019

**1. Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated October 31, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the State Bar solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**2. Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

**3. Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

**4. Qualitative Aspects of the State Bar's Significant Accounting Practices**

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the State Bar is included in Note 3 to the financial statements. As described in Note 3 to the State Bar's basic financial statements, the State Bar implemented four new Governmental Accounting Standards Board (GASB) pronouncements in 2019: Statement No. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*; Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; and Statement No. 90, *Minority Equity Interest-An Amendment of GASB Statement No. 14 and No. 61*. However, only GASB Statement No. 88 had impact to the State Bar's financial statements. See Note 7 for the application of this Statement on the State Bar's financial statements.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

**STATE BAR OF CALIFORNIA**  
Report to the Audit Committee and the Board of Trustees  
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*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive estimates affecting the State Bar's financial statements were:

***Fair value of investments.*** Management's investments are generally carried at fair value, which is defined as 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. The State Bar's investments are classified as level 1 and level 2 of the fair value hierarchy established by GASB Statement No. 72. Investments classified in level 1 are 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 bond are classified in level 2 and valued using quoted prices for similar securities in active markets.

***Estimated allowance for doubtful accounts on accounts receivable.*** The allowance for losses on accounts receivable was based on management's estimate regarding the likelihood of collectability.

***Valuation of net pension liability, pension expense and pension related deferred inflows and outflows of resources.*** The net pension liability, pension expense and pension related deferred inflows and outflows of resources are based on an actuarial valuation as of June 30, 2018 and rolled forward to June 30, 2019, performed by the California Public Employees' Retirement System's (CalPERS) actuaries. The pension plan is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating entities with the State of California.

***Valuation of net OPEB asset, OPEB expense and OPEB related deferred outflows of resources.*** The net OPEB asset, OPEB expense and OPEB related deferred outflows of resources are based on an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2019 performed by the State Bar's independent actuaries for the OPEB plan. The OPEB plan is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating entities with the State of California.

***Estimated useful lives and depreciation methods assigned to depreciable capital assets.*** The estimated useful lives of capital assets were determined by management based on the nature of the capital assets. The State Bar uses the straight line method of depreciation.

We evaluated the key factors and assumptions used to develop these accounting estimates described above and determined that it is reasonable in relation to the financial statements taken as a whole.

*Financial Statement Disclosures*

Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements and the related notes to the financial statements were the disclosure of the Pension Plan (Note 8) and the Other Postemployment Benefits (Note 9).

**STATE BAR OF CALIFORNIA**  
Report to the Audit Committee and the Board of Trustees  
For the Year Ended December 31, 2019

**5. *Significant Difficulties Encountered during the Audit***

We encountered no difficulties in dealing with management relating to the performance of the audit.

**6. *Corrected and Uncorrected Misstatements***

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**7. *Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the State Bar's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

**8. *Representations Requested from Management***

We have requested certain written representations from management, which are included in the management representation letter dated April 29, 2020.

**9. *Management Consultations with Other Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**10. *Other Significant Matters, Findings, or Issues***

In the normal course of our professional association with the State Bar, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the State Bar's auditors.

**11. *Other Information in Documents Containing Audited Financial Statements***

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the State Bar's audited financial statements does not extend beyond the financial information

**STATE BAR OF CALIFORNIA**  
Report to the Audit Committee and the Board of Trustees  
For the Year Ended December 31, 2019

identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we applied certain limited procedures to 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 (Asset) and Related Ratios, and the Schedule of Contributions – OPEB Plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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## **SCHEDULE OF COMMENT AND RESPONSE**

### **Finding 2019-001 – Internal Control Deficiencies Improve Internal Controls Over the Financial Reporting**

Internal control is an integral process that is effected by the State Bar's governing body, management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the organization's goals, the following general objectives are being achieved:

- Executing orderly, ethical, economical, efficient and effective operations;
- Fulfilling accountability obligations;
- Complying with applicable laws, regulations, contracts and grant agreements; and
- Safeguarding resources against loss, misuse and damage.

Internal control is a dynamic integral process that should be continuously adapting to the changes faced by State Bar. While the State Bar has been successful in recruiting professionals to fill vacant positions over the past two years, it has been challenged with retaining these professionals. As such, the State Bar has been continuously training and integrating new personnel into the State Bar's complex accounting and financial reporting process. This rebuilding of staff has increased the workload of the remaining seasoned professionals.

Another obstacle encountered by the finance department was the COVID-19 pandemic which has caused business disruption on a global scale. The disruption has impacted the finance department's ability to supervise and review work under normal conditions, as much of the staff worked remotely during the closing of the books. Accordingly, the turnover in key finance personnel and the pandemic has led to delays in the accounting and reporting process. Two of the most notable deficiencies of internal control identified during the audit are as follows:

- Capital Assets – The State Bar did not have timely reviews over the reconciliation between capital assets and expense. This resulted in a late client correction of \$5.8 million to depreciable capital assets in order to properly capitalize assets acquired during the year and recognize related depreciation expense.
- Accounts Receivable and Unearned Revenues – The State Bar did not have adequate reviews over the reconciliation between grants accounts receivable, unearned revenues, and grants revenue. This resulted in \$1.1 million adjustment to increase accounts receivable balance to claim and recognize grant revenue and \$4.5 million adjustment to decrease unearned revenue and recognize grant revenue for services already performed the last quarter of the 2019.

The State Bar has made an investment in improving its financial reporting process over the past year. The State Bar should initiate a comprehensive analysis on its financial reporting processes and document its risk assessment policies and procedures for each significant transaction cycle, especially given the pandemic and the new risks created by executing a remote work environment, budget challenges caused by the potential downturn and shortfall of expected resources, and information technology and cybersecurity matters. In addition, the State Bar should continue to develop the skills and experience of its new personnel assigned to key roles in the preparation of the annual financial statements to improve the efficiency of its financial reporting process, including cross-training to minimize the impacts of further turnover.

**STATE BAR OF CALIFORNIA**  
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For the Year Ended December 31, 2019

***Management Response***

Accounting & Reporting Delays –In addition to key vacancies in the Office of Finance in 2019 & 2020, the audit was severely impacted because of COVID-19 and the implementation and Go-Live of a new financial system. Several of the key positions have been filled in the last 6-8 months, including a new Controller and Senior Analyst. Two key positions are currently being recruited. A significant amount of work was completed timely in preparation of the start of the audit on March 2, including most year-end entries. Having 120 days to close the fiscal year, including preparing financial reports has been a challenge. With the 2020 interim audit scheduled to begin in late summer, and the financial system project complete, staff anticipates an efficient and timely audit.

Capital Assets – During the year end process, the State Bar had a key vacancy and retirement that impacted the preparation and reconciliation of capital assets for 2019. This position is currently being recruited, and should be aboard by June 1, 2020. With this vacancy, another employee in finance with past experience and knowledge prepared the appropriate year end adjustments. It was not until revised trial balances were prepared at the program fund level that additional adjustments were noted by management to be completed. With the hiring of the vacant position, staff does not anticipate similar issues for 2020.

Accounts Receivable and Unearned Revenues – Journal entries for certain grant programs are prepared by fiscal staff outside the Office of Finance. Each year, based on the timing of grant revenues and grant payments to service providers, certain year end entries may vary from prior year. For 2019, there were adjustments recommended by the auditors to properly match revenues and expenses. Finance staff will revise our review process for 2020 to ensure proper posting based on the actual timing of receipts and payments.

**STATE BAR OF CALIFORNIA  
Status of Prior Year's Finding  
For the Year Ended December 31, 2019**

**Finding 2018-001 – Internal Control Deficiencies  
Improve Internal Controls Over the Financial Reporting**

Internal control is a dynamic integral process that should be continuously adapting to the changes faced by State Bar. As part of our audit procedures, we assess an organization's environment, risk assessment and monitoring of controls to determine whether internal controls have been effective over financial reporting. If controls do not exist, are poorly designed or not operating effectively, we must evaluate the control deficiencies and report the deficiencies to management and, when applicable, report deficiencies to those charged with governance.

The State Bar has made an investment in improving its financial reporting process over the past year. The State Bar should initiate a comprehensive analysis on its financial reporting processes and document its risk assessment policies and procedures for each significant transaction cycle. In addition, the State Bar should continue to incorporate the skills and experience of its new personnel assigned to key roles in the preparation of the annual financial statements to improve the efficiency of its financial reporting process, including cross-training to minimize the impacts of further turnover.

Status: In progress. While the State Bar has improved its process over financial reporting, it continued to struggle with closing the books timely in the current year. See current year finding 2019-001.