

# **OPEN SESSION AGENDA ITEM**

## **54-181 MAY 2018 AUDIT COMMITTEE ITEM III.A.**

**DATE:** May 17, 2018  
**TO:** Members, Audit Committee  
**FROM:** Kevin Harper, Interim Chief Financial Officer  
**SUBJECT:** Annual Financial Statement Audit

---

### **EXECUTIVE SUMMARY**

This is a report of action taken on April 26, 2018 by the Board Audit Committee Chair and Vice Chair to receive and approve filing of the Audited Financial Statements for year ended December 31, 2017. Business and Professions (B&P) Code sections 6145, 6031.5(a), and 6222, require 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.

---

### **BACKGROUND**

The State Bar's annual financial audit was conducted by the independent accounting firm of Moss Adams LLP. They have issued their reports on the following financial statements for the year ended December 31, 2017.

- Annual Audited Financial Statements;
- Statement of Receipts Collected and Expenditures of Sections; and
- Statement of Expenditures of Mandatory Fees

The auditor's opinion on each of these financial statements is unmodified. All three 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 Audit Committee Charter assigns responsibility to the Audit Committee to review reports of external auditors. The Board action requested is simply to receive, not to approve, the audited statements. The audited statements must be submitted to the Legislature and Supreme Court by the deadline regardless of any Board action.

On April 26, 2018, the Audit Committee Chair and Vice Chair met with the audit partner and senior manager of Moss Adams, LLP. They authorized staff to file the audited financial statements for year ended December 31, 2017 with the Legislature and Supreme Court. On

April 30, staff completed the legislative filing of the three sets of audited statements listed above.

## **DISCUSSION**

### **A. Annual Audited Financial Statements**

B&P Code sections 6145 and 6031.5(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 B&P Code also requires the Annual Audited Financial Statements to be certified under oath by the Treasurer of the State Bar. Since the State Bar has no Treasurer position, this certification has been completed by Kevin Harper, Interim Chief Financial Officer.<sup>1</sup>

The State Bar's Annual Audited Financial Statements for the year ended December 31, 2017, along with the independent auditor's report from Moss Adams are attached (Attachment A).

Amounts of revenues and expenses reported in the Annual Audited Financial Statements differ from the those amounts reported in the 4<sup>th</sup> quarter financial statements presented to the Board of Trustees in March due to post-closing adjustments required to comply with generally accepted accounting principles. Such differences primarily result from (a) recording pension and post-retirement health care expenses totaling approximately \$12.6 million, partially offset by (b) capitalization of software costs of \$2.0 million related to the Case Management System.

### **B. Statement of Receipts Collected and Expenditures of Sections**

To comply with B&P Code sections 6145 and 6031.5, the State Bar must prepare an audited statement of revenues and expenses of the Sections. The B&P Code requires that the auditor examine the revenues and expenses of the State Bar Sections, to ensure that the receipts collected for the sections are being applied, and their expenses are being made, in compliance with subdivision (a) of section 6031.5. The Statement of Receipts Collected and Expenditures of Sections for the year ended December 31, 2017, audited by the accounting firm of Moss Adams is attached (Attachment B).

### **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 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 "non-chargeable" categories.

---

<sup>1</sup> The State Bar's 2019 package of affirmative legislative proposals includes modifications to remove all references to the Treasurer position.

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 "non-chargeable" 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 bar licensee may gauge whether the expense is justified under the Keller standard. An independent auditor must verify the Statement of Expenses of Mandatory Fees. The Statement of Expenses of Mandatory Licensing Fees is then published by posting on the State Bar's Website at [www.calbar.ca.gov](http://www.calbar.ca.gov) and notice in the annual licensee billing statement to bar licensees. The 2017 Statement of Expenditures of Mandatory Fees audited by the accounting firm of Moss Adams is attached (Attachment C).

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

None

#### **RULE AMENDMENTS**

None

#### **BOARD BOOK AMENDMENTS**

None

#### **STRATEGIC PLAN GOALS & OBJECTIVES**

Goal: 3. Improve the fiscal and operational management of the State Bar, emphasizing integrity, transparency, accountability, and excellence.

Objective: d: Reallocate funds to support the discipline system based on expenditure review, revenue enhancement measures, implementation of the Bar's reserve policy and other reengineering efforts.

#### **RECOMMENDATION**

It is recommended that the Board affirm the filing of the State Bar's audited statements and related auditor's reports for the year ended December 31, 2017 with the State Legislature and the Supreme Court. It is further recommended that the Board authorize publication of the Statement of Expenditures of Mandatory Fees for the year ended December 31, 2017 when the 2019 annual billing statements are mailed to licensees by posting the statement and related auditor's report on the State Bar's Web site together with notice of the posting in the December 2018 issue of the California Bar e-Journal.

**WHEREAS**, the Board Audit Committee Chair and Co-Chair are authorized to review the draft audited statements and direct staff to submit them to the Legislature and Supreme Court on behalf of the Board of Trustees;

**AND WHEREAS**, on April 26, 2018, the Board Audit Committee Chair and Co-Chair received the draft financial statements and directed staff to file the audited statements for year ended December 31, 2017, with the Legislature and Supreme Court; it is hereby

**RESOLVED**, that the Board of Trustees hereby affirms the action taken by the Board Audit Committee Chair and Co-Chair, on behalf of the Board; and it is

**FURTHER RESOLVED**, that upon the recommendation of the Audit Committee, the Board hereby receives the Annual Audited Financial Statements, the Statement of Receipts Collected and Expenditures of Sections, and the Statement of Expenditures of Mandatory Fees for the year ended December 31, 2017, and the accompanying independent auditor's reports, copies of which are attached hereto; and it is

**FURTHER RESOLVED**, that when the billing of the 2019 membership fees is mailed to licensees of the State Bar, staff is directed to post the Statement of Expenditures of Mandatory Fees for the year ended December 31, 2017 on the State Bar's Web site and to notify licensees of the posting in the December 2018 issue of the California Bar's e-Journal.

#### **ATTACHMENT(S) LIST**

- A.** Financial Statements and Report of Independent Auditors For the Years Ended December 31, 2017 and 2016
- B.** Statement of Receipts Collected and Expenditures of Sections and Report of Independent Accountants For the Year Ended December 31, 2017
- C.** Statement of Expenditures of Mandatory Fees and Report of Independent Accountants for the Year Ended December 31, 2017



## **THE STATE BAR OF CALIFORNIA**

Financial Statements and Report of Independent Auditors  
December 31, 2017 and 2016 and  
Supplementary Information  
December 31, 2017

**Page**

REPORT OF INDEPENDENT AUDITORS.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited) .....	3
FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016:	
Statements of Net Position.....	11
Statements of Revenues, Expenses, and Changes in Net Position.....	12
Statements of Cash Flows.....	13
Notes to the Financial Statements.....	14
REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016:	
Schedule of Pension Liability (Unaudited).....	36
Schedule of Plan Fiduciary Net Position – Pension (Unaudited) .....	36
Schedule of Plan Contribution – Pension (Unaudited) .....	37
Schedule of Funding Progress – Post-Retirement Welfare Benefits Trust (Unaudited) .....	37
Schedule of Employer Contributions – Post-Retirement Welfare Benefits Trust (Unaudited) .....	37
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017:	
Program Funds Schedule of Net Position .....	38
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position .....	41



## **Report of Independent Auditors**

To the Board of Trustees  
The State Bar of California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The State Bar of California ("State Bar") as of and for the years ended December 31, 2017 and 2016, 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 respective net position of the State Bar as of December 31, 2017 and 2016, and the respective changes in net position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***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 pension liability, the schedule of plan fiduciary net position – pension, the schedule of plan contribution – pension, the schedule of funding progress – post-retirement welfare benefits trust, and the schedule of employer contributions – post-retirement welfare benefits trust, on pages 3 through 10 and 36 through 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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, on pages 38 through 43, 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.

*Moss Adams LLP*

San Francisco, California  
April 27, 2018



**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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 2017, the State Bar had approximately 265,900 licensees, an increase of 1.6% compared to 261,600 licensees in 2016.

Licensing fees for 2017 and 2016 were allocated to the following funds:

	2017		2016	
	Active Fee	Inactive Fee	Active Fee	Inactive Fee
General Fund - Attorney Licensing	\$ 297	\$ 70	\$ 305	\$ 65
General Fund - Discipline Activity	25	25	25	25
Legal Services Trust Fund	40	40	40	40
Legislative Activity Fund	-	5	5	5
Bar Relations and Elimination of Bias Fund	-	-	5	5
Client Security Fund	40	10	40	10
Lawyers Assistance Program Fund	10	5	10	5
Total	<u>\$ 412</u>	<u>\$ 155</u>	<u>\$ 430</u>	<u>\$ 155</u>

The State Bar's fees are set annually by the State Legislature. In August 2016, the State Legislature adjourned without enacting a fee bill authorizing the State Bar to collect the annual fee for the 2017 billing cycle of \$315 per licensee, representing the \$305 attorney licensing fee allocated to the General Fund, \$5 Legislative Activity Fund fee, and \$5 Bar Relations and Elimination of Bias Fund fee. As a result, the California Supreme Court issued an order authorizing an interim 2017 special regulatory assessment in the amount of \$297. This assessment level represented a 6% reduction from the historical annual fee and reflected full support for the State Bar's core discipline functions but not other programs and activities. The 2018 statutorily approved annual fee returned to \$315.

**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 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 – restricted; invested in capital assets; and unrestricted. Changes in net position over time is an indicator of whether the financial condition of the organization is improving or declining.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

The Statement of Revenues, Expenses, and Changes in Net Position – discloses the sources of revenues, the various expenses, 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 pension liability, schedule of plan fiduciary net position–pension, schedule of plan contribution-pension, schedule of funding progress – post retirement welfare benefits trust, and the schedule of employer contributions – post retirement welfare benefits trust.

**Financial Highlights**

The following is a summary comparison of the State Bar's Statements of Net Position as of December 31, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash, cash equivalents, and investments	\$ 125,241,792	\$ 125,914,483	\$ 88,211,785
Restricted cash	7,105,000	7,105,000	4,610,000
Other assets	27,078,256	22,761,108	13,954,687
Capital assets, net	94,988,637	96,275,743	97,005,537
Deferred outflows of resources	24,566,049	33,237,651	15,671,481
Total assets and deferred outflows of resources	<u>\$ 278,979,734</u>	<u>\$ 285,293,985</u>	<u>\$ 219,453,490</u>
Current liabilities	\$ 32,606,260	\$ 29,499,769	\$ 38,415,869
Noncurrent liabilities	25,146,169	27,524,829	20,505,895
Net pension liability	73,531,695	59,917,510	31,156,962
Deferred inflows of resources	2,305,896	11,970,255	18,176,995
Total liabilities and deferred inflows of resources	<u>\$ 133,590,020</u>	<u>\$ 128,912,363</u>	<u>\$ 108,255,721</u>
Net position			
Net investments in capital assets	\$ 67,759,779	\$ 66,937,664	\$ 75,308,441
Restricted for:			
Enabling legislation	79,291,188	81,634,880	38,606,540
Other restrictions	19,452,889	20,519,187	17,880,052
Unrestricted	(21,114,142)	(12,710,109)	(20,597,264)
Total net position	<u>\$ 145,389,714</u>	<u>\$ 156,381,622</u>	<u>\$ 111,197,769</u>

**Fiscal Year 2017 Compared to Fiscal Year 2016**

**Assets and Deferred Outflows of Resources** – As of December 31, 2017, the State Bar's total assets and deferred outflows of resources were \$279.0 million, down by \$6.3 million or 2% compared to \$285.3 million last year. The decrease primarily due to a \$8.7 million decrease in deferred outflows of resources from the Government Accounting Standards Board Statement No. 68 ("GASB 68") pension liability adjustments; partially offset by a \$3 million increase in grants receivable. The increase in grants receivable results from a higher Legal Services Trust Fund (the "LTSF") Program grant award from the State of California for the 2017 and 2018 period.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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, 2017, the deferred outflows of resources were \$24.6 million, decreased by \$8.7 million compared to \$33.2 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, 2017, State Bar's total liabilities and deferred inflows of resources were \$133.6 million, up by \$4.7 million or 3.6% compared to \$128.9 million last year. The increase is due primarily to a \$13.6 million increase in pension liabilities; partially offset by a \$9.7 million decrease in deferred inflows of resources from GASB 68 adjustments.

The State Bar's total pension liability as of December 31, 2017 was \$377.6 million and the plan fiduciary net position was \$304.0 million resulting in a net pension liability of \$73.5 million, or 19.5% of the total pension liabilities. Compared to the \$59.9 million net pension liability in 2016, the 2017 net pension liability increased by \$13.6 million or 22.7%.

Deferred inflows of resources as of December 31, 2017 are \$2.3 million, representing a decrease of \$9.7 million compared to \$12.0 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, 2017 is \$145.4 million, down by \$11.0 million or 7% compared to \$156.4 million in 2016. 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 \$3.5 million or 3.4% from \$102.2 million in 2016 to \$98.7 million in 2017. The decrease is due largely to a \$2.3 million decrease in enabling legislation and a \$1.1 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 \$0.9 million or 1.3% from \$66.9 million in 2016 to \$67.8 million in 2017. The net increase is primarily due to capitalization of new software partially offset by loan repayments and 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, 2017, the unrestricted net position was negative \$21.1 million, a decrease of \$8.4 million or 66.1% compared to \$12.7 million negative unrestricted net position in 2016. 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, 2017 AND 2016**

**Fiscal Year 2016 Compared to Fiscal Year 2015**

***Assets and Deferred Outflows of Resources*** – As of December 31, 2016, the State Bar's total assets and deferred outflows of resources were \$285.3 million, up by \$65.8 million or 30% compared to \$219.5 million last year. The increase is due to a combination of 1) a \$40.2 million increase in cash, restricted cash, and investment balances in 2016; 2) a \$17.5 million increase in deferred outflows of resources from the GASB 68 pension liability adjustments; 3) a \$7.7 million increase in Equal Access Fund ("EAF") grant receivable; 4) a \$1.0 million increase in the Other Postemployment Benefits ("OPEB") Plan asset; partially offset by 5) a \$0.7 million net decrease in capital assets due to normal depreciation.

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 and this financial statement element is distinct from its assets. As of December 31, 2016, the deferred outflows of resources were \$33.2 million, increased by \$17.5 million compared to \$15.7 million last year. See accompanying note 8 to the financial statements for additional information.

Cash, restricted cash, and investment consisted of balances in demand deposit accounts, money market accounts, the State Bar's share of California's Local Agency Investment Fund ("LAIF") and investment securities. As of December 31, 2016, the combined cash, restricted cash and investment balances were \$133.0 million, up by \$40.2 million or 43.31% compared to \$92.8 million last year. The higher cash balance in 2016 is due to a combination of 1) a \$44.7 million additional bank settlement grants awarded to the LSTF Program in 2016; 2) a \$10.0 million private loan obtained for a tenant improvement project; partially offset by 3) a \$13.9 million decrease in unearned fees collected in advance. Details are summarized as follows:

a) \$44.7 million Bank Settlement Grant – In March 2016, the LSTF Program received a \$44.7 million bank settlement grant award as a result of a settlement between the U.S. Department of Justice and Bank of America. Bank of America awarded the LSTF Program for administration of grants to legal services organizations to provide foreclosure prevention legal assistance and community redevelopment legal assistance. The LSTF Program Commission approved a grant distribution plan to spend down the grant money in 2016 and future years. Approximately \$0.7 million of this grant was distributed to eligible legal services organizations in 2016.

b) \$10.0 million Tenant Improvement Loan – In March 2016, the State Bar obtained a \$10 million loan to finance a tenant improvement project at its San Francisco location; there are currently three unoccupied floors in that building. The purpose of this investment is to renovate the space to appropriate rental quality to generate future incomes. This loan is secured by a debt service reserve fund totaling approximately \$2.5 million. Taken together with the Los Angeles building debt service reserve, over \$7.1 million is currently classified as restricted cash in the financial statements. See accompanying notes 5 and 7 to the financial statements for additional details.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Fiscal Year 2016 Compared to Fiscal Year 2015 (Continued)**

c) \$13.9 million decrease in unearned fees collected in advance – Dues collected in advance as of December 31, 2016 are \$13.1 million compared to \$27 million in 2015. They decreased significantly by \$13.9 million due to a lower assessment level for the 2017 fee bill and a delay in starting the 2017 billing cycle. The State Bar's billing cycle normally begins on December 1 and ends on February 1. Dues collected in the month of December are recorded as unearned fees collected in advance for year-end financial statement presentation. For the 2017 fee bill process, the California Legislature adjourned its 2015-2016 Regular Session without having enacted a fee bill authorizing the State Bar to collect from active licensees the basic annual licensing fee of \$315. As a result, the State Bar submitted a petition with the Supreme Court to issue an order authorizing an interim 2017 special regulatory assessment in the amount of \$297. This assessment level is a 5.7% or \$18 decrease compared to \$315 last year. The 2017 billing cycle started on December 7, a week later than the normal cycle.

Capital assets consisted of land, buildings, building and leasehold improvements, tenant improvement, office equipment, and furniture and fixtures, net of accumulated depreciation. Net capital assets balance as of December 31, 2016, was \$96.2 million, a \$0.8 million decrease compared to \$97.0 million last year. The decrease is due to normal depreciation and amortization of tenant improvement costs, partially offset by capital expenditures incurred in 2016. See accompanying note 5 to the financial statements for additional details.

Other assets consisted of interest receivable, prepayments, grants receivable, other receivable, and the OPEB Plan assets. The combined balance as of December 31, 2016, was \$22.7 million, up by \$8.7 million or 62.1% compared to \$14.0 million last year. The increase is due to a \$1.0 million increase in OPEB assets due to normal annual required contribution to the OPEB Plan and a \$7.7 million increase in EAF grant receivable due to a delay in releasing the EAF grant by the California Judicial Council. This \$7.7 million EAF grant was received in January 2017 instead of in December 2016.

***Liabilities and Deferred Inflows of Resources*** – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendor accounts, 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, 2016, State Bar's total liabilities and deferred inflows of resources were \$128.9 million, up by \$20.6 million or 19.1% compared to \$108.3 million last year. The increase is due to a combination of 1) a \$28.7 million increase in pension liabilities; 2) an \$8 million net increase in loan payable; 3) a \$4 million increase in accounts payable and other liabilities; partially offset by 4) a \$13.9 million decrease in unearned fees collected in advance as discussed above and 5) a \$6.2 million decrease in deferred inflows of resources from GASB 68 adjustments.

The State Bar's total pension liability as of December 31, 2016 was \$337.8 million and the plan fiduciary net position was \$277.9 million. The plan fiduciary net position as a percentage of the total pension liabilities is 82.3%. The unfunded net pension liabilities were \$59.9 million, or 17.7% as a percentage of the total pension liabilities. Compared to the \$31.2 million net pension liabilities in 2015, the 2016 net pension liabilities increased by \$28.7 million or 92.3%. Deferred inflows of resources as of December 31, 2016 are \$12.0 million, decreased by \$6.2 million compared to \$18.2 million last year. The deferred inflows of resources balance represents acquisition of the pension net assets that is applicable to future reporting. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension under GASB 68 and this financial statement element is distinct from its liabilities. See accompanying note 8 to the financial statements for additional information. Total current and long-term loan payable as of December 31, 2016 was \$29.3 million, up by \$7.9 million or 36.91% compared to \$21.4 million last year. The increase is due to a \$10 million loan the State Bar obtained for the tenant improvement project as discussed above. The \$10 million increase was partially offset by the loan repayments made in 2016. See accompanying note 7 to the financial statements for additional details.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Fiscal Year 2016 Compared to Fiscal Year 2015 (Continued)**

Accounts payable and other liabilities as of December 31, 2016 were \$14.0 million, increased by \$4.0 million or 40% compare to \$10.0 million last year. The increase is due primarily to timing of payments to vendors and grantees

**Net Position** – This component of the statement of net position consisted of restricted net position, net investments in capital assets, and unrestricted net position. The State Bar's total net position as of December 31, 2016 is \$156.4 million, up by \$45.2 million or 40.6% compared to \$111.2 million in 2015. The increase represents the excess of revenues over expense from various programs as explained below:

**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 \$45.7 million or 80.8% from \$56.5 million in 2015 to \$102.2 million in 2016. The increase is due largely to the \$44.7 million bank settlement grant awarded to the LSTF Program in 2016 as discussed above.

**Net Investments in Capital Assets** – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of mortgages or borrowings that are attributable to the acquisition, construction, and improvement of those assets decreased by \$8.4 million or 11% from \$75.3 million in 2015 to \$66.9 million in 2016. The net decrease is due to loan repayment and normal depreciation of capital assets.

**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, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
OPERATING REVENUES			
Program revenues	\$ 144,763,770	\$ 141,847,127	\$ 138,176,755
Settlement grants	-	44,778,670	6,085,197
Affinity Insurance revenue	1,865,401	2,283,203	2,428,236
Other revenue	3,968,549	2,866,328	2,950,427
Total operating revenues	<u>150,597,720</u>	<u>191,775,328</u>	<u>149,640,615</u>
OPERATING EXPENSES			
Program expenses	146,169,564	136,465,085	130,275,809
Pension expense	12,621,428	4,987,638	2,078,874
General and administration	4,856,701	6,897,374	9,326,855
Payment to California Lawyers Association (note 12)	500,000	-	-
Total operating expenses	<u>164,147,693</u>	<u>148,350,097</u>	<u>141,681,538</u>
OPERATING (LOSS) INCOME	(13,549,973)	43,425,231	7,959,077
NONOPERATING REVENUES	<u>2,558,065</u>	<u>1,758,622</u>	<u>927,852</u>
CHANGE IN NET POSITION	(10,991,908)	45,183,853	8,886,929
NET POSITION - beginning of year	156,381,622	111,197,769	102,310,840
NET POSITION - end of year	<u>\$ 145,389,714</u>	<u>\$ 156,381,622</u>	<u>\$ 111,197,769</u>

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Fiscal Year 2017 Compared to Fiscal Year 2016**

**Operating and NonOperating Revenues** – For the year ended December 31, 2017, the State Bar's total operating and non-operating revenues were \$153.2 million, down by \$40.3 million or 20.8% compared to \$193.5 million in 2016. The decrease is due largely to a \$44.8 million decrease in settlement grants offset (which is a one-time event in 2016) by a \$2.9 million increase in program revenues; a \$1.1 million increase in other revenue; a \$0.8 million increase in non-operating revenues; and a \$0.4 decrease in affinity insurance revenue.

**Operating Expenses** – For fiscal year 2017, the State Bar's total operating expenses were \$164.1 million, an increase of \$15.7 million or 10.6% from \$148.4 million last year. The increase is due largely to a \$8.2 million increase in grants resulting from a \$6 million dollar increase in Equal Access Fund grant expenses and approximately \$2 million increase in Bank of America Settlement funds; a \$7.6 million increase in pension expense; a \$2.2 increase in personnel cost as a result of additional Office of the Chief Trial Counsel (the "OCTC") employees; partially offset by a \$1.7 million decrease in Client Security Fund (the "CSF") payouts in 2017.

Operating Expenses by Category	2017	2016	Increase (Decrease)
Personnel Cost	\$ 66,371,535	\$ 64,167,309	\$ 2,204,226
Grants	39,010,055	30,808,302	8,201,753
Employer Pension Contribution	4,906,044	5,243,117	(337,073)
GASB 68 Pension Expense	12,621,428	4,987,638	7,633,790
Other Postemployment Benefits	644,049	1,000,000	(355,951)
Supplies & Postage	1,687,364	1,964,313	(276,949)
Professional Services	4,675,090	3,455,447	1,219,643
Examination	5,895,613	5,824,379	71,234
CSF Disbursement	6,339,398	8,007,676	(1,668,278)
Travel & Training	2,720,984	2,939,424	(218,440)
Occupancy	5,151,701	5,057,854	93,847
Outside Services	4,017,766	4,973,226	(955,460)
Other	10,106,666	9,921,412	185,254
Total Expenses by Category	<u>\$ 164,147,693</u>	<u>\$ 148,350,097</u>	<u>\$ 15,797,596</u>

**Fiscal Year 2016 Compared to Fiscal Year 2015**

**Operating and Nonoperating Revenues** – For the year ended December 31, 2016, the State Bar's total operating and non-operating revenues were \$193.5 million, up by \$42.9 million or 28.5% compared to \$150.6 million in 2015. The increase is due largely to the bank settlement grant awarded to the LSTF Program as discussed above. Licensing fees and donations increased slightly by approximately \$1.0 million or 1.16% from \$85.2 million last year to \$86.2 million in 2016. The increase is due primarily to normal growth in licensees.

The primary cause of the revenue decrease results from the \$44.7 million Bank Settlement Grant awarded to the State Bar in March 2016. The LSTF Program received a \$44.7 million bank settlement grant award as a result of a settlement between the U.S. Department of Justice and Bank of America. Bank of America awarded the LSTF Program for administration of grants to legal services organizations to provide foreclosure prevention legal assistance and community redevelopment legal assistance.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Operating Expenses** – For fiscal year 2016, the State Bar's total operating expenses were \$148.4 million, an increase of \$6.7 million or 4.73% from \$141.7 million last year. The increase is due to a combination of 1) a \$2.9 million increase in grant expenses due to an increase of Equal Access Grant received in 2016; 2) a \$2.0 million increase in CSF payout due to Board's action to transfer a \$2.1 million to this Fund to mitigate the waiting time of processing; 3) a \$3.1 million increase in personnel and benefit costs due to step and merit increases for existing staff. The personnel costs in 2015 was lower than normal year because a few of the key senior executive positions were vacant until late 2015. These cost increases are partially offset by cost savings in building improvement due to project delay. In addition, in response to the budget cut in 2016, there are cost savings in other operational areas including professional services, travel, catering, and temporary help.

**Economic Factors Facing the State Bar**

The California Supreme Court directed the State Bar to require active licensed attorneys to resubmit fingerprints no later than December 2019 so that the Bar can enter into a subsequent arrest notification contract with the California Department of Justice. The State Bar will have to increase staffing to effectuate this requirement. The number and timing of new staffing needs is dependent on many factors including the number of attorneys charged and convicted of crimes, the number of these cases that have gone unreported, the severity of the crimes, the number of attorneys who fail to comply with the new mandate, and the number of attorneys who contact the Bar to inquire about the policy or request an accommodation.

Senate Bill 36 (2017) mandated the separation of the Sections (the portion of the State Bar dedicated to providing educational programs, publications and events) from the State Bar on January 1, 2018 into an independent non-profit corporation, called the California Lawyers Association (the "CLA"). It required the State Bar to transfer the Sections' financial reserves, contracts, and intellectual property assets to CLA and to collect ongoing membership dues on behalf of CLA. On January 31, 2018, the State Bar remitted approximately \$6.3 million to CLA representing the Sections' financial reserves as of December 31, 2017.

Effective January 1, 2018, State Bar effectuated the transition of the State Sections to CLA. With the Sections' separation, approximately \$1.7 million annual indirect costs, previously allocated to Sections, must be allocated to other offices and programs. State Bar is working to right-size the budgets of those offices and programs through a combination of revenue increases and expenses reductions in order to absorb the increased allocations due to the loss of Sections.

Over the following year, the State Bar is committed to continue identifying measures to ensure core programs remain intact, while increasing operating efficiencies and identifying additional resources available to support key discipline system reform efforts.

**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 Interim Chief Financial Officer, Kevin Harper at [CFO@calbar.ca.gov](mailto:CFO@calbar.ca.gov).



**THE STATE BAR OF CALIFORNIA**  
**BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 82,920,673	\$ 54,641,715
Investments	42,321,119	71,272,768
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,834,852 in 2017 and \$1,816,138 in 2016	13,163,853	10,124,557
Other current assets	<u>1,766,182</u>	<u>1,844,281</u>
Total current assets	<u>140,171,827</u>	<u>137,883,321</u>
Noncurrent assets		
Restricted cash	7,105,000	7,105,000
Other postemployment benefits assets	12,148,221	10,792,270
Capital assets		
Nondepreciable	19,537,615	19,537,615
Depreciable, net	<u>75,451,022</u>	<u>76,738,128</u>
Total noncurrent assets	<u>114,241,858</u>	<u>114,173,013</u>
Total assets	254,413,685	252,056,334
Deferred outflows of resources	<u>24,566,049</u>	<u>33,237,651</u>
Total assets and deferred outflows of resources	<u>278,979,734</u>	<u>285,293,985</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and other liabilities	12,550,626	14,069,495
Unearned fees collected in advance	17,646,360	13,107,536
Loans payable	2,409,274	2,305,985
Grants payable	<u>-</u>	<u>16,753</u>
Total current liabilities	<u>32,606,260</u>	<u>29,499,769</u>
Noncurrent liabilities		
Loans payable	24,819,584	27,032,094
Compensated absences	326,585	492,735
Net pension liability	<u>73,531,695</u>	<u>59,917,510</u>
Total noncurrent liabilities	<u>98,677,864</u>	<u>87,442,339</u>
Total liabilities	131,284,124	116,942,108
Deferred inflows of resources	<u>2,305,896</u>	<u>11,970,255</u>
Total liabilities and deferred inflows of resources	<u>133,590,020</u>	<u>128,912,363</u>
<b>NET POSITION</b>		
Restricted for:		
Enabling legislation	79,291,188	81,634,880
Other restrictions	19,452,889	20,519,187
Net investments in capital assets	67,759,779	66,937,664
Unrestricted	<u>(21,114,142)</u>	<u>(12,710,109)</u>
Total net position	<u>\$ 145,389,714</u>	<u>\$ 156,381,622</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Licensee fees and donations	\$ 84,868,954	\$ 86,166,914
Examination application fees	20,077,228	19,283,821
Trust account revenue	7,036,095	6,439,199
Law practices (sections) fees	6,027,923	6,118,886
Seminar/workshop revenue	1,231,585	1,257,660
Advertising revenue	42,236	162,981
Convention income	460,504	1,200,752
Legal specialization fees	554,345	2,081,540
Law corporation registration fees	1,541,653	1,475,984
Continuing legal education fees	745,215	1,074,090
Grant revenue	17,744,476	12,785,300
EAF AB145 filing fee revenue	4,433,556	3,800,000
Settlement grants	-	44,778,670
Affinity Insurance revenue	1,865,401	2,283,203
Other revenue	3,968,549	2,866,328
Total operating revenues	<u>150,597,720</u>	<u>191,775,328</u>
<b>OPERATING EXPENSES</b>		
Chief Trial Counsel	40,931,692	38,708,988
State Bar Court	12,175,547	11,649,273
Attorney Regulation and Consumer Resources	4,327,641	3,727,687
Professional Competence	2,428,803	2,449,873
Probation	1,318,111	1,346,297
Mandatory Fee Arbitration	647,350	881,755
Judicial Evaluation	676,955	923,581
Commission on Access to Justice	14,651	20,571
Center on Access to Justice	1,557,378	1,731,845
California Young Lawyers Association	28,107	201,726
Communications	1,073,543	1,378,107
Governance	3,911,300	3,531,920
Lawyer Assistance Program	1,513,551	1,543,878
Client Security Fund	7,882,428	9,028,984
Admissions	20,912,754	20,312,066
Grants	38,960,055	30,808,302
Sections	7,809,698	8,220,232
Pension Expense	12,621,428	4,987,638
General and Administration	4,856,701	6,897,374
Payment to California Lawyers Association	500,000	-
Total operating expenses	<u>164,147,693</u>	<u>148,350,097</u>
<b>OPERATING (LOSS) INCOME</b>	<u>(13,549,973)</u>	<u>43,425,231</u>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Investment income	1,130,713	703,186
Rental income	2,248,300	1,938,029
Interest expense on loan	(820,948)	(882,593)
Total nonoperating revenues	<u>2,558,065</u>	<u>1,758,622</u>
<b>CHANGE IN NET POSITION</b>	<u>(10,991,908)</u>	<u>45,183,853</u>
<b>NET POSITION—beginning of year</b>	<u>156,381,622</u>	<u>111,197,769</u>
<b>NET POSITION—end of year</b>	<u><u>\$ 145,389,714</u></u>	<u><u>\$ 156,381,622</u></u>

See accompanying notes to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from members, applicants, grants, and other professionals	\$ 152,097,248	\$ 170,041,048
Payments to suppliers	(98,697,014)	(81,781,687)
Payments to employees	(51,991,408)	(54,686,080)
Net cash provided by operating activities	<u>1,408,826</u>	<u>33,573,281</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of investments	28,891,560	16,034,258
Purchases of investments	60,089	(65,452,099)
Interest received from investments	1,130,713	703,185
Cash received from rental income	2,248,300	1,938,029
Net cash provided by (used in) investing activities	<u>32,330,662</u>	<u>(46,776,627)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(2,530,361)	(3,113,758)
Proceeds from loan agreement	-	10,000,000
Payment of obligations under loan agreement	(2,109,221)	(2,020,446)
Interest paid on debt	(820,948)	(882,593)
Net cash (used in) provided by capital and related financing activities	<u>(5,460,530)</u>	<u>3,983,203</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>28,278,958</u>	<u>(9,220,143)</u>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>61,746,715</u>	<u>70,966,858</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u><u>\$ 90,025,673</u></u>	<u><u>\$ 61,746,715</u></u>
<b>RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating (loss) income	\$ (13,549,973)	\$ 43,425,231
Adjustments to reconcile operating (loss) income to net cash provided by operating activities		
Depreciation	3,817,467	3,843,552
Changes in assets and liabilities		
Deferred inflows and outflows of resources related to pension	(992,757)	(23,772,910)
Net pension liability	13,614,185	28,760,548
Accounts and other receivables	(3,039,296)	(7,864,553)
Other postemployment benefits assets	(1,355,951)	(999,999)
Other current assets	78,099	58,131
Accounts payable and other liabilities	(1,685,019)	3,993,008
Unearned fees collected in advance	4,538,824	(13,869,727)
Grants payable	(16,753)	-
Net cash provided by operating activities	<u><u>\$ 1,408,826</u></u>	<u><u>\$ 33,573,281</u></u>

See accompanying notes to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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, conducting a variety of education programs for licensees and the public, 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 State Bar tracks revenues and expenses by funding source in 16 sub-funds, as follows:

**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.

**Annual Meeting Fund** – The Annual Meeting Fund accounts for Annual Meeting registration fees and expenses. The Annual Meeting Fund allocates its revenue and expenses among itself, the Conference of Delegates of California Bar Associations which operates as an independent entity, and the Sections Fund.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

***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.

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

***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 positions based on final approved applications by the Client Security Fund Commission. This fund is replenished through annual assessments of \$40 per active member and \$10 per inactive member.

***Elimination of Bias and Bar Relations Fund*** – The Elimination of Bias and Bar Relations Fund supports certain programs similar to those once undertaken by the Legal Services, Program Development and Bar Relations Offices. This fee of \$5 was collected in 2016 but was an optional donation in 2017.

***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.

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

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

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

***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.

***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.

***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. This fee of \$5 was collected in 2016 but was an optional donation in 2017.

**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, 2017 and 2016, cash equivalents consisted of demand deposit accounts, money market accounts, and deposits in the California LAIF.

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

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

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

**Restricted Cash** – 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, 2017 and 2016.

**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 the useful life of the equipment. 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.

**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.

**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.

**Net Pension Liability** – Net pension liability is reported in accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. See note 8 for related disclosures.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

***Other Postemployment Benefits*** – Other postemployment benefits are reported in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. See note 9 for related disclosures.

***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 3,431 applications pending for processing as of December 31, 2017, in the amount of \$52.3 million, and for December 31, 2016, there were 4,253 pending applications in the amount of \$50.9 million. As of December 31, 2017 and 2016, estimated application payout amounts were \$6.4 million and \$23.5 million, respectively, based on a rolling average of 24 months’ historical applications payout ratio of 44.6% in 2017 and 46.2% in 2016. Cash and investments available for application reimbursement in the CSF were approximately \$3.1 million and \$1.4 million as of December 31, 2017 and 2016 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 \$98.7 million as of December 31, 2017, of which \$79.2 million was restricted by enabling legislation; and \$102.1 million as of December 31, 2016, of which \$81.6 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 \$21.1 million as of December 31, 2017, and negative \$12.7 million as of December 31, 2016.

***Reserves 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, Legal Services Trust 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.



**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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 2016 financial statements have been reclassified to conform to the 2017 presentation.

**Implementation of New Accounting Standards**

**GASB Statement No. 75** – In June 2015, GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. GASB 75 is not effective for the State Bar until the fiscal year ending December 31, 2018. The State Bar will evaluate this pronouncement and determine the fiscal impact on its 2018 financial statements.

**GASB Statement No. 84** – In January 2017, GASB issued GASB 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. GASB 84 is not effective for the State Bar until fiscal year ending December 31, 2018. The State Bar will evaluate this pronouncement and determine the fiscal impact on its 2018 financial statements.

**GASB Statement No. 87** – In June 2017, GASB issued GASB 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 not effective for the State Bar until fiscal year ending December 31, 2020. The State Bar will evaluate this pronouncement and determine the fiscal impact on its 2020 financial statements.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

***GASB Statement No. 88*** – In April 2018, GASB issued GASB 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. GASB 88 is not effective for the State Bar until fiscal year ending December 31, 2018. The State Bar will evaluate this pronouncement and determine the fiscal impact on its 2018 financial statements.

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

***Cash and Cash Equivalents*** – Cash and cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. Cash equivalents consisted of demand deposit accounts, money market accounts, and deposits in Local Agency Investment Fund. As of December 31, 2017, the carrying amount of the State Bar's deposits is \$82,920,673 and the bank balance is \$86,070,113. At December 31, 2016, the carrying amount of the State Bar's deposits is \$54,641,715 and the bank balance is \$56,776,211. 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 are fully collateralized.

The State Bar invests in the 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 Code. The Local Investment Advisory Board, which consists of five members designated by state statutes, has oversight responsibility for LAIF.

As of December 31, 2017, the PMIA balance is \$74.3 billion, of which 96.4% is invested in nonderivative financial products with 1.1% in structured notes and 2.5% in asset-backed securities. The total amount invested by all public agencies in LAIF is \$21.2 billion, and the State Bar's investment in LAIF is \$64.3 million. The average maturity of PMIA investments is 186 days as of December 31, 2017. As of December 31, 2016, the PMIA balance is \$73.7 billion, of which 97.3% is invested in nonderivative financial products with 0.5% in structured notes and 2.2% in asset-backed securities. The total amount invested by all public agencies in LAIF is \$21.6 billion, and the State Bar's investment in LAIF is \$43.9 million. The average maturity of PMIA investments was 171 days as of December 31, 2016.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

The State Bar's pooled cash and cash equivalents at December 31, 2017 and 2016 is composed of:

	<u>2017</u>	<u>2016</u>
LAIF	\$ 64,451,307	\$ 43,976,718
Money Market	5,787,303	247
Other Cash	<u>12,682,063</u>	<u>10,664,750</u>
Total	<u>\$ 82,920,673</u>	<u>\$ 54,641,715</u>

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

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

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

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

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

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

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

The fair value measurements of investments for December 31, 2017 and 2016, are as follows:

Description	12/31/2017	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Government agencies	\$ 42,157,077	\$ -	\$ 42,157,077	\$ -
Common stock	164,042	164,042	-	-
Total investments measured at fair value	<u>\$ 42,321,119</u>	<u>\$ 164,042</u>	<u>\$ 42,157,077</u>	<u>\$ -</u>

Description	12/31/2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U. S. Government agencies	\$ 68,121,327	\$ -	\$ 68,121,327	\$ -
Certificates of deposit	2,993,220	-	2,993,220	-
Common stock	158,221	158,221	-	-
Total investments measured at fair value	<u>\$ 71,272,768</u>	<u>\$ 158,221</u>	<u>\$ 71,114,547</u>	<u>\$ -</u>

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

**Custodial Credit Risk** – The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The California Government Code and the State Bar's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments; however, the California Government Code requires that a financial institution secure 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.

**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.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

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>2017 Fair Value</u>		<u>2016 Fair Value</u>	
Federal Home Loan Bank	U.S. government agencies	\$	-	\$ 10,995,420	16.1%
Federal Farm Credit Bank	U.S. government agencies	18,917,320	44.9%	27,916,940	41.0%
Federal Home Loan Mortgage Corp	U.S. government agencies	23,239,757	55.1%	29,208,967	42.9%
		<u>\$ 42,157,077</u>	<u>100.0%</u>	<u>\$ 68,121,327</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, 2017 and 2016, 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, 2017</b>			
U.S. government agencies	\$ 42,157,077	100.0%	0.45
<b>December 31, 2016</b>			
U.S. government agencies	\$ 68,121,327	96%	1.11
Corporate Bonds	2,993,220	4%	0.04
	<u>\$ 71,114,547</u>	<u>100%</u>	

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

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

Fixed income security investments that are subject to credit risk at December 31, 2017 and 2016, are as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Fair Value</b>	<b>Fair Value as a Percentage of Fixed Income Securities</b>	<b>Fair Value</b>	<b>Fair Value as a Percentage of Fixed Income Securities</b>
S & P's rating:				
AA+	\$ 42,157,077	100.0%	\$ 68,121,327	95.8%
AA-	-	-	2,993,220	4.2%
Total fixed income securities	<u>\$ 42,157,077</u>	<u>100.0%</u>	<u>\$ 71,114,547</u>	<u>100.0%</u>

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**5. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2017 and 2016, are as follows:

	Balance January 1, 2017	Increases	Decreases	Balance December 31, 2017
Land - not depreciated	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	88,601,937	-	-	88,601,937
180 Howard tenant improvements	5,779,487	496,169	-	6,275,656
Equipment and software	8,623,120	2,034,192	-	10,657,312
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	108,516,643	2,530,361	-	111,047,004
Less accumulated depreciation for:				
Buildings and leasehold improvements	(20,284,924)	(2,255,419)	-	(22,540,343)
180 Howard Tenant Improvements	(1,214,710)	(422,876)	-	(1,637,586)
Equipment and software	(7,486,870)	(755,500)	-	(8,242,370)
Furniture and fixtures	(2,792,011)	(383,672)	-	(3,175,683)
Total accumulated depreciation	(31,778,515)	(3,817,467)	-	(35,595,982)
Total capital assets, being depreciated, net	76,738,128	(1,287,106)	-	75,451,022
Capital assets, net	\$ 96,275,743	\$ (1,287,106)	\$ -	\$ 94,988,637

  

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
Land - not depreciated	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	88,601,937	-	-	88,601,937
180 Howard tenant improvements	2,665,729	3,113,758	-	5,779,487
Equipment and software	8,623,120	-	-	8,623,120
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	105,402,885	3,113,758	-	108,516,643
Less accumulated depreciation for:				
Buildings and leasehold improvements	(18,029,505)	(2,255,419)	-	(20,284,924)
180 Howard tenant improvements	(791,834)	(422,876)	-	(1,214,710)
Equipment and software	(6,705,285)	(781,585)	-	(7,486,870)
Furniture and fixtures	(2,408,339)	(383,672)	-	(2,792,011)
Total accumulated depreciation	(27,934,963)	(3,843,552)	-	(31,778,515)
Total capital assets, being depreciated, net	77,467,922	(729,794)	-	76,738,128
Capital assets, net	\$ 97,005,537	\$ (729,794)	\$ -	\$ 96,275,743

Depreciation expense for the years ended December 31, 2017 and 2016 was \$3,817,467 and \$3,843,552, respectively.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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, 2017, are as follows:

<u>Year Ending December 31,</u>	<u>Future Minimum Revenue</u>	
	<u>San Francisco</u>	<u>Los Angeles</u>
2018	\$ 1,529,568	\$ 396,656
2019	1,078,021	396,656
2020	788,914	396,656
2021	159,616	396,656
2022	186,104	396,656
Thereafter	-	5,072,239
	<u>\$ 3,742,223</u>	<u>\$ 7,055,519</u>

**6. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

At December 31, 2017 and 2016, accounts payable and other current liabilities consisted of the following:

	<u>2017</u>	<u>2016</u>
Accounts payable	\$ 8,514,043	\$ 9,141,952
Compensated absences	3,367,883	3,571,125
Other liabilities	668,700	1,356,418
Total accounts payable and other liabilities	<u>\$ 12,550,626</u>	<u>\$ 14,069,495</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, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2017</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 4,063,860	\$ 3,695,179	\$ (4,064,571)	\$ 3,694,468	\$ 3,367,883
	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2016</u>	<u>Amount Due within One Year</u>
Compensated absences	\$ 4,145,489	\$ 4,229,949	\$ (4,311,578)	\$ 4,063,860	\$ 3,571,125



**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016 the outstanding loan balance was \$18,589,656 and \$19,939,281, 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, 2017 and 2016, the outstanding loan balances of the San Francisco loan was \$8,639,202 and \$9,398,798, respectively.

	<u>San Francisco</u>	<u>Los Angeles</u>	<u>Total</u>
Term loan - Bank of America, December 31, 2016	\$ 9,398,798	\$ 19,939,281	\$ 29,338,079
Additions	70,956	125,809	196,765
Repayments	(830,552)	(1,475,434)	(2,305,986)
Balance as of December 31, 2017	<u>\$ 8,639,202</u>	<u>\$ 18,589,656</u>	<u>\$ 27,228,858</u>
Current loan payable	\$ 869,746	\$ 1,539,528	\$ 2,409,274
Noncurrent loan payable	7,769,456	17,050,128	24,819,584
Balance as of December 31, 2017	<u>\$ 8,639,202</u>	<u>\$ 18,589,656</u>	<u>\$ 27,228,858</u>

The annual repayment schedule as of December 31, 2017, is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,409,275	\$ 1,142,959
2019	2,517,199	1,035,034
2020	2,629,965	922,268
2021	2,747,791	804,442
2022	2,870,906	681,329
2023-2027	14,053,722	1,435,341
Total	<u>\$ 27,228,858</u>	<u>\$ 6,021,373</u>

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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 California Public Employees’ Retirement System (“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 December 31, 2017, the State Bar’s pension plan included 538 active members and 444 retirees and beneficiaries 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, 2017, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
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	9.186%	9.186%

**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.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**8. PENSION PLAN (Continued)**

**Net Pension Liability** – The net pension liability for the Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability for the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using standard procedures. A summary of principal assumptions and methods used to determine the pension liability is shown below.

**Actuarial assumptions** – The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.2% - 12.2% (1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) Derived using CalPERS' membership data for all Funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016, valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**8. PENSION PLAN (Continued)**

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 to 60 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 rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<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	47.00%	4.90%	5.38%
Global fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**8. PENSION PLAN (Continued)**

*Changes in the Net Pension Liability* – The changes in the Net Pension Liability for the Miscellaneous Plan 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, 2016</b>	<b>\$ 337,792,017</b>	<b>\$ 277,874,507</b>	<b>\$ 59,917,510</b>
<b>Changes in the year:</b>			
Service cost	\$ 8,895,961	\$ -	\$ 8,895,961
Interest on the total pension liability	25,355,446	-	25,355,446
Changes of Assumptions	21,023,063	-	21,023,063
Differences between actual and expected experience	(1,780,377)	-	(1,780,377)
Contribution - employer	-	5,519,957	(5,519,957)
Contribution - employee	-	3,697,300	(3,697,300)
Net investment income	-	31,072,914	(31,072,914)
Administrative expenses	-	(410,263)	410,263
Benefit payments, including refunds of employee contributions	(13,722,132)	(13,722,132)	-
<b>Net changes</b>	<b>39,771,961</b>	<b>26,157,776</b>	<b>13,614,185</b>
<b>Balance at June 30, 2017</b>	<b>\$ 377,563,978</b>	<b>\$ 304,032,283</b>	<b>\$ 73,531,695</b>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* – The following presents 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 liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<b>1% Decrease 6.15%</b>	<b>Current Discount Rate 7.15%</b>	<b>1% Increase 8.15%</b>
Plan's net pension liability	\$ 124,767,200	\$ 73,531,695	\$ 31,009,567

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**8. PENSION PLAN (Continued)**

***Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*** – For the year ended December 31, 2017, the State Bar recognized pension expense of \$17,527,473. Deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	2017	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 15,016,474	\$ (1,034,198)
Differences between actual and expected experience	3,303,298	(1,271,698)
Contributions made after the measurement date: June 30, 2017	2,348,152	-
Net differences between protected and actual earning on plan investments	<u>3,898,125</u>	<u>-</u>
Total	<u>\$ 24,566,049</u>	<u>\$ (2,305,896)</u>

\$2,348,152 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>	
2018	\$ 6,542,067
2019	11,249,928
2020	4,401,175
2021	(2,281,169)
2022	-
Thereafter	<u>-</u>
	<u>\$ 19,912,001</u>

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

***Plan Description*** – The State Bar administers a single-employer defined benefit Post-Retirement Welfare Benefits Plan for Executive Staff Employees (“OPEB Plan”). The OPEB Plan provides postretirement health care benefits for its eligible executive staff 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 President of the Board of Trustees and the Executive Director, or their designees.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

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. The OPEB Plan included 50 and 49 active executive staff employees as of December 31, 2017 and 2016, respectively, and 64 and 69 retirees and beneficiaries received benefits as of December 31, 2017 and 2016, respectively. The State Bar has the right to modify plan provisions prospectively at its discretion.

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 California Employers' Retiree Benefit Trust (“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.

**Funding Policy** – Contributions to the OPEB Plan are made at the State Bar’s discretion based on actuarial valuations of the OPEB Plan. As of June 30, 2017, the annual required contributions are \$839,016 and \$902,819 for the years ended December 31, 2017 and 2016, respectively.

**Annual OPEB Cost and Net OPEB Asset** – The following table shows the calculation of the annual required contribution, annual OPEB cost, the amount contributed to the OPEB Plan, and changes in the State Bar’s OPEB asset.

	<u>2017</u>	<u>2016</u>
<b>Determination of Net OPEB Asset</b>		
Annual required contribution (ARC)	\$ 839,016	\$ 902,819
Interest on prior year net OPEB asset	(647,536)	(587,536)
Adjustment to ARC	<u>739,668</u>	<u>671,131</u>
Annual OPEB cost	931,148	986,414
State Bar contributions made	<u>2,287,099</u>	<u>1,986,413</u>
Increase in net OPEB asset	1,355,951	999,999
Net OPEB asset - January 1	<u>10,792,270</u>	<u>9,792,271</u>
Net OPEB asset - December 31	<u><u>\$ 12,148,221</u></u>	<u><u>\$ 10,792,270</u></u>

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

The following table shows the annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan and the net OPEB asset for the last three years.

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
12/31/17	\$ 931,148	245.6%	\$ 12,148,221
12/31/16	\$ 986,414	201.4%	\$ 10,792,270
12/31/15	\$ 960,687	413.7%	\$ 9,792,271

**Funded Status and Funding Progress**—As of June 30, 2017, the most recent actuarial valuation date, the plan was 82.7% funded. The actuarial accrued liability for the benefits was \$26.7 million and the actuarial value of assets based on market value was \$22.1 million, resulting in an unfunded accrued liability of \$4.6 million.

Actuarial accrued liability (AAL)	\$ 26,671,277
Actuarial value of plan assets (Valuation basis: Market)	22,064,073
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,607,204</u>
Funded ratio (actuarial value of plan assets/AAL)	82.7%
Annual covered payroll (active plan members)	\$ 8,958,318
UAAL as percentage of annual covered payroll	51.4%

**Actuarial Cost Method and Assumptions** – Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress – Post Retirement Welfare Benefits Trust, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits are based on the types of benefits provided under the substantive plan (the plan as understood by the employer and plan member) at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Accordingly, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Annual required contributions for the year ended December 31, 2017 and 2016, were based on the actuarial valuation as of June 30, 2016. The actuarial methods and significant assumptions used in both actuarial valuations are the same unless otherwise specified. The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees. In determining the annual required contribution, the unfunded actuarial accrued liability is amortized on an open basis as a level dollar amount over 30 years.



**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

The actuarial valuation as of June 30, 2017, assumed a 6.0% rate of return and an annual vision cost trend rate of 4%. The medical cost trend rate started at 9% in calendar year 2017, to an ultimate rate of 4.25% in 2073 and beyond. The actuarial valuation as of June 30, 2015, assumed a 6.0% rate of return and an annual vision cost trend rate of 4%. The medical cost trend rate of 4.0% in calendar year 2016, to an ultimate rate of 4.5% in 2070 and beyond.

***New Plan Update*** – 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 will contribute \$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.

**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.

**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, 2017 and 2016.

***Major Projects*** – As of December 31, 2017 the State Bar had contracts and purchase order commitments of approximately \$2.7 million dollars. The most significant include a property management services contract for approximately \$1.4 million and an Enterprise Resources and Planning System commitment of approximately \$900,000.

**12. SUBSEQUENT EVENT**

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 page is intentionally left blank.*

**THE STATE BAR OF CALIFORNIA**  
**REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Schedule of Pension Liability**

Measurement Period Ended June 30	<u>2017</u>	<u>2016</u>
<b>TOTAL PENSION LIABILITY</b>		
Service Cost	\$ 8,895,961	\$ 7,565,782
Interest on total pension liability	25,355,446	24,173,396
Differences between expected and actual experience	(1,780,377)	6,742,939
Changes in assumptions	21,023,063	-
Benefit payments, including refunds of employee contributions	<u>(13,722,132)</u>	<u>(12,312,756)</u>
Net change in total pension liability	39,771,961	26,169,361
Total pension liability - beginning	<u>337,792,017</u>	<u>311,622,656</u>
Total pension liability - ending	<u><u>\$ 377,563,978</u></u>	<u><u>\$ 337,792,017</u></u>

**Schedule of Plan Fiduciary Net Position – Pension**

Contributions - employer	\$ 5,519,957	\$ 4,864,102
Contributions - employee	3,697,300	3,437,015
Net investment income	31,072,914	1,591,381
Benefit payments, including refunds of employee contributions	(13,722,132)	(12,312,756)
Administrative expenses	<u>(410,263)</u>	<u>(170,929)</u>
Net change in plan fiduciary net position	26,157,776	(2,591,187)
Plan fiduciary net position - beginning	<u>277,874,507</u>	<u>280,465,694</u>
Plan fiduciary net position - ending	<u><u>\$ 304,032,283</u></u>	<u><u>\$ 277,874,507</u></u>
Net pension liability - ending	<u><u>\$ 73,531,695</u></u>	<u><u>\$ 59,917,510</u></u>
Plan fiduciary net position as a percentage of the total pension liability	80.52%	82.26%
Covered - employee payroll	\$ 50,889,313	\$ 48,452,015
Net pension liability as percentage of covered-employee payroll	144.49%	123.66%

**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, 2016 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:** In 2017, amounts reported reflect an adjustment of the discount rate from 7.65 percent to 7.15 percent. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension administrative expense).

**THE STATE BAR OF CALIFORNIA**  
**REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Schedule of Plan Contribution - Pension**

The measurement period is for the year ended December 31,

Employer Fiscal Year End	<u>2017</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 5,519,957	\$ 4,864,102
Covered-employee payroll	\$ 50,889,313	\$ 48,452,015
Contributions as a percentage of covered-employee payroll	10.85%	10.04%

**Schedule of Funding Progress – Post-Retirement Welfare Benefits Trust**

The schedule of funding progress presents a consolidated snapshot of the State Bar’s ability to meet current and future liabilities with its plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan’s level of assets to liabilities, an important indicator to determine the financial health of the pension plan. The closer the plan is to a 100% funded status; the better position it will be in to meet all of its future liabilities.

The following table shows a schedule of funding progress required under GASB Statement No. 45.

Valuation date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
January 1, 2017	\$ 26,671,277	\$ 22,064,073	\$ 4,607,204	82.7%	\$ 8,958,318	51.4%
June 30, 2015	\$ 22,645,246	\$ 18,788,226	\$ 3,857,020	83.0%	\$ 8,751,565	44.1%
June 30, 2013	\$ 25,857,708	\$ 14,251,590	\$ 11,606,118	55.1%	\$ 8,433,008	137.6%
June 30, 2011	\$ 22,669,821	\$ 14,376,544	\$ 8,293,277	63.4%	\$ 6,969,210	119.0%

**Schedule of Employer Contributions – Post-Retirement Welfare Benefits Trust**

The following table shows the Annual Required Contribution (ARC) as a percentage of the actual amount contributed to the OPEB Plan by the State Bar for the last four years.

Year Ended	Annual Required Contribution	Percent Contributed
12/31/17	\$ 839,016	272.6%
12/31/16	\$ 902,819	220.0%
12/31/15	\$ 902,819	440.2%
12/31/14	\$ 1,660,946	135.4%

**THE STATE BAR OF CALIFORNIA  
SUPPLEMENTARY INFORMATION  
PROGRAM FUNDS SCHEDULE OF NET POSITION  
DECEMBER 31, 2017**

	SF		Annual			
	General Fund	Tenant Improvement	Admissions	Meeting	Grants	Sections
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ (598,845)	\$ 2,616,474	\$ 9,952,067	\$ (17,710)	\$ 422,426	\$ 8,415,216
Investments	42,321,119	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,834,852	422,505	-	-	-	-	-
Other current assets	1,464,085	-	285,090	-	-	(5,316)
Total current assets	43,608,864	2,616,474	10,237,157	(17,710)	422,426	8,409,900
<b>Noncurrent assets</b>						
Restricted cash	4,610,000	2,495,000	-	-	-	-
Other postemployment benefits assets	12,148,221	-	-	-	-	-
Capital assets						
Nondepreciable	19,537,615	-	-	-	-	-
Depreciable, net	71,841,097	3,609,925	-	-	-	-
Total noncurrent assets	108,136,933	6,104,925	-	-	-	-
Total assets	151,745,797	8,721,399	10,237,157	(17,710)	422,426	8,409,900
Deferred outflows of resources	24,566,049	-	-	-	-	-
Total assets and deferred outflows of resources	176,311,846	8,721,399	10,237,157	(17,710)	422,426	8,409,900
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Accounts payable and other liabilities	6,172,413	33,261	255,971	-	-	66,062
Unearned fees collected in advance	9,795,579	-	5,188,153	-	-	-
Loans payable	1,539,528	869,746	-	-	-	-
Grants payable	-	-	-	-	-	-
Total current liabilities	17,507,520	903,007	5,444,124	-	-	66,062
<b>Noncurrent liabilities</b>						
Loans payable	17,050,128	7,769,456	-	-	-	-
Compensated absences	273,524	-	23,689	-	-	6,097
Net pension liability	73,531,695	-	-	-	-	-
Total noncurrent liabilities	90,855,347	7,769,456	23,689	-	-	6,097
Total liabilities	108,362,867	8,672,463	5,467,813	-	-	72,159
Deferred inflows of resources	2,305,896	-	-	-	-	-
Total liabilities and deferred inflows of resources	110,668,763	8,672,463	5,467,813	-	-	72,159
<b>NET POSITION</b>						
Restricted for:						
Enabling legislation	-	-	4,769,344	-	-	8,337,741
Other restrictions	16,533,672	2,495,000	-	-	422,426	-
Net investment in capital assets	72,789,056	(5,029,277)	-	-	-	-
Unrestricted	(23,679,645)	2,583,213	-	(17,710)	-	-
Total net position	\$ 65,643,083	\$ 48,936	\$ 4,769,344	\$ (17,710)	\$ 422,426	\$ 8,337,741

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF NET POSITION (Continued)**  
**DECEMBER 31, 2017**

	Client Security	Elimination of Bias and Bar Relations	Equal Access	Information Technology Special Assessment	Justice Gap	Lawyers Assistance Program
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 4,212,327	\$ 77,455	\$ (3,003,900)	\$ 1,225,475	\$ 3,076,604	\$ 3,876,010
Investments	-	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,834,852	-	-	11,840,581	-	-	-
Other current assets	-	-	-	-	-	22,323
Total current assets	4,212,327	77,455	8,836,681	1,225,475	3,076,604	3,898,333
Noncurrent assets						
Restricted cash	-	-	-	-	-	-
Other postemployment benefits assets	-	-	-	-	-	-
Capital assets						
Nondepreciable	-	-	-	-	-	-
Depreciable, net	-	-	-	-	-	-
Total noncurrent assets	-	-	-	-	-	-
Total assets	4,212,327	77,455	8,836,681	1,225,475	3,076,604	3,898,333
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	4,212,327	77,455	8,836,681	1,225,475	3,076,604	3,898,333
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and other liabilities	90,677	30,360	5,784,738	-	-	30,289
Unearned fees collected in advance	1,039,105	45,304	-	-	-	273,248
Loans payable	-	-	-	-	-	-
Grants payable	-	-	-	-	-	-
Total current liabilities	1,129,782	75,664	5,784,738	-	-	303,537
Noncurrent liabilities						
Loans payable	-	-	-	-	-	-
Compensated absences	9,217	-	3,056	-	-	2,912
Net pension liability	-	-	-	-	-	-
Total noncurrent liabilities	9,217	-	3,056	-	-	2,912
Total liabilities	1,138,999	75,664	5,787,794	-	-	306,449
Deferred inflows of resources	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	1,138,999	75,664	5,787,794	-	-	306,449
<b>NET POSITION</b>						
Restricted for:						
Enabling legislation	3,073,328	-	3,048,887	1,225,475	3,076,604	3,591,884
Other restrictions	-	1,791	-	-	-	-
Net investment in capital assets	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total net position	\$ 3,073,328	\$ 1,791	\$ 3,048,887	\$ 1,225,475	\$ 3,076,604	\$ 3,591,884

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF NET POSITION (Continued)**  
**DECEMBER 31, 2017**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Total
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 402,044	\$ 8,256,255	\$ 5,016,189	\$ 38,992,586	\$ 82,920,673
Investments	-	-	-	-	42,321,119
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,834,852	-	750,767	-	150,000	13,163,853
Other current assets	-	-	-	-	1,766,182
Total current assets	402,044	9,007,022	5,016,189	39,142,586	140,171,827
Noncurrent assets					
Restricted cash	-	-	-	-	7,105,000
Other postemployment benefits assets	-	-	-	-	12,148,221
Capital assets					
Nondepreciable	-	-	-	-	19,537,615
Depreciable, net	-	-	-	-	75,451,022
Total noncurrent assets	-	-	-	-	114,241,858
Total assets	402,044	9,007,022	5,016,189	39,142,586	254,413,685
Deferred outflows of resources	-	-	-	-	24,566,049
Total assets and deferred outflows of resources	402,044	9,007,022	5,016,189	39,142,586	278,979,734
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities	1,411	52,629	32,815	-	12,550,626
Unearned fees collected in advance	107,235	854,871	342,865	-	17,646,360
Loans payable	-	-	-	-	2,409,274
Grants payable	-	-	-	-	-
Total current liabilities	108,646	907,500	375,680	-	32,606,260
Noncurrent liabilities					
Loans payable	-	-	-	-	24,819,584
Compensated absences	145	4,786	3,159	-	326,585
Net pension liability	-	-	-	-	73,531,695
Total noncurrent liabilities	145	4,786	3,159	-	98,677,864
Total liabilities	108,791	912,286	378,839	-	131,284,124
Deferred inflows of resources	-	-	-	-	2,305,896
Total liabilities and deferred inflows of resources	108,791	912,286	378,839	-	133,590,020
<b>NET POSITION</b>					
Restricted for:					
Enabling legislation	293,253	8,094,736	4,637,350	39,142,586	79,291,188
Other restrictions	-	-	-	-	19,452,889
Net investment in capital assets	-	-	-	-	67,759,779
Unrestricted	-	-	-	-	(21,114,142)
Total net position	\$ 293,253	\$ 8,094,736	\$ 4,637,350	\$ 39,142,586	\$ 145,389,714

**THE STATE BAR OF CALIFORNIA  
SUPPLEMENTARY INFORMATION  
PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2017**

	General Fund	SF Tenant Improvement	Admissions	Annual Meeting	Grants	Sections
<b>OPERATING REVENUES</b>						
Licensee fees and donations	\$ 65,497,831	\$ -	\$ 794,869	\$ -	\$ -	\$ -
Examination application fees	-	-	20,077,228	-	-	-
Trust account revenue	-	-	-	-	-	-
Law practices (sections) fees	-	-	-	-	-	6,027,923
Seminar/workshop revenue	26,508	-	-	-	-	1,199,717
Advertising revenue	-	-	-	-	-	42,236
Convention income	-	-	-	275	-	460,229
Legal specialization fees	-	-	-	-	-	-
Law corporation registration fees	1,541,653	-	-	-	-	-
Continuing legal education fees	727,478	-	-	-	-	-
Grant revenue	50,000	-	-	-	13,500	-
EAF AB145 filing fee revenue	-	-	-	-	-	-
Settlement grants	-	-	-	-	-	-
Affinity Insurance revenue	1,865,401	-	-	-	-	-
Other revenue	1,727,504	-	606,901	65,102	-	952,071
<b>Total operating revenues</b>	<b>71,436,375</b>	<b>-</b>	<b>21,478,998</b>	<b>65,377</b>	<b>13,500</b>	<b>8,682,176</b>
<b>OPERATING EXPENSES</b>						
Chief Trial Counsel	40,931,692	-	-	-	-	-
State Bar Court	12,175,547	-	-	-	-	-
Attorney Regulation and Consumer Resources	4,327,641	-	-	-	-	-
Professional Competence	2,428,803	-	-	-	-	-
Probation	1,318,111	-	-	-	-	-
Mandatory Fee Arbitration	647,350	-	-	-	-	-
Judicial Evaluation	676,955	-	-	-	-	-
Commission on Access to Justice	14,651	-	-	-	-	-
Center on Access to Justice	1,557,378	-	-	-	-	-
California Young Lawyers Association	28,107	-	-	-	-	-
Communications	1,073,543	-	-	-	-	-
Governance	3,911,300	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-	-
Client Security Fund	-	-	-	-	-	-
Admissions	-	-	20,912,754	-	-	-
Grants	-	-	-	-	30,000	-
Sections	-	-	-	-	-	7,809,698
Pension Expense	12,621,428	-	-	-	-	-
General and Administration	(540,280)	-	-	5,004	13,247	-
Payment to California Lawyers Association	-	-	-	-	-	500,000
<b>Total operating expenses</b>	<b>81,172,226</b>	<b>-</b>	<b>20,912,754</b>	<b>5,004</b>	<b>43,247</b>	<b>8,309,698</b>
<b>OPERATING (LOSS)/INCOME</b>	<b>(9,735,851)</b>	<b>-</b>	<b>566,244</b>	<b>60,373</b>	<b>(29,747)</b>	<b>372,478</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>						
Investment income	437,621	24,883	77,669	4,931	-	78,737
Rental income	2,248,300	-	-	-	-	-
Interest expense on loan	(820,948)	-	-	-	-	-
<b>Total nonoperating revenues</b>	<b>1,864,973</b>	<b>24,883</b>	<b>77,669</b>	<b>4,931</b>	<b>-</b>	<b>78,737</b>
<b>(LOSS)/INCOME BEFORE TRANSFERS</b>	<b>(7,870,878)</b>	<b>24,883</b>	<b>643,913</b>	<b>65,304</b>	<b>(29,747)</b>	<b>451,215</b>
Transfers in	2,480,845	-	900	-	-	221,561
Transfers out	(4,085,833)	-	(819)	-	-	(221,126)
<b>Change in net position</b>	<b>(9,475,866)</b>	<b>24,883</b>	<b>643,994</b>	<b>65,304</b>	<b>(29,747)</b>	<b>451,650</b>
<b>NET POSITION—beginning of year</b>	<b>75,118,949</b>	<b>24,053</b>	<b>4,125,350</b>	<b>(83,014)</b>	<b>452,173</b>	<b>7,886,091</b>
<b>NET POSITION—end of year</b>	<b>\$ 65,643,083</b>	<b>\$ 48,936</b>	<b>\$ 4,769,344</b>	<b>\$ (17,710)</b>	<b>\$ 422,426</b>	<b>\$ 8,337,741</b>



**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (Continued)**  
**YEAR ENDED DECEMBER 31, 2017**

	Client Security	Elimination of Bias and Bar Relations	Equal Access	Information Technology Special Assessment	Justice Gap	Lawyers Assistance Program
<b>OPERATING REVENUES</b>						
Licensee fees and donations	\$ 7,864,484	\$ 93,025	\$ -	\$ -	\$ 1,409,276	\$ 2,064,183
Examination application fees	-	-	-	-	-	-
Trust account revenue	-	-	-	-	-	-
Law practices (sections) fees	-	-	-	-	-	-
Seminar/workshop revenue	-	5,360	-	-	-	-
Advertising revenue	-	-	-	-	-	-
Convention income	-	-	-	-	-	-
Legal specialization fees	-	-	-	-	-	-
Law corporation registration fees	-	-	-	-	-	-
Continuing legal education fees	-	5,812	-	-	-	-
Grant revenue	-	-	17,642,000	-	-	-
EAF AB145 filing fee revenue	-	-	4,433,556	-	-	-
Settlement grants	-	-	-	-	-	-
Affinity Insurance revenue	-	-	-	-	-	-
Other revenue	13,222	-	550,626	-	-	27,693
<b>Total operating revenues</b>	<b>7,877,706</b>	<b>104,197</b>	<b>22,626,182</b>	<b>-</b>	<b>1,409,276</b>	<b>2,091,876</b>
<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	-	-	-	-	-	-
California Young Lawyers Association	-	-	-	-	-	-
Communications	-	-	-	-	-	-
Governance	-	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-	1,513,551
Client Security Fund	7,882,428	-	-	-	-	-
Admissions	-	-	-	-	-	-
Grants	-	-	20,804,644	-	-	-
Sections	-	-	-	-	-	-
Pension Expense	-	-	-	-	-	-
General and Administration	-	569,059	535,999	-	9,226	-
Payment to California Lawyers Association	-	-	-	-	-	-
<b>Total operating expenses</b>	<b>7,882,428</b>	<b>569,059</b>	<b>21,340,643</b>	<b>-</b>	<b>9,226</b>	<b>1,513,551</b>
<b>OPERATING (LOSS)/INCOME</b>	<b>(4,722)</b>	<b>(464,862)</b>	<b>1,285,539</b>	<b>-</b>	<b>1,400,050</b>	<b>578,325</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>						
Investment income	48,036	1,933	10,073	8,716	17,134	29,161
Rental income	-	-	-	-	-	-
Interest expense on loan	-	-	-	-	-	-
<b>Total nonoperating revenues</b>	<b>48,036</b>	<b>1,933</b>	<b>10,073</b>	<b>8,716</b>	<b>17,134</b>	<b>29,161</b>
<b>(LOSS)/INCOME BEFORE TRANSFERS</b>	<b>43,314</b>	<b>(462,929)</b>	<b>1,295,612</b>	<b>8,716</b>	<b>1,417,184</b>	<b>607,486</b>
Transfers in	1,604,860	-	-	-	-	1,240
Transfers out	(1,116)	(15)	-	-	-	-
<b>Change in Net Position</b>	<b>1,647,058</b>	<b>(462,944)</b>	<b>1,295,612</b>	<b>8,716</b>	<b>1,417,184</b>	<b>608,726</b>
<b>NET POSITION—beginning of year</b>	<b>1,426,270</b>	<b>464,735</b>	<b>1,753,275</b>	<b>1,216,759</b>	<b>1,659,420</b>	<b>2,983,158</b>
<b>NET POSITION—end of year</b>	<b>\$ 3,073,328</b>	<b>\$ 1,791</b>	<b>\$ 3,048,887</b>	<b>\$ 1,225,475</b>	<b>\$ 3,076,604</b>	<b>\$ 3,591,884</b>

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (Continued)**  
**YEAR ENDED DECEMBER 31, 2017**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Interfund Elimination	Total
<b>OPERATING REVENUES</b>						
Licensee fees and donations	\$ 162,664	\$ 6,982,622	\$ -	\$ -	\$ -	\$ 84,868,954
Examination application fees	-	-	-	-	-	20,077,228
Trust account revenue	-	7,036,095	-	-	-	7,036,095
Law practices (sections) fees	-	-	-	-	-	6,027,923
Seminar/workshop revenue	-	-	-	-	-	1,231,585
Advertising revenue	-	-	-	-	-	42,236
Convention income	-	-	-	-	-	460,504
Legal specialization fees	-	-	554,345	-	-	554,345
Law corporation registration fees	-	-	-	-	-	1,541,653
Continuing legal education fees	-	-	11,925	-	-	745,215
Grant revenue	-	30,000	-	8,976	-	17,744,476
EAF AB145 filing fee revenue	-	-	-	-	-	4,433,556
Settlement grants	-	-	-	-	-	-
Affinity Insurance revenue	-	-	-	-	-	1,865,401
Other revenue	-	16,753	1,677	7,000	-	3,968,549
<b>Total operating revenues</b>	<b>162,664</b>	<b>14,065,470</b>	<b>567,947</b>	<b>15,976</b>	<b>-</b>	<b>150,597,720</b>
<b>OPERATING EXPENSES</b>						
Chief Trial Counsel	-	-	-	-	-	40,931,692
State Bar Court	-	-	-	-	-	12,175,547
Attorney Regulation and Consumer Resources	-	-	-	-	-	4,327,641
Professional Competence	-	-	-	-	-	2,428,803
Probation	-	-	-	-	-	1,318,111
Mandatory Fee Arbitration	-	-	-	-	-	647,350
Judicial Evaluation	-	-	-	-	-	676,955
Commission on Access to Justice	-	-	-	-	-	14,651
Center on Access to Justice	-	-	-	-	-	1,557,378
California Young Lawyers Association	-	-	-	-	-	28,107
Communications	-	-	-	-	-	1,073,543
Governance	-	-	-	-	-	3,911,300
Lawyer Assistance Program	-	-	-	-	-	1,513,551
Client Security Fund	-	-	-	-	-	7,882,428
Admissions	-	-	-	-	-	20,912,754
Grants	-	13,007,893	-	5,117,518	-	38,960,055
Sections	-	-	-	-	-	7,809,698
Pension Expense	-	-	-	-	-	12,621,428
General and Administration	419,624	1,624,499	2,074,687	145,636	-	4,856,701
Payment to California Lawyers Association	-	-	-	-	-	500,000
<b>Total operating expenses</b>	<b>419,624</b>	<b>14,632,392</b>	<b>2,074,687</b>	<b>5,263,154</b>	<b>-</b>	<b>164,147,693</b>
<b>OPERATING (LOSS)/INCOME</b>	<b>(256,960)</b>	<b>(566,922)</b>	<b>(1,506,740)</b>	<b>(5,247,178)</b>	<b>-</b>	<b>(13,549,973)</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>						
Investment income	3,684	60,553	40,557	287,025	-	1,130,713
Rental income	-	-	-	-	-	2,248,300
Interest expense on loan	-	-	-	-	-	(820,948)
<b>Total nonoperating revenues</b>	<b>3,684</b>	<b>60,553</b>	<b>40,557</b>	<b>287,025</b>	<b>-</b>	<b>2,558,065</b>
<b>(LOSS)/INCOME BEFORE TRANSFERS</b>	<b>(253,276)</b>	<b>(506,369)</b>	<b>(1,466,183)</b>	<b>(4,960,153)</b>	<b>-</b>	<b>(10,991,908)</b>
Transfers in	-	-	-	-	(4,309,406)	-
Transfers out	-	(125)	(372)	-	4,309,406	-
<b>Change in Net Position</b>	<b>(253,276)</b>	<b>(506,494)</b>	<b>(1,466,555)</b>	<b>(4,960,153)</b>	<b>-</b>	<b>(10,991,908)</b>
<b>NET POSITION—beginning of year</b>	<b>546,529</b>	<b>8,601,230</b>	<b>6,103,905</b>	<b>44,102,739</b>	<b>-</b>	<b>156,381,622</b>
<b>NET POSITION—end of year</b>	<b>\$ 293,253</b>	<b>\$ 8,094,736</b>	<b>\$ 4,637,350</b>	<b>\$ 39,142,586</b>	<b>\$ -</b>	<b>\$ 145,389,714</b>

*This page is intentionally left blank.*





*Statement of Receipts Collected and  
Expenditures of Sections and  
Report of Independent Accountants*

**The State Bar of California**

*Year Ended December 31, 2017*



## **Report of Independent Accountants**

To the Board of Trustees  
The State Bar of California

We have examined the accompanying Statement of Receipts Collected and Expenditures of the Sections of The State Bar of California (the "Statement") for the year ended December 31, 2017, and The State Bar of California's compliance with sections 6145 and 6031.5(a) of The State Bar Act.

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

In our opinion, the Statement presents, in all material respects, the receipts collected and expenditures of the Sections of The State Bar of California for the year ended December 31, 2017, and complied with sections 6145 and 6031.5(a) of The State Bar Act, based on the criteria set forth in the notes to the Statement.

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.

*Moss Adams LLP*

San Francisco, California  
April 27, 2018

**THE STATE BAR OF CALIFORNIA  
STATEMENT OF RECEIPTS COLLECTED  
AND EXPENDITURES OF SECTIONS  
YEAR ENDED DECEMBER 31, 2017**

<b>OPERATING REVENUES</b>	
Licensee fees	\$ 6,027,923
Seminar and workshop revenue	1,199,717
Continuing legal education	811,809
Advertising revenue	42,236
Convention income	460,229
Other	140,262
	<hr/>
Total operating revenues	8,682,176
 <b>NONOPERATING REVENUES</b>	
Investment income	<hr/> 78,737
	<hr/>
Total operating and nonoperating revenues	<hr/> 8,760,913
 <b>OPERATING EXPENSES</b>	
Salary and benefits	1,906,580
Travel and catering	2,349,785
Supplies and postage	212,232
Professional services	768,228
Occupancy	7,689
Telecommunications	63,411
Other outside services	736,636
Buildings and equipment	16
Other	30,498
Payment to California Lawyers Association	500,000
Indirect costs	<hr/> 1,734,623
	<hr/>
Total operating expenses	<hr/> 8,309,698
 <b>NET INCOME</b>	
	<hr/> \$ 451,215

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF RECEIPTS COLLECTED  
AND EXPENDITURES OF SECTIONS  
YEAR ENDED DECEMBER 31, 2017**

**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. Licensing by the State Bar and payment of an annual fee are required as a condition of the practice of law in the State of California.

The State Bar’s Sections are voluntary organizations of attorneys and affiliates who share an area of interest. The Sections help their members maintain expertise in their various fields of law, expand their professional contracts, and serve the profession, the public and the legal system. The State Bar’s Sections Funds account for the activities of sixteen sections, which consist of specific practice areas or areas of professional interest and provide members with a vehicle for communicating with each other, educating themselves, and commenting on relevant legislation. Each Section is governed by an executive committee of members appointed by the State Bar Board of Trustees.

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

Accounting principles generally accepted in the United States of America are applied by the State Bar in conformance with pronouncements of the Governmental Accounting Standards Board (“GASB”). Amounts in the Statement of Receipts Collected and Expenditures of Sections (“Statement”) were derived from the State Bar’s audited 2017 financial statements. This Statement presents the activity for all sixteen sections in the Sections Funds, on an accrual basis of accounting, where revenues are recognized when earned and expenses when incurred regardless of when cash is received, collected, or paid.

*Use of Estimates* – The preparation of the Statement requires management to make estimates and assumptions. Actual results could differ from those estimates. These estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period.

**2. BASIS OF PRESENTATION**

The accompanying Statement was prepared for the purpose of presenting the receipts collected and expenditures of the Sections in compliance with California Business and Professions (“B&P”) Code Sections 6145 and 6031.5. B&P Code Section 6145 requires the State Bar to contract with an independent accounting firm to audit its financial statements each fiscal year. The statute also requires that the audit should examine the receipts collected and expenditures of the State Bar Sections, to ensure that the receipts collected of the Sections are being applied, and their expenditures are being made, in compliance with subdivision (a) of Section 6031.5. Although the Statement is derived from the State Bar’s audited 2017 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 receipts collected and expenditures in conformity with accounting principles generally accepted in the United States of America.



**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE STATEMENT OF RECEIPTS COLLECTED**  
**AND EXPENDITURES OF SECTIONS**  
**YEAR ENDED DECEMBER 31, 2017**

**3. DESCRIPTION OF REVENUES**

**Revenues** – The State Bar’s Sections are funded through membership fees and revenue from seminars and workshops. Annual membership fees for each Section range from \$85 to \$95. In 2017, the Sections had approximately 60,200 members and annual revenues from member fee assessments were \$6,027,923. Other revenues include seminars and workshops revenues, online continuing legal education revenues, convention income, advertising revenue, commissions, rebates and donations, which totaled \$2,732,990 in 2017.

Since the accompanying Statement was prepared for the purpose of presenting the receipts collected and expenditures of the Sections in compliance with Code Sections 6145 and 6031.5, inter-fund transfers are not presented.

**4. INDIRECT COST ALLOCATION**

The Sections’ total operating expenses include \$1,734,623 in indirect cost allocation. The State Bar’s cost allocation methodology (CAM) distributes to individual functional programs the central administrative costs captured in the State Bar’s support and administrative cost centers including, Human Resources, Finance, Licensee Billing, Information Technology, Board of Trustees, General Services and General Counsel. The CAM consists of two key procedures: 1) identify support and administrative cost centers whose costs will be allocated; and 2) allocate the indirect cost pool to individual cost centers based on full time equivalent employees, office space occupancy, direct costs and less licensee fee revenues. A summary of the indirect cost pool, including the specific allocation bases applied to each cost category, and indirect costs allocated to Sections in 2017, is provided below:

Indirect Cost Pool	Allocation Basis	<u>2017</u> Total Indirect Cost	<u>2017</u> Allocated %	<u>2017</u> Indirect Cost Allocated to Sections
Governance - Board of Trustees	Actual Direct Costs as % of Total State Bar Direct Costs	\$ 155,800	8.375%	\$ 13,047
Governance - Appointments	Number of Appointments	100,967	42.664%	43,077
Governance - Executive Director/ Elections/Public Interest Task Force/ Class and Comp WF Planning/ORIA	Actual Direct Costs as % of Total State Bar Direct Costs	3,212,165	8.375%	269,019
Licensee Billing	Revenues	1,383,824	6.744%	93,325
Property Related-SF	Square Footage	5,438,194	8.284%	450,500
Property Related-LA	Square Footage	4,649,033	0.000%	-
General Counsel	FTEs	4,408,118	3.703%	163,228
Human Resources	FTEs	1,779,382	3.703%	65,891
Information Technology	FTEs	6,448,838	3.703%	238,800
Finance	Actual Direct Costs as % of Total State Bar Direct Costs	2,666,049	8.375%	223,282
Oracle ERP Upgrade	FTEs	700,000	3.703%	25,920
Building Improvement	Square Footage	1,235,400	8.284%	102,341
Non-Departmental **	Actual Direct Costs as % of Total Direct Bar Program Costs	551,596	8.375%	46,193
<b>Total</b>		<b>\$ 32,729,366</b>		<b>\$ 1,734,623</b>

**\*\* Non-Departmental costs include staff retirement benefit cost and chargebacks**

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF RECEIPTS COLLECTED  
AND EXPENDITURES OF SECTIONS  
YEAR ENDED DECEMBER 31, 2017**

**5. PAYMENT TO CALIFORNIA LAWYERS ASSOCIATION**

Senate Bill 36 (2017) mandated the separation of the Sections (the portion of the State Bar dedicated to providing educational programs, publications and events) from the State Bar on January 1, 2018 into an independent non-profit corporation, called the California Lawyers Association (“the CLA”). It required the State Bar to transfer the Sections’ financial reserves, contracts, and intellectual property assets to CLA and to collect ongoing membership dues on behalf of CLA. On September 6, 2017, in accordance with Senate Bill 36 (2017), the Board of Trustees authorized a partial transfer of the Sections’ financial reserves. An initial disbursement of \$500,000 was made on October 26, 2017.

**6. SUBSEQUENT EVENT**

In accordance with Senate Bill 36 (2017) on January 17 and January 31, 2018, the State Bar remitted to CLA \$1.0 million and approximately \$6.3 million, respectively, representing the Sections’ financial reserves as of December 31, 2017. See note 5 above.



×

+

—

÷



*Statement of Expenditures of  
Mandatory Fees and  
Report of Independent Accountants*

**The State Bar of California**

*Year Ended December 31, 2017*



MOSSADAMS



## **Report of Independent Accountants**

To the Boards of Trustees  
The State Bar of California

We have examined The State Bar of California's Statement of Expenditures of Mandatory Fees (the "Statement") for the year ended December 31, 2017 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, 2017, 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 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.

*Moss Adams LLP*

San Francisco, California  
April 27, 2018

**THE STATE BAR OF CALIFORNIA  
STATEMENT OF EXPENDITURES OF MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

	<u>Dollar Amount</u>	<u>Percentage of Total Program Expenses</u>
CHARGEABLE EXPENSES AND RELATED PROGRAM REVENUES:		
Chief Trial Counsel	\$ 40,931,692	57.13%
State Bar Court	12,175,547	16.99%
Member Records and Compliance	4,327,641	6.04%
Professional Competence	2,428,803	3.39%
Probation	1,318,111	1.84%
Mandatory Fee Arbitration	647,350	0.90%
Judicial Evaluation	676,955	0.94%
Commission on Access to Justice	14,651	0.02%
Center on Access to Justice	1,557,378	2.17%
California Young Lawyers Association	28,107	0.04%
Lawyer Assistance Program	1,073,543	1.50%
Client Security Fund	7,882,428	11.00%
Communication	1,513,551	2.11%
Program Revenues	(2,914,690)	-4.07%
Total Chargeable Program Expenses	<u>\$ 71,661,067</u>	<u>100.0%</u>

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF EXPENDITURES OF  
MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

**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 licensee 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 2017 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 2017 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*. 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.

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 reasonable persons may disagree whether some of these programs and activities may be chargeable under the criteria in *Keller*, the Board of Trustees has elected to make them optional in their entirety.

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF EXPENDITURES OF  
MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

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

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, 2017.

**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. Prosecute attorneys in formal disciplinary hearings in the State Bar Court for violations of the State Bar Act or Rules of Professional Conduct. Activities include, as appropriate, the preparation of formal disciplinary pleadings, conduct of formal and informal discovery, and representation of the State Bar as Trial Examiners in the actual hearings and subsequent review proceedings. (Bus. & Prof. Code §6043, 6044, 6049, 6077, 6078, 6092.5 et seq.)

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. *Members Records and Compliance*

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.



**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF EXPENDITURES OF  
MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

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

d. *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.)

e. *Probation*

The Office of Probation ("OP") monitors disciplined attorneys who have been ordered to comply with probation or reprobation 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.

f. *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 court held it is a valuable and justifiable component of a comprehensive disciplinary system. (Id., at 622.)

g. *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.

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

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF EXPENDITURES OF  
MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

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

*h. 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.) Further, this program improves the quality of legal services available to the people of California. (See *Keller*, supra, 497 U.S. at 14.)

*i. 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* (1996) 13 Cal.4th 45.)

*j. California Young Lawyers Association*

California Young Lawyers Association ("CYLA") is the nation's largest association of young lawyers. This program encompasses legal training and education, and involvement in the practice of law, all areas over which this court has inherent authority. (In re Attorney Discipline System, supra, 19 Cal.4th 582, 592 and *Warden v. State Bar* (1999) 21 Cal.4th 628, 653 [dissent opn. Kennard, J.].) This program also improves the quality of legal services available to the people of California. (See *Keller*, supra, 497 U.S. at 14.) Additionally, CYLA provides pro bono opportunities. Pro bono work is expected of attorneys. (See Bus. & Prof. Code, § 6073 and In re *Glass* (2014) 58 Cal.4th 500, 526.) Therefore, CYLA falls within the regulatory activities of the judiciary.

*k. Lawyer Assistance Program*

The Lawyer Assistance Program provides an alternative to the traditional State Bar disciplinary mechanism, with the goal of the program being the identification and rehabilitation of attorneys with impairment due to abuse of drugs or alcohol, or due to mental illness. 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.)

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF EXPENDITURES OF  
MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

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

*l. 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.)

*m. 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.

*n. General Fund Allocated Support Service*

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

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF EXPENDITURES OF  
MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

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

The 2017 State Bar of California indirect cost allocation to chargeable programs is summarized below:

General Counsel	\$ 4,408,118
Finance	2,666,049
Licensee Billing	1,383,824
Human Resources	1,779,382
General Services - Los Angeles	4,649,033
General Services - San Francisco	5,438,194
Building Improvement	1,235,400
Information Technology	6,448,838
Oracle ERP Upgrade	700,000
Governance*	3,468,932
Other - Non Departmental**	551,596
Indirect Cost Pool	<u>32,729,366</u>
Overhead Allocation to Other Programs	<u>(10,339,226)</u>
Overhead Allocation to Chargeable Program	<u><u>\$ 22,390,140</u></u>

*\*Governance includes Board of Trustees, Appointments, Office of Executive Director, Elections, Public Interest Task Force, Class and Comp WF Planning, ORIA*

*\*\*Other - Non Departmental costs include staff retirement benefit costs and chargebacks*

The amount of the Overhead Allocation to Chargeable Programs is included in the various Chargeable Program expenditures on the statement.

**o. Program Revenues**

Program revenues related to chargeable expenses from the General Fund, Building Fund, Client Security Fund, Lawyers Assistance Fund, and the Support and Administration Fund of the State Bar are held to fund the related program expenses. Program revenues for 2017 are comprised of:

Law Corporation Registration Fees	\$ 1,541,653
Continuing Legal Education Fees	727,478
Seminar/Workshop Revenue	26,508
Grant Revenue	50,000
Other	569,051
Total	<u><u>\$ 2,914,690</u></u>

**THE STATE BAR OF CALIFORNIA  
NOTES TO THE STATEMENT OF EXPENDITURES OF  
MANDATORY FEES  
YEAR ENDED DECEMBER 31, 2017**

**4. OPTIONAL DEDUCTIONS**

The State Bar sets an amount that licensees are not required to pay and may deduct from the annual licensing fees. In 2017, these deductions were \$40 for active attorneys, and an amount up to \$45 for inactive attorneys. In 2017, there was no fee bill. Under the interim special regulatory assessment ordered by the Supreme Court of California, this amount included \$5 fixed by the court for legislative and related activities for inactive attorneys only; and \$40 set by the court for the Temporary Emergency Legal Services Voluntary Assistance Option for both active and inactive attorneys. Funding for elimination of bias as part of licensing fees was suspended under the assessment. These deductions are allowed for the following activities:

a. *Lobbying*

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

In 2018, under the new fee bill, the \$5 deduction was reinstated to include both active and inactive attorneys.

b. *Elimination of Bias*

Funding for elimination of bias as part of licensing fees was suspended under the assessment in 2017 for both active and inactive attorneys. In the prior year, licensees could deduct \$5 from the annual fee which would otherwise fund the elimination of bias program to eliminate bias in the judicial system and legal profession and to increase participation of attorneys who have been underrepresented in the administration and government of the State Bar's programs and activities, such as women, ethnic minority, gay, lesbian, and disabled attorneys, and will not fund the cost of communicating and maintaining relations with local bars and other voluntary associations. In 2018, under the new fee bill, the deduction was reinstated for both active and inactive attorneys at a reduced level of \$2. The reduction reflects the closing of the Bar Relations program.

c. *Legal Services Voluntary Assistance Option*

In 2017, licensees were allowed to deduct \$40 from the annual licensing fee, which would otherwise fund the Legal Service Trust Fund Program to support nonprofit organizations that provide free civil legal services to low-income Californians. (Bus. & Prof. Code §6140.03.)

