



# The State Bar of California

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## **OPEN SESSION AGENDA ITEM APRIL 2021 AUDIT COMMITTEE III.C**

**DATE:** April 28, 2021

**TO:** Members, Audit Committee

**FROM:** Wallace Tang, Chief Financial Officer

**SUBJECT:** Annual Financial Statement Audit Pursuant to Business and Professions Code Section 6145(a) Including Legal Services Trust Fund Report under Business and Professions Code Section 6222: (1) Presentation by Independent Auditors Macias Gini & O'Connell, (2) Review of Financial Statements and (3) Authorization for Submission by Staff to the Legislature and Supreme Court

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### **EXECUTIVE SUMMARY**

Each fiscal year the State Bar contracts with an independent accounting firm to conduct an audit of the State Bar's financial statements. The Audit Committee has responsibility to review the results of the annual financial statement audit, the report of the auditor, and the agency response. Business and Professions Code section 6145(a) requires the statements to be sent by April 30 of each year to the Board of Trustees, the Chief Justice of the Supreme Court, and the Assembly and Senate Committees on Judiciary. Statute requires the audit report to also include information about the receipt of funds in the Legal Services Trust Fund. This agenda item presents the audit reports to the Audit Committee for review.

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### **BACKGROUND**

Business and Professions Code section 6145 requires the State Bar to employ an independent national or regional public accounting firm with at least five years of experience in governmental auditing for an audit of its financial statement for each fiscal year. The financial statement must be certified under oath by the chief financial officer of the State Bar, and a copy of the audit and financial statement submitted within 120 days of the close of the fiscal

year to the board, to the Chief Justice of the Supreme Court, and to the Assembly and Senate Committees on Judiciary.

Business and Professions Code section 6222 requires the State Bar to include in the annual report of State Bar receipts and expenditures a report of receipts of funds into the Legal Services Trust Fund, along with expenditures for administrative costs and disbursements of the funds.

The State Bar's annual financial audit was conducted by Macias Gini & O'Connell, an independent accounting firm. Macias Gini & O'Connell was appointed the State Bar's external independent auditors in September 2018. David Bullock, Partner with Macias Gini & O'Connell, met with the Audit Committee in January 2020, to discuss the scope and responsibilities of the audit for fiscal year ended December 31, 2020. On April 26, 2021, Macias Gini & O'Connell presented their final draft reports on the following financial statements:

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

The auditor's opinion on each of these financial statements is unmodified.

## **DISCUSSION**

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

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

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

This report consists of an independent auditor's report, management's discussion and analysis, the basic financial statements, the notes to the basic financial statements, and the required supplementary information.

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

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

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

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

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

Because of the deductions for the full expenses of these programs and the State Bar's policy to fund them solely with voluntary revenues received from licensees electing not to take the deductions, the statement does not present any "nonchargeable" activities that are supported by the mandatory portion of the annual licensing fees. The statement is prepared using the State Bar's most recently completed audited financial statement and shows the major categories of expenses with a brief description of each category so that each State Bar licensee may gauge whether the expense is justified under the Keller standard. An independent auditor must verify the Statement of Expenses of Mandatory Licensing Fees. The Statement of Expenses of Mandatory Licensing Fees is then published by posting on the State Bar website and notice is included in the annual licensee billing statement.

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

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

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

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

### **FISCAL/PERSONNEL IMPACT**

None

### **AMENDMENTS TO RULES OF THE STATE BAR**

None

### **AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL**

None

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

None – compliance

### **RECOMMENDATIONS**

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

**RESOLVED**, that the Audit Committee receives, reviews, and directs staff to file the State Bar's audited financial statements and related auditor's reports for the year ended December 31, 2020 with the Board of Trustees, the State Legislature and the Supreme Court.

## **ATTACHMENT(S) LIST**

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



# The State Bar *of California*

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**Title of Report:** 2020 Financial Statement and Independent Auditor's Report  
**Statutory Citation:** Business and Professions Code section 6145  
**Date of Report:** April 30, 2021

The State Bar of California is submitting its 2020 Financial Statement and Independent Auditor's Report to the Chief Justice of the California Supreme Court, and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145. This financial statement is certified under oath by the Chief Financial Officer of the State Bar.

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

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

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

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

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

Draft 4/26/2021



# The State Bar of California

## **2020 Financial Statements and Independent Auditor's Report**

**Years Ended December 31, 2020 and 2019 and Supplementary  
Information Year Ended December 31, 2020**

**April 30, 2021**

**THE STATE BAR OF CALIFORNIA**  
 Financial Statements  
 Year Ended December 31, 2020

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## **Independent Auditor's Report**

To the Board of Trustees  
The State Bar of California

We have audited the accompanying financial statements of the State Bar of California ("State Bar") as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements as listed in the table of contents.

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

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the State Bar as of December 31, 2020 and 2019, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, the schedule of plan contributions – pension, the schedule of changes in net OPEB liability (asset) and related ratios, and the schedule of contributions – OPEB Plan, identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's basic financial statements. The program funds schedule of net position and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

San Francisco, California  
April 29, 2021

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis – Unaudited  
Years Ended December 31, 2020 and 2019

## Introduction

Management's Discussion and Analysis ("MD&A") is presented as a supplement to the financial statements and is based on currently known facts, decisions, and conditions that existed as of the date of the report of independent auditors. This discussion and analysis presents the highlights of financial activities and financial position for the State Bar of California ("State Bar"). The analysis is designed to provide readers with information that the State Bar's management believes to be necessary to obtain an understanding of its financial condition, changes in financial condition, and results of operations. It is intended to help readers see the State Bar through the eyes of management. It is further designed to provide context for the financial statements and information about the State Bar's operations and cash flows. Certain 2019 and 2018 amounts have been reclassified to conform to the 2020 presentation.

## The State Bar of California

Created by the state legislature in 1927, the State Bar is a public corporation within the judicial branch of government, serving as an arm of the California Supreme Court. In 1960, California voters approved a ballot measure adding the State Bar as an entity in the State Constitution. The State Bar's programs are financed primarily by fees paid by attorneys and applicants to practice law. At the end of 2020, the State Bar had approximately 276,300 licensees, an increase of 1.2% compared to 273,100 licensees in 2019.

Licensing fees for 2020 and 2019 were allocated to the following funds:

	2020		2019	
	Active Fee	Inactive Fee	Active Fee	Inactive Fee
General Fund - Attorney Licensing	\$ 398	\$ 91	\$ 308	\$ 68
General Fund-Discipline Activity	25	25	25	25
Legal Services Trust Fund	40	40	40	40
Legislative Activity Fund	5	5	5	5
Elimination of Bias Fund	2	2	2	2
Client Security Fund	80	20	40	10
Lawyers Assistance Program Fund	1	-	10	5
Total	<u>\$ 551</u>	<u>\$ 183</u>	<u>\$ 430</u>	<u>\$ 155</u>

The State Bar's fees are set annually by the State Legislature. The assessment level reflected full support for the State Bar's core discipline functions but not other programs and activities. The 2020 statutorily approved annual fee increased to \$398 from \$308 in 2019.

## Financial Statement Overview

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

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

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis – Unaudited (Continued)  
Years Ended December 31, 2020 and 2019

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

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

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

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

Other supplementary Information – presents financial information by programs.

### Financial Highlights

The following is a summary comparison of the State Bar's Statements of Net Position as of December 31, 2020, 2019, and 2018:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Cash, cash equivalents, and investments	\$ 117,634,753	\$ 147,292,106	\$ 118,099,525
Restricted cash	2,501,761	7,105,000	7,105,000
Other assets	6,765,605	19,587,034	24,759,687
Capital assets, net	106,060,821	107,594,614	101,127,936
Deferred outflows of resources	14,705,033	9,507,406	14,602,756
Total assets and deferred outflows of resources	<u>247,667,973</u>	<u>291,086,160</u>	<u>265,694,904</u>
Current liabilities	41,491,016	49,479,126	37,141,210
Noncurrent liabilities	21,709,494	22,208,269	24,560,965
Net OPEB liability	11,616,834	-	-
Net pension liability	77,697,797	67,154,845	59,363,071
Deferred inflows of resources	2,676,079	7,703,641	10,878,281
Total liabilities and deferred inflows of resources	<u>155,191,220</u>	<u>146,545,881</u>	<u>131,943,527</u>
Net position			
Net investments in capital assets	85,958,927	85,292,229	76,308,352
Restricted for:			
Enabling legislation	60,962,604	95,756,919	72,614,976
Other restrictions	3,083,970	7,551,299	7,706,309
Unrestricted	(57,528,748)	(44,060,168)	(22,878,260)
Total net position	<u>\$ 92,476,753</u>	<u>\$ 144,540,279</u>	<u>\$ 133,751,377</u>

**THE STATE BAR OF CALIFORNIA**  
 Management's Discussion and Analysis – Unaudited (Continued)  
 Years Ended December 31, 2020 and 2019

**Fiscal Year 2020 Compared to Fiscal Year 2019**

***Assets and Deferred Outflows of Resources*** – As of December 31, 2020, the State Bar's total assets and deferred outflows of resources were \$247.7 million, down by \$43.4 million or 14.9% compared to \$291.1 million last year. The decrease is primarily due to a \$29.7 million decrease in investments, which resulted from decreases in trust fund revenues and the planned spend down of investments. Other changes include a \$1.5 million decrease in the capital assets, a \$12.8 million decrease in other assets due to a change in OPEB to a liability balance in 2020 compared to an asset balance in 2019; offset \$5.2 million increase in deferred outflows of resources from pension and other postemployment benefits items.

The State Bar records deferred outflows of resources in its financial statements for consumption of net pension assets that is applicable to future reporting periods. This balance consisted of actuarially determined deferred outflows of resources as it relates to both pension reporting under Governmental Accounting Standards Board (GASB) Statement 68 (GASB 68) and other postemployment benefits reporting under GASB Statement 75 (GASB 75). As of December 31, 2020, the deferred outflows of resources were \$14.7 million, increased by \$5.2 million compared to \$9.5 million last year. See accompanying notes 8 and 9 to the financial statements for additional information.

***Liabilities and Deferred Inflows of Resources*** – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned fees collected in advance, grants payable, loans payable, net OPEB liability, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 and GASB 75 items. As of December 31, 2020, State Bar's total liabilities and deferred inflows of resources were \$155.2 million, increased by \$8.7 million or 5.9% compared to \$146.5 million last year. The increase is due primarily to a \$11.6 million increase in net OPEB liability and a \$10.5 million increase in net pension liability; partially offset by a \$5.0 million decrease in deferred inflows of resources from GASB 68 and GASB 75 items. In current liabilities, the change of \$7.9 million is primarily due to a \$5.9 million decrease in unearned fees collected in advance and a \$1.4 million decrease in account payable and other liabilities.

The State Bar's total pension liability as of December 31, 2020 was \$424.8 million and the plan fiduciary net position was \$347.1 million resulting in a net pension liability of \$77.7 million, or 18.3% of the total pension liability. Compared to the \$67.2 million net pension liability in 2019, the 2020 net pension liability increased by \$10.6 million or 15.7%.

Deferred inflows of resources as of December 31, 2020 are \$2.7 million, representing an decrease of \$5.0 million compared to \$7.7 million last year. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension under GASB 68 and other postemployment benefits under GASB 75. See accompanying notes 8 and 9 to the financial statements for additional information.

***Net Position*** – The State Bar's total net position as of December 31, 2020 is \$92.5 million, down by \$52.0 million or 36.0% compared to \$144.5 million in 2019. 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 \$39.3 million or 38.0% from \$103.3 million in 2019 to \$64.0 million in 2020. The decrease is due largely to a \$34.8 million decrease in enabling legislation and a \$4.5 million decrease in other restrictions.

**THE STATE BAR OF CALIFORNIA**  
 Management's Discussion and Analysis – Unaudited (Continued)  
 Years Ended December 31, 2020 and 2019

***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 \$0.7 million or 0.8% from \$85.3 million in 2019 to \$86.0 million in 2020. The net increase is primarily due to capitalization of new software and tenant and leasehold improvements, and loan repayments and partially offset by normal depreciation of capital assets.

***Unrestricted Net Position*** – The part of net assets/liabilities that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2020, the unrestricted net position was negative \$57.5 million, a decrease of \$13.5 million or 30.6% compared to \$44.1 million negative unrestricted net position in 2019. The change is substantially due to the OPEB expense of \$23 million.

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

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

The State Bar records deferred outflows of resources in its financial statements for consumption of net pension assets that is applicable to future reporting periods. This balance consisted of actuarially determined deferred outflows of resources as it relates to both pension reporting under Governmental Accounting Standards Board (GASB) Statement 68 (GASB 68) and other postemployment benefits reporting under GASB Statement 75 (GASB 75). As of December 31, 2019, the deferred outflows of resources were \$9.5 million, decreased by \$5.1 million compared to \$14.6 million last year. See accompanying notes 8 and 9 to the financial statements for additional information.

***Liabilities and Deferred Inflows of Resources*** – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned fees collected in advance, grants payable, loans payable, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 and GASB 75 items. As of December 31, 2019, State Bar's total liabilities and deferred inflows of resources were \$146.5 million, increased by \$14.6 million or 11% compared to \$131.9 million last year. The increase is due primarily to a \$12.4 million increase in current liabilities and \$7.8 million increase in net pension liability; partially offset by a \$3.2 million decrease in deferred inflows of resources from GASB 68 and GASB 75 items. In current liabilities, the increase of \$13.6 million in unearned revenue is the direct result of the increase in the annual license fee and additional grant revenue received in 2019 that was for 2020.

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

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

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis – Unaudited (Continued)  
Years Ended December 31, 2020 and 2019

**Net Position** – The State Bar's total net position as of December 31, 2019 is \$144.5 million, up by \$10.8 million or 8.1% compared to \$133.8 million in 2018. The increase represents the excess of revenues over expenses from various programs. The components of net position are:

**Restricted Net Position** – The part of net position that is subject to internal constraints and external constraints imposed by grantors, or law through constitutional provisions or enabling legislation increased by \$23 million or 28.6% from \$80.3 million in 2018 to \$103.3 million in 2019. The increase is due largely to a \$23.1 million increase in enabling legislation and a \$0.1 million decrease in other restrictions.

**Net Investments in Capital Assets** – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets increased by \$9.0 million or 11.8% from \$76.3 million in 2018 to \$85.3 million in 2019. The net increase is primarily due to capitalization of new software and tenant and leasehold improvements, and loan repayments and partially offset by normal depreciation of capital assets.

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

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis – Unaudited (Continued)  
Years Ended December 31, 2020 and 2019

**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, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
OPERATING REVENUES			
Program revenues	\$ 181,058,075	\$ 197,994,963	\$ 159,196,676
Other revenue	2,927,488	5,200,331	4,692,425
Total operating revenues	<u>183,985,563</u>	<u>203,195,294</u>	<u>163,889,101</u>
OPERATING EXPENSES			
Program expenses	217,230,472	187,165,226	153,597,426
Unallocated Pension expense	3,338,775	8,956,392	5,492,536
General and administration	21,452,203	3,175,817	7,367,657
Payment to California Lawyers Association	-	-	8,337,741
Total operating expenses	<u>242,021,450</u>	<u>199,297,435</u>	<u>174,795,360</u>
OPERATING (LOSS) INCOME	(58,035,887)	3,897,859	(10,906,259)
NONOPERATING REVENUES	5,972,361	6,891,043	3,369,629
Special item - OPEB change in benefit terms	-	-	10,325,826
	<u>(52,063,526)</u>	<u>10,788,902</u>	<u>2,789,196</u>
CHANGE IN NET POSITION			
NET POSITION - beginning of year	144,540,279	133,751,377	145,389,714
Restatement: GASB 75 implementation (OPEB)	-	-	(14,427,533)
NET POSITION - end of year	<u>\$ 92,476,753</u>	<u>\$ 144,540,279</u>	<u>\$ 133,751,377</u>

**Fiscal Year 2020 Compared to Fiscal Year 2019**

**Operating and NonOperating Revenues** – For the year ended December 31, 2020, the State Bar's total operating and non-operating revenues were \$190.0 million, down by \$20.1 million or 9.6% compared to \$210.1 million in 2019. The decrease is due largely to a \$20.2 million decrease in trust account revenue because of falling rates; a \$19.1 million decrease in grant revenue; and a \$2.3 million decrease in other revenue; offset by a \$23.6 million increase in licensee fees.

**Operating Expenses** – For fiscal year 2020, the State Bar's total operating expenses were \$242.0 million, an increase of \$42.7 million or 21.4% from \$199.3 million last year. The increase is due largely to an \$18.2 million increase in general and administration expense due to the State Bar amending the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank and file employees effective January 1, 2020 (see note 9); a decrease of \$5.6 million in unallocated pension expense; a \$30.0 million increase in program expenses attributed to a \$19.9 million increase in grants expense; a \$7.7 million increase in Chief Trial Counsel; and a \$5.2 million increase in Client Security Fund (the "CSF") due to an increase in payouts in 2020; offset by a \$2.2 million decrease in admissions.



**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis – Unaudited (Continued)  
Years Ended December 31, 2020 and 2019

Operating Expenses by Natural Classification	2020	2019	Increase (Decrease)
Personnel cost	\$ 104,595,513	\$ 76,839,410	\$ 27,756,103
Grant expense	91,412,469	71,483,139	19,929,330
Employer pension contribution	6,903,561	5,335,907	1,567,654
Unallocated Pension Expense	3,338,775	8,956,392	(5,617,617)
Other postemployment benefits	-	1,150,166	(1,150,166)
Supplies	774,915	1,145,303	(370,388)
Professional services	5,872,112	4,802,642	1,069,470
Examination	5,558,667	5,500,925	57,742
CSF Disbursement	11,746,722	6,893,011	4,853,711
Training & travel	596,362	1,590,332	(993,970)
Building operations	5,090,459	6,167,279	(1,076,820)
Outside services	2,172,777	4,419,780	(2,247,003)
Other	3,959,118	5,013,149	(1,054,031)
Total expenses by natural classification	<u>\$ 242,021,450</u>	<u>\$ 199,297,435</u>	<u>\$ 42,724,015</u>

### Fiscal Year 2019 Compared to Fiscal Year 2018

**Operating and NonOperating Revenues** – For the year ended December 31, 2019, the State Bar's total operating and non-operating revenues were \$211.1 million, up by \$43.8 million or 22.2% compared to \$167.3 million in 2018. The increase is due largely to a \$25.5 million increase in trust account revenue because of rising interest rates; a \$14.9 million increase in grant revenue; a \$1.2 million increase in rental income; and a \$2.0 million increase in net affinity insurance revenue; offset by a \$1.3 million decrease in licensee fees, reflecting fewer late penalties.

**Operating Expenses** – For fiscal year 2019, the State Bar's total operating expenses were \$199.3 million, an increase of \$24.5 million or 13.6% from \$174.8 million last year. The increase is due largely to a \$22.1 million increase in grants expense; a \$8.3 million increase in Chief Trial Counsel; a \$2.3 million increase in admissions; and a \$3.5 million increase in unallocated pension expense; offset by a \$2.3 million decrease in Client Security Fund (the "CSF") payouts in 2019; \$8.3 million decrease in payment to California Lawyers Association; and a \$4.1 million decrease in general and administration expense.

### Economic Factors Facing the State Bar

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

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis – Unaudited (Continued)  
Years Ended December 31, 2020 and 2019

Effective January 1, 2020, the State Bar amended the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank and file employees. Funding for retiree health benefits was included in the approved fee bill for 2020. Prior to the amendment, the State Bar's Plan was 157% funded and had a \$10.2 million Net OPEB Asset as of June 30, 2019, which helps support the change in retiree health benefits for rank and file employees. With the change, the net OPEB liability was increased to \$11.6 million as of January 1, 2020, which is an increase of \$21.8 million. The annual actuarially determined contribution is \$3.6 million and will be primarily funded by a \$17 increase in the active license fee annually.

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

The 2020 Final Budget has total revenue of \$211.9 million with expenses of \$242.5 million. The budget utilizes \$30.6 million in reserves for planned spend downs in the Bank Settlement Fund, Equal Access Fund, Legal Services Trust Fund, and Lawyers Assistance Program. The 2021 General Fund budget projects \$94.9 million in revenue with total expenses and indirect charges of \$96.2 million. General Fund expenses will exceed revenues by approximately \$1.3 million, bringing operating reserves to \$11.3 million. The \$1.3 million deficit includes a one-time use of reserves of \$1.7 million for enhancements for the State Bar's Case Management System (CMS).

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

### **Financial Contact**

The State Bar's financial statements are designed to present readers with a general overview of the State Bar's finances and to demonstrate the State Bar's accountability. If you have any questions about the report or need additional financial information, please contact the State Bar's Chief Financial Officer, Wallace Tang at [wallace.tang@calbar.ca.gov](mailto:wallace.tang@calbar.ca.gov).

**THE STATE BAR OF CALIFORNIA**  
**Business-Type Activity – Enterprise Fund**  
**Statements of Net Position**  
**As of December 31, 2020 and 2019**

	2020	2019
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 85,128,603	\$ 81,067,136
Investments	32,506,150	66,224,970
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,867,889 in 2020 and 2019	3,764,139	6,496,311
Other current assets	3,001,466	2,874,930
Total current assets	<u>124,400,358</u>	<u>156,663,347</u>
Noncurrent assets		
Restricted cash	2,501,761	7,105,000
Net OPEB asset	-	10,215,793
Capital assets		
Nondepreciable	19,537,615	19,537,615
Depreciable, net	86,523,206	88,056,999
Total noncurrent assets	<u>108,562,582</u>	<u>124,915,407</u>
Total assets	<u>232,962,940</u>	<u>281,578,754</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension items	10,324,431	9,056,541
Other postemployment benefits items	4,380,602	450,865
Total deferred outflows of resources	<u>14,705,033</u>	<u>9,507,406</u>
Total assets and deferred outflows of resources	<u>247,667,973</u>	<u>291,086,160</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and other liabilities	10,553,616	11,930,862
Unearned fees collected in advance	28,978,619	34,918,299
Loans payable	1,958,781	2,629,965
Total current liabilities	<u>41,491,016</u>	<u>49,479,126</u>
Noncurrent liabilities		
Loans payable	18,143,113	19,672,420
Compensated absences, noncurrent portion	3,566,381	2,535,849
Net OPEB liability	11,616,834	-
Net pension liability	77,697,797	67,154,845
Total noncurrent liabilities	<u>111,024,125</u>	<u>89,363,114</u>
Total liabilities	<u>152,515,141</u>	<u>138,842,240</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension items	1,685,878	7,622,166
Other postemployment benefits items	990,201	81,475
Total deferred inflows of resources	<u>2,676,079</u>	<u>7,703,641</u>
Total liabilities and deferred inflows of resources	<u>155,191,220</u>	<u>146,545,881</u>
<b>NET POSITION</b>		
Net investments in capital assets	85,958,927	85,292,229
Restricted for:		
Enabling legislation	60,962,604	95,756,919
Other restrictions	3,083,970	7,551,299
Unrestricted	<u>(57,528,748)</u>	<u>(44,060,168)</u>
Total net position	<u>\$ 92,476,753</u>	<u>\$ 144,540,279</u>

**THE STATE BAR OF CALIFORNIA**  
**Business-Type Activity – Enterprise Fund**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
<b>OPERATING REVENUES</b>		
Licensee fees and donations	\$ 110,370,126	\$ 86,765,558
Examination application fees	20,135,282	19,167,933
Trust account revenue	26,276,804	46,454,116
Seminar/workshop revenue	3,320	47,789
Legal specialization fees	2,163,811	2,204,755
Law corporation registration fees	1,843,213	2,059,509
Continuing legal education fees	736,993	923,122
Grant revenue	16,390,081	35,508,001
EAF AB145 filing fee revenue	3,138,445	4,864,180
Other revenue	2,927,488	5,200,331
Total operating revenues	<u>183,985,563</u>	<u>203,195,294</u>
<b>OPERATING EXPENSES</b>		
Chief Trial Counsel	60,998,440	53,219,213
State Bar Court	13,670,988	13,290,841
Attorney Regulation and Consumer Resources	5,411,806	5,806,587
Professional Competence	2,707,582	3,074,341
Probation	1,968,949	1,713,928
Mandatory Fee Arbitration	12,317	80,938
Judicial Evaluation	380,425	400,019
Commission on Access to Justice	-	7,141
Center on Access to Justice	856,445	1,805,813
Communications	997,826	895,980
Governance	3,608,942	3,360,368
Lawyer Assistance Program	2,199,397	2,092,933
Client Security Fund	13,827,903	8,538,317
Admissions	19,176,983	21,395,668
Grants	91,412,469	71,483,139
Unallocated Pension expense	3,338,775	8,956,392
General and administration	21,452,203	3,175,817
Total operating expenses	<u>242,021,450</u>	<u>199,297,435</u>
<b>OPERATING (LOSS) INCOME</b>	<u>(58,035,887)</u>	<u>3,897,859</u>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Investment income	2,591,296	4,525,160
Rental income	4,220,797	3,391,708
Interest expense on loan	<u>(839,732)</u>	<u>(1,025,825)</u>
Total nonoperating revenues and expenses	<u>5,972,361</u>	<u>6,891,043</u>
<b>CHANGE IN NET POSITION</b>	<u>(52,063,526)</u>	<u>10,788,902</u>
<b>NET POSITION—beginning of year</b>	<u>144,540,279</u>	<u>133,751,377</u>
<b>NET POSITION—end of year</b>	<u>\$ 92,476,753</u>	<u>\$ 144,540,279</u>

**THE STATE BAR OF CALIFORNIA**  
**Business-Type Activity – Enterprise Fund**  
**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from members, applicants, grants, and other professionals	\$ 180,778,055	\$ 225,237,175
Payments to suppliers and service providers	(145,974,210)	(120,975,197)
Payments to employees	(69,598,975)	(69,119,694)
Net cash provided by (used in) operating activities	<u>(34,795,130)</u>	<u>35,142,284</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of investments	53,802,091	40,665,318
Purchases of investments	(19,865,705)	(34,059,989)
Interest received from investments	2,373,730	3,354,602
Cash received from rental incomes	4,220,797	3,391,708
Net cash provided by investing activities	<u>40,530,913</u>	<u>13,351,639</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(3,237,332)	(10,323,547)
Payment of obligations under loan agreement	(2,200,491)	(2,517,199)
Interest paid on debt	(839,732)	(1,025,825)
Net cash used in capital and related financing activities	<u>(6,277,555)</u>	<u>(13,866,571)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(541,772)	34,627,352
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	88,172,136	53,544,784
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u><u>\$ 87,630,364</u></u>	<u><u>\$ 88,172,136</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating Income (loss)	\$ (58,035,887)	\$ 3,897,859
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,771,125	3,856,869
Changes in assets and liabilities:		
Net pension liability	10,542,952	7,791,774
Deferred outflows and inflows of resources related to pension items	(7,204,178)	1,164,618
Net OPEB liability / (asset)	21,832,627	(2,211,424)
Deferred outflows and inflows of resources related to OPEB items	(3,021,011)	756,092
Accounts and other receivables	2,732,172	8,457,940
Other current assets	(126,536)	(1,073,863)
Accounts payable and other liabilities	(346,714)	(1,081,522)
Unearned fees collected in advance	(5,939,680)	13,583,941
Net cash provided by (used in) operating activities	<u><u>\$ (34,795,130)</u></u>	<u><u>\$ 35,142,284</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>		
Cash and cash equivalents	\$ 85,128,603	\$ 81,067,136
Restricted cash	2,501,761	7,105,000
Total cash and cash equivalents	<u><u>\$ 87,630,364</u></u>	<u><u>\$ 88,172,136</u></u>

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements  
 Years Ended December 31, 2020 and 2019

## 1. DESCRIPTION OF ENTITY

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

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

## 2. BASIS OF PRESENTATION

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

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

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

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

**Admissions Fund** – The Admissions Fund accounts for fees and expenses related to administering the bar examination and other requirements for the admission to the practice of law in the State of California.

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

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

**Client Security Fund** – The Client Security Fund maintains funds from which licensees' clients can be reimbursed for pecuniary losses resulting from dishonest conduct on the part of their attorneys. Such reimbursement is discretionary and, currently, is not to exceed \$100,000 per application for reimbursement on any one transaction, as prescribed by the Board of Trustees. Obligations are accrued in the statement of net position based on final approved applications by the Client Security Fund Commission. For 2020 bill year, this fund is replenished through annual assessments of \$80 per active member and \$20 per inactive member.

**Elimination of Bias Fund** – The Elimination of Bias Fund (formerly Elimination of Bias and Bar Relations) supports certain programs similar to those once undertaken by Access & Inclusion, Program Development, and Bar Relations Offices. In the 2020 and 2019 bill years, the deduction for the remaining Elimination of Bias program was reset to \$2 by the Board of Trustees.

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

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

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

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

**Lawyers Assistance Program Fund** – The Lawyers Assistance Program Fund was established for the protection of the public, the courts and the legal profession by providing education, remedial, and rehabilitative programs to those licensees of the State Bar who are in need of assistance as a result of disability related to substance abuse or mental illness. This fund is replenished through annual assessments of \$1 per active licensee and \$0 per inactive licensee. There was a fee holiday to spend down reserves.

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

***Legislative Activities Fund*** – The Legislative Activities Fund accounts for the consideration of measures that are deemed outside the parameters established in Keller vs. the State Bar, the purview determination and any litigation in support or defense of that lobbying. Such activities are funded by licensees electing to support these activities.

***Legal Services Trust Fund*** – The Legal Services Trust Fund is used to expand the availability and improve the quality of existing free legal services in civil matters to indigent persons and to initiate new programs that would provide such services. Under this program, interest earned on certain client trust accounts held by California attorneys is legally required to be forwarded to the State Bar and, after deduction of the State Bar’s administrative costs, the remainder is to be distributed as grants. In addition, the Trust Fund is supplemented by an increase in the annual fee mandated by Section 6140.03 of the Business and Professions Code. Section 6140.3 allocated \$40 of the licensee fee to the Trust Fund. Under the legislation, licensees may elect to reduce their fees by this amount if they choose not to support the activities authorized under this bill.

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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



**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019

**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 deposits with Bank of America N.A. as a debt service reserve fund, which is classified as restricted cash.

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

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

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

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

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

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

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

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

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

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

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

***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 1,609 applications pending for processing as of December 31, 2020, in the amount of \$35.7 million, and for December 31, 2019, there were 2,381 pending applications in the amount of \$47.7 million. As of December 31, 2020 and 2019, estimated application payout amounts were \$11.7 million and \$7.0 million, respectively, based on a rolling average of 24 months' historical applications payout ratio of 40.8% in 2020 and 35.4% in 2019. Cash and investments available for application reimbursement in the CSF were approximately \$2.5 million and \$0.02 million as of December 31, 2020 and 2019, respectively.

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

***Restricted Net Position*** – Restricted net position reflects the net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, trust agreements, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Restricted net position was \$61.0 million as of December 31, 2020, of which \$73.0 million was restricted by enabling legislation; and \$103.3 million as of December 31, 2019, of which \$95.8 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 \$57.5 million as of December 31, 2020, and negative \$44.1 million as of December 31, 2019.

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

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

***Effects of New Pronouncements*** - During the year ended December 31, 2020, the State Bar implemented the following GASB Statements:

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019

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

***GASB Statement No. 95*** – In May 2020, GASBB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement's objective was to provide temporary relief to governments and other stakeholders in the light of Covid-19 pandemic by postponing the effective date of certain provisions in Statements and Implementation Guides by 12-18 months.

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

***GASB Statement No. 87*** – In June 2017, GASB issued Statement No. 87 – *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 is effective for the State Bar's year ending December 31, 2022.

***GASB Statement No. 89*** – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expenditure/expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. GASB 89 is effective for the State Bar's year ending December 31, 2021.

***GASB Statement No. 91*** – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 91 is effective for the State Bar's year ending December 31, 2021.

***GASB Statement No. 92*** – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. This statement will enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 92 is effective for the State Bar's year ending December 31, 2022.

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

***GASB Statement No. 93*** – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement will provide guidance to some governments that have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) - most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. GASB 93 is effective for the State Bar's year ending December 31, 2022, except for paragraph 11b that is effective for the State Bar's year ending December 31, 2023.

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

***GASB Statement No. 96*** – In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement establishes standards of accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by a government. The new standard is effective for periods beginning after June 15, 2022. GASB 96 is effective for the State Bar's year ending December 31, 2023.

***GASB Statement No. 97*** – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – and amended of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 and enhances the accounting and financial reporting of IRS Code section 457 plans that meet the definition of a pension plan. The new standard is effective for periods beginning after June 15, 2021. GASB 97 is effective for the State Bar's year ending December 31, 2022.

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

Cash, cash equivalents, and investments as of December 31, 2020 and 2019 are classified in the financial statements as follows:

	2020	2019
Cash and cash equivalents	\$ 85,128,603	\$ 81,067,136
Investments	32,506,150	66,224,970
Restricted cash	2,501,761	7,105,000
Totals	<u>\$ 120,136,514</u>	<u>\$ 154,397,106</u>

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

**Cash and Cash Equivalents** – Cash and cash equivalents are generally considered short-term, highly liquid investments with maturity of three months or less from the purchase date. As of December 31, 2020, the carrying amount of the State Bar’s unrestricted deposits is \$85,128,603 and the bank balance is \$86,753,037. As of December 31, 2019, the carrying amount of the State Bar’s unrestricted deposits is \$81,067,136 and the bank balance is \$81,850,955. At December 31, 2020 and 2019, the State Bar had restricted deposits held by the bank in the amount of \$2,501,761 and \$7,105,000, respectively. The difference between the carrying amount and the bank balance represents outstanding checks and deposits in transit. The State Bar’s deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation and the balance in excess of \$250,000 is fully collateralized per Government Code.

The State Bar invests in LAIF. LAIF is part of the State of California Pooled Money Investment Account (“PMIA”). The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. PMIA is not SEC-registered and is not rated, but is required to invest according to the California State Government Code. The Local Investment Advisory Board, which consists of five members designated by state statutes, has oversight responsibility for LAIF.

As of December 31, 2020, the PMIA balance is \$107.4 billion, of which 100% is invested in nonderivative financial products with 3.28% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$34.0 billion, and the State Bar’s investment in LAIF is \$75.3 million. The average maturity of PMIA investments is 165 days as of December 31, 2020. As of December 31, 2019, the PMIA balance is \$88.9 billion, of which 100% is invested in nonderivative financial products with 2.79% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$26.7 billion, and the State Bar’s investment in LAIF is \$65.2 million. The average maturity of PMIA investments is 226 days as of December 31, 2019.

The State Bar’s pooled cash and cash equivalents at December 31, 2020 and 2019 is composed of:

	2020	2019
LAIF	\$ 75,261,861	\$ 65,224,363
Money Market	-	6,035,826
Other Cash	9,866,742	9,806,947
Restricted cash	2,501,761	7,105,000
Totals	<u>\$ 87,630,364</u>	<u>\$ 88,172,136</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.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019

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

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

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

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

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

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

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

The fair value measurements of investments for December 31, 2020 and 2019 are as follows:

Description	12/31/2020	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Government agencies	\$ 11,957,360	\$ -	\$ 11,957,360	\$ -
Municipal bond	4,407,184	-	4,407,184	-
Corporate bonds	15,994,131	-	15,994,131	-
Common stock	147,475	147,475	-	-
Total investments measured at fair value	<u>\$ 32,506,150</u>	<u>\$ 147,475</u>	<u>\$ 32,358,675</u>	<u>\$ -</u>

Description	12/31/2019	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Government agencies	\$ 33,781,431	\$ -	\$ 33,781,431	\$ -
Municipal bond	4,324,358	-	4,324,358	-
Corporate bonds	19,022,938	-	19,022,938	-
Commercial paper	8,936,160	8,936,160	-	-
Common stock	160,083	160,083	-	-
Total investments measured at fair value	<u>\$ 66,224,970</u>	<u>\$ 9,096,243</u>	<u>\$ 57,128,727</u>	<u>\$ -</u>

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

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

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



**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

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

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total State Bar's investments subject to concentration of credit risk at December 31, 2020 and 2019, are as follows:

<b>Issuer</b>	<b>Investment Type</b>	<b>2020</b>	<b>Percentage</b>
		<b>Fair Value</b>	<b>of Portfolio</b>
Federal Home Loan Bank	U.S government agencies	\$ 6,826,950	21.0%
Federal Home Loan Mortgage Corp	U.S government agencies	3,108,030	9.6%
Federal Farm Credit Bank	U.S government agencies	2,022,380	6.2%
State of California	Municipal Bonds	3,111,421	9.6%
Apple Inc	Corporate Bonds	6,457,305	19.9%
Toyota Motor Credit Corp	Corporate Bonds	3,248,295	10.0%
Microsoft Corp	Corporate Bonds	3,146,500	9.7%
Chevron Corp	Corporate Bonds	3,142,031	9.7%

  

<b>Issuer</b>	<b>Investment Type</b>	<b>2019</b>	<b>Percentage</b>
		<b>Fair Value</b>	<b>of Portfolio</b>
Federal Home Loan Bank	U.S government agencies	\$ 25,592,422	38.6%
Federal Farm Credit Bank	U.S government agencies	5,130,449	7.7%
MUFG Bank Ltd	Commercial Paper	5,953,470	9.0%
Microsoft Corp	Corporate Bonds	6,275,813	9.5%
Apple Inc	Corporate Bonds	6,264,469	9.5%

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The terms of a debt investment may cause its fair value to be highly sensitive to changes in interest rates. Fixed income security investments subject to interest rate risk at December 31, 2020 and 2019, 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, 2020</b>			
U.S. Government agencies	\$ 11,957,360	37.0%	1.40
Municipal bond	4,407,184	13.6%	2.20
Corporate bonds	15,994,131	49.4%	1.00
	<u>\$ 32,358,675</u>	<u>100.0%</u>	
<b>December 31, 2019</b>			
U.S. Government agencies	\$ 33,781,431	51.1%	1.2
Municipal bond	4,324,358	6.5%	2.8
Corporate bonds	19,022,938	28.8%	0.4
Commercial paper	8,936,160	13.5%	1.7
	<u>\$ 66,064,887</u>	<u>100.0%</u>	

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

Fixed income securities investments that are subject to credit risk at December 31, 2020 and 2019, are as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Fair Value</u>	<u>Fair Value As of a % of Fixed Income Securities</u>	<u>Fair Value</u>	<u>Fair Value As of a % of Fixed Income Securities</u>
<b>S&amp;P's Rating</b>				
AAA	\$ 3,146,500	9.7%	\$ 6,275,813	9.5%
AA+	18,414,665	56.9%	40,213,873	60.9%
AA	3,142,031	9.7%	5,962,260	9.0%
AA-	4,407,184	13.6%	10,639,041	16.1%
A+	3,248,295	10.0%	-	0.0%
A	-	0.0%	2,973,900	4.5%
<b>Total fixed income securities</b>	<u>\$ 32,358,675</u>	<u>100.0%</u>	<u>\$ 66,064,887</u>	<u>100.0%</u>

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**5. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2020 and 2019, are as follows:

	<b>Balance January 1, 2020</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2020</b>
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	92,064,703	1,071,048	-	93,135,751
180 Howard Tenant Improvements	15,169,707	161,233	-	15,330,940
Equipment and software	18,209,607	2,005,051	-	20,214,658
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	130,956,116	3,237,332	-	134,193,448
Less accumulated depreciation for:				
Buildings and leasehold improvements	(27,191,100)	(1,222,186)	-	(28,413,286)
180 Howard Tenant Improvements	(2,588,432)	(1,626,683)	-	(4,215,115)
Equipment and software	(9,142,167)	(1,538,588)	-	(10,680,755)
Furniture and fixtures	(3,977,418)	(383,668)	-	(4,361,086)
Total accumulated depreciation	(42,899,117)	(4,771,125)	-	(47,670,242)
Total capital assets, being depreciated, net	88,056,999	(1,533,793)	-	86,523,206
Capital assets, net	\$ 107,594,614	\$ (1,533,793)	\$ -	\$ 106,060,821
	<b>Balance January 1, 2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2019</b>
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	88,601,937	3,462,766	-	92,064,703
180 Howard Tenant Improvements	11,645,162	3,524,545	-	15,169,707
Equipment and software	14,873,371	3,336,236	-	18,209,607
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	120,632,569	10,323,547	-	130,956,116
Less accumulated depreciation for:				
Buildings and leasehold improvements	(24,806,313)	(2,384,787)	-	(27,191,100)
180 Howard Tenant Improvements	(2,113,009)	(475,423)	-	(2,588,432)
Equipment and software	(8,563,571)	(578,596)	-	(9,142,167)
Furniture and fixtures	(3,559,355)	(418,063)	-	(3,977,418)
Total accumulated depreciation	(39,042,248)	(3,856,869)	-	(42,899,117)
Total capital assets, being depreciated, net	81,590,321	6,466,678	-	88,056,999
Capital assets, net	\$ 101,127,936	\$ 6,466,678	\$ -	\$ 107,594,614

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**5. CAPITAL ASSETS (Continued)**

Depreciation expense for the years ended December 31, 2020 and 2019 was \$4,771,125 and \$3,856,869, respectively.

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, 2020, are as follows:

Year Ending December 31:	Future Minimum Revenue	
	San Francisco	Los Angeles
2021	\$ 2,328,595	\$ 396,656
2022	2,196,490	396,656
2023	2,261,743	406,572
2024	1,717,838	456,154
2025	1,455,621	456,154
Thereafter	6,166,128	3,208,286
	<u>\$ 16,126,415</u>	<u>\$ 5,320,478</u>

**6. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

At December 31, 2020 and 2019, accounts payable and other current liabilities consisted of the following:

	2020	2019
Accounts Payable	\$ 3,552,671	\$ 4,434,410
Compensated absences, current portion	2,377,587	1,690,568
Other liabilities	4,623,358	5,805,884
Total accounts payable and other liabilities	<u>\$ 10,553,616</u>	<u>\$ 11,930,862</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:

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020	Amount Due Within One Year
Compensated absences	\$ 4,226,417	\$ 5,064,021	\$(3,346,471)	\$ 5,943,967	\$ 2,377,587

  

	Balance January 1, 2019	Additions	Reductions	Balance December 31, 2019	Amount Due Within One Year
Compensated absences	\$ 3,764,301	\$ 5,097,141	\$(4,635,025)	\$ 4,226,417	\$ 1,690,568

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019

## 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. On October 1, 2020, the State Bar refinanced its Bank of America Loan Agreement and entered into a new Loan Agreement in the amount of \$14,197,000 with Sterling National Bank for the purpose of refinancing the costs of purchasing real property located at 845 South Figueroa Street, Los Angeles. The loan bears a tax-exempt fixed rate of 2.3% per year and is due on December 30, 2035, with a quarterly payment of approximately \$277,000. The prior Loan Agreement with Bank of America bore a tax-exempt fixed rate of 4.26% per year and was due on November 1, 2027, with a monthly payment of \$191,802. The loan agreement contained certain covenants, including the maintenance of a \$4.6 million deposit as debt service reserve fund, which was reported as restricted cash on the accompanying Statement of Net Position and the covenant requirement was eliminated upon refinancing. The loan balance of \$14,193,280 with Bank of America was fully paid off in October 2020 as a result of the refinancing with Sterling National Bank. As of December 31, 2020 and 2019 the outstanding loan balance was \$14,197,000 and \$15,443,719, 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, 2020 and 2019, the outstanding loan balance of the San Francisco loan was \$5,904,894 and \$6,858,666, respectively.

	<u>San Francisco</u>	<u>Los Angeles</u>	<u>Total</u>
Term loan - Bank of America, December 31, 2019	\$ 6,858,666	\$ 15,443,719	\$ 22,302,385
Additions	-	14,197,000	14,197,000
Repayments	<u>(953,772)</u>	<u>(15,443,719)</u>	<u>(16,397,491)</u>
Balance as of December 31, 2020	<u>\$ 5,904,894</u>	<u>\$ 14,197,000</u>	<u>\$ 20,101,894</u>
Current loan payable	\$ 998,781	\$ 960,000	\$ 1,958,781
Noncurrent loan payable	<u>4,906,113</u>	<u>13,237,000</u>	<u>18,143,113</u>
Balance as of December 31, 2020	<u>\$ 5,904,894</u>	<u>\$ 14,197,000</u>	<u>\$ 20,101,894</u>
Term loan - Bank of America, December 31, 2018	\$ 7,769,457	\$ 17,050,127	\$ 24,819,584
Additions	-	-	-
Repayments	<u>(910,791)</u>	<u>(1,606,408)</u>	<u>(2,517,199)</u>
Balance as of December 31, 2019	<u>\$ 6,858,666</u>	<u>\$ 15,443,719</u>	<u>\$ 22,302,385</u>
Current loan payable	\$ 953,772	\$ 1,676,193	\$ 2,629,965
Noncurrent loan payable	<u>5,904,894</u>	<u>13,767,526</u>	<u>19,672,420</u>
Balance as of December 31, 2019	<u>\$ 6,858,666</u>	<u>\$ 15,443,719</u>	<u>\$ 22,302,385</u>

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**7. LOANS PAYABLE (Continued)**

The annual repayment schedule as of December 31, 2020, is as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,958,781	\$ 564,230
2022	1,856,915	502,193
2023	1,925,272	434,010
2024	1,995,959	363,078
2025	2,486,967	293,296
Thereafter	9,878,000	2,074,723
Total	<u>\$ 20,101,894</u>	<u>\$ 4,231,530</u>

***Loan Covenant, Events of Default, Termination Events and Acceleration Clauses*** - The State Bar's loan agreement contains certain covenants that include the maintenance of \$7.1 million deposits with Bank of America, N.A. as debt service reserve funds as of December 31, 2019. As a result of the refinancing of Los Angeles loan in October 2020, the covenant requirement for the related debt service fund of \$4.6 million was eliminated and the remaining covenant requirement for the San Francisco loan related debt service fund was \$2.5 million as of December 31, 2020.

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

**8. PENSION PLAN**

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

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**8. PENSION PLAN (Continued)**

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members who are hired prior to January 1, 2013, with five years of total service are eligible to retire at age 50 and members who were hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52. As of June 30, 2019, the most recent information available, the State Bar’s pension plan included 538 active employees, 455 inactive employees entitled to but not yet receiving benefits, and 553 inactive employees or beneficiaries currently receiving benefits. All members are eligible for non-duty disability benefits after 10 years of service.

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

The Plan’s provisions and benefits in effect at December 31, 2020 and 2019, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.0%	7.25%
Required employer contribution rates - 1/1/2019 to 6/30/2019	15.017%	15.017%
Required employer contribution rates - 7/1/2019 to 6/30/2020	17.720%	17.720%
Required employer contribution rates - 7/1/2020 to 12/31/2020	19.176%	19.176%

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

**Net Pension Liability** – The net pension liability for the Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. For the year ended December 31, 2020, the total pension liability for the Plan is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020 using standard procedures. For the year ended December 31, 2019, the total pension liability for the Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019 using standard procedures.

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**8. PENSION PLAN (Continued)**

**Actuarial assumptions** – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2020 and 2019 are as follows:

Valuation Date	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost	
Actuarial Assumptions:		
Discount Rate	7.15%	
Inflation	2.50%	
Payroll Growth	2.75%	
Projected Salary Increase	Varies by entry age and service	
Post Retirement Benefit Increase	(1)	
Mortality	Derived using CalPERS' membership data for all Funds (2)	

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

All other actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the results of the CalPERS 2017 experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the experience study can be found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability as of June 30, 2020 and 2019 was 7.15 percent for the Plan. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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



**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**8. PENSION PLAN (Continued)**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The long-term expected real rates of return by asset class and the target allocation adopted by the CalPERS Board for the actuarial valuation of June 30, 2019 and 2018 are as follows:

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

(a) An expected inflation of 2.00% used for this period.

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

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**8. PENSION PLAN (Continued)**

Changes in the Net Pension Liability – The changes in the Net Pension Liability for the Plan for the year ended December 31, 2020 and 2019 are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2019</b>	<b>\$ 402,882,958</b>	<b>\$ 335,728,113</b>	<b>\$ 67,154,845</b>
<b>Changes in the year:</b>			
Service cost	8,917,807.00	-	8,917,807
Interest on the total pension liability	28,675,153	-	28,675,153
Differences between actual and expected experience	3,117,562	-	3,117,562
Contribution - employer	-	9,733,180	(9,733,180)
Contribution - employee	-	4,418,214	(4,418,214)
Net investment income	-	16,489,470	(16,489,470)
Administrative expenses	-	(473,294)	473,294
Benefit payments, including refunds of employee contributions	(18,816,672)	(18,816,672)	-
<b>Net changes</b>	<b>21,893,850</b>	<b>11,350,898</b>	<b>10,542,952</b>
<b>Balance at June 30, 2020</b>	<b>\$ 424,776,808</b>	<b>\$ 347,079,011</b>	<b>\$ 77,697,797</b>

  

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

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**8. PENSION PLAN (Continued)**

*Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions* – For the years ended December 31, 2019 and 2018, the State Bar recognized pension expense of \$13,343,787 and \$17,341,376, respectively. Deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ (1,295,638)
Differences between actual and expected experience	4,185,917	(390,240)
Contributions made after the measurement date: June 30, 2020	3,016,270	-
Net differences between projected and actual earning on plan investments	3,122,244	-
Total	<u>\$ 10,324,431</u>	<u>\$ (1,685,878)</u>

  

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

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic manner. At December 31, 2020 and 2019, the State Bar reported \$3,016,270 and \$2,744,437, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction related to net pension liability in the year ending December 31, 2021 and 2020, respectively.

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

**8. PENSION PLAN (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension as of December 31, 2020 will be recognized as pension expense as follows:

Year Ending December 31	
2021	\$ (675,814)
2022	2,629,472
2023	2,210,126
2024	1,458,499
	<u>\$ 5,622,283</u>

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

	1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
As of December 31, 2020			
Plan's net pension liability	\$ 131,832,413	\$ 77,697,797	\$ 32,622,469
As of December 31, 2019			
Plan's net pension liability	\$ 119,157,587	\$ 67,154,845	\$ 23,941,172

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

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

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

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

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

On an ongoing basis, the State Bar makes annual transfers to the CERBT to pay its Actuarially Determined Contribution as determined by the State Bar’s actuary. CalPERS issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERBT financial report, which may be obtained from CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811

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 \$139 per month for 2020, but is adjusted by CalPERS on an annual basis. As of 2020, the State Bar contributes \$139 per month toward eligible retirees’ purchase of medical insurance coverage. The State Bar may, however, at its sole discretion and as part of its annual budgeting process, adjust upward the amount it contributes towards eligible retirees’ purchase of medical insurance coverage beyond the statutory PEMHCA minimum. As of December 31, 2020, the OPEB Plan included 537 active participants and 118 retirees receiving benefits.

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

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

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

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

The State Bar pays monthly vision plan premiums for Executives who are eligible for the Vision coverage in the amount of \$15.40, \$22.34, and \$40.06 for retiree, couple, and family, respectively.

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

**Net OPEB Liability (Asset) and assumptions:** The net OPEB liability (asset) for the OPEB Plan is measured as the total OPEB liability, less the OPEB plan’s fiduciary net position. For the year ended December 31, 2020 and 2019, the total OPEB liability for the OPEB Plan is measured as of June 30, 2020 and 2019, respectively, using an annual actuarial valuation as of January 1, 2020 rolled forward to June 30, 2020 and January 1, 2018 rolled forward to June 30, 2019 using standard procedures.

The total OPEB liability in the January 1, 2019 and 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.50%
Healthcare Trend Rate	Trend assumption based on the "Getsen" model developed by the Society of Actuaries. Assumed the vision cost would increase at a rate of 3.00% per year. Assumed the PEMCHA minimum contribution would grow with general medical inflation, and assumed the medical CPI to be 3.00% in 2019 per year and 3.25% per year in 2018.
Mortality	CalPERS Mortality rates which include 15 years of projected on-going improvement using 90 percent of scale MP-16.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return</b>
Global Equity	22%	7.86%
U.S. Fixed Income	49%	6.24%
Treasury Inflation-Protected Securities	16%	3.51%
Real Estate Investment Trusts	8%	7.55%
Commodities	5%	5.26%
Total	100%	

2020 - Expected Geometric Return (5.0 yrs) 5.98%

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

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

Changes in the Net OPEB Liability (Asset): The changes in the net OPEB liability (asset) of the OPEB Plan, measured as of June 30, 2020 and 2019 are as follows:

	Increase (Decrease)		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability (Asset)</b>
<b>Balance at June 30, 2019</b>	<u>\$ 17,841,028</u>	<u>\$ 28,056,821</u>	<u>\$ (10,215,793)</u>
<b>Changes in the year:</b>			
Service cost	580,569	-	580,569
Interest on the total OPEB liability	1,071,758	-	1,071,758
Changes in benefit terms or plan changes	23,750,838	-	23,750,838
Differences between actual and expected experience	267,916	-	267,916
Changes in assumptions	(943,036)	-	(943,036)
Benefit payments	(1,133,033)	(1,133,033)	-
Contributions from employer	-	1,133,033	(1,133,033)
Net investment income	-	1,776,547	(1,776,547)
Administrative expenses	-	(14,162)	14,162
<b>Net changes</b>	<u>23,595,012</u>	<u>1,762,385</u>	<u>21,832,627</u>
<b>Balance at June 30, 2020</b>	<u>\$ 41,436,040</u>	<u>\$ 29,819,206</u>	<u>\$ 11,616,834</u>

  

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

**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

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

	<b>1% Decrease in Discount Rate 5.00%</b>	<b>Current Discount Rate 6.00%</b>	<b>1% Increase in Discount Rate 7.00%</b>
Net OPEB Liability (Asset) for December 31, 2020	\$ 17,424,747	\$ 11,616,834	\$ 6,796,298
Net OPEB Liability (Asset) for December 31, 2019	\$ (7,961,058)	\$ (10,215,793)	\$ (12,109,242)

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

	<b>1% Decrease in Healthcare Cost Trend Rate 5.00%</b>	<b>Current in Healthcare Cost Trend Rate 6.00%</b>	<b>1% Increase in Healthcare Cost Trend Rate 7.00%</b>
Net OPEB Liability (Asset) for December 31, 2020	\$ 5,777,068	\$ 11,616,834	\$ 18,886,135
Net OPEB Liability (Asset) for December 31, 2019	\$ (12,517,151)	\$ (10,215,793)	\$ (7,429,778)

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB -*** Most changes in the net OPEB liability are included in OPEB expense in the year of change, including changes resulting from current-period service cost, interest on the total OPEB liability, changes in benefit terms, and projected earnings on the OPEB plan’s investments. Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in the future as OPEB expense. OPEB expense for the years ended December 31, 2020 and 2019 was \$23,636,305 and \$52,523, respectively.



**THE STATE BAR OF CALIFORNIA**  
 Business-Type Activity – Enterprise Fund  
 Notes to the Financial Statements (Continued)  
 Years Ended December 31, 2020 and 2019

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

As of fiscal year ended December 31, 2020, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 238,081	\$ -
Changes of assumptions	-	(838,021)
Net difference between projected and actual earnings	-	(152,180)
Contributions made subsequent to measurement date	4,142,521	-
Total	<u>\$ 4,380,602</u>	<u>\$ (990,201)</u>

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

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

At December 31, 2020 and 2019, the State Bar reported \$4,142,521 and \$450,865, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction (addition) to the net OPEB liability (asset) during the fiscal year ending December 31, 2021 and 2020, respectively. Other amounts reported as deferred inflows of resources related to OPEB as of December 31, 2020 will be recognized as OPEB expense as follows:

<u>Year Ending December 31,</u>	<u>Deferred (Inflows) and Outflows of Resources</u>
2021	\$ (98,031)
2022	(98,031)
2023	(162,946)
2024	(93,892)
2025	(75,180)
Thereafter	(224,040)
	<u>\$ (752,120)</u>

**10. RISK MANAGEMENT**

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

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019

## 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, 2020 and 2019.

**Major Projects** – As of the first quarter of 2021, the State Bar had contracts and purchase order commitments for major projects of approximately \$2.1 million. Those commitments consist of \$0.8 million for purchase of laptops, \$0.4 million for ongoing ERP system support, and \$0.9 million for several maintenance/support projects for Case Management and Admissions.

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

## 12. SUBSEQUENT EVENT

After December 31, 2020, and before the issuance of financial statements dated April 29, 2021, the State Bar has evaluated subsequent events and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**THE STATE BAR OF CALIFORNIA**  
**Schedules of Changes in Net Pension Liability and Related Ratios (Unaudited)**  
**As of December 31, 2020**  
**Last 10 Years\***

Measurement Period Ended June 30	2020	2019	2018	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>							
Service Cost	\$ 8,917,807	\$ 8,457,483	\$ 8,413,051	\$ 8,895,961	\$ 7,565,782	\$ 7,286,606	\$ 7,138,657
Interest on total pension liability	28,675,153	27,203,790	25,675,376	25,355,446	24,173,396	22,279,424	20,821,887
Differences between expected and actual experience	3,117,562	4,632,331	(3,317,028)	(1,780,377)	6,742,939	1,619,738	-
Changes in assumptions	-	-	(11,012,926)	21,023,063	-	(5,466,470)	-
Changes in benefits	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(18,816,672)	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net change in total pension liability	21,893,850	22,249,276	3,069,704	39,771,961	26,169,361	14,650,568	17,871,937
Total pension liability - beginning	402,882,958	380,633,682	377,563,978	337,792,017	311,622,656	296,972,088	279,100,151
Total pension liability - ending	<u>\$ 424,776,808</u>	<u>\$ 402,882,958</u>	<u>\$ 380,633,682</u>	<u>\$ 377,563,978</u>	<u>\$ 337,792,017</u>	<u>\$ 311,622,656</u>	<u>\$ 296,972,088</u>
<b>PLAN FIDUCIARY NET POSITION</b>							
Contributions - employer	\$ 9,733,180	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102	\$ 4,167,567	\$ 4,166,043
Contributions - employee	4,418,214	3,793,577	3,726,557	3,697,300	3,437,015	3,387,652	3,262,781
Net investment income	16,489,470	20,781,606	25,383,692	31,072,914	1,591,381	6,203,991	41,450,031
Benefit payments, including refunds of employee contributions	(18,816,672)	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net Plan to Plan Resource Movement	-	745	(745)	-	-	-	-
Administrative expenses	(473,294)	(229,266)	(473,766)	(410,263)	(170,929)	(316,734)	-
Other Miscellaneous Income/(Expense)	-	-	(899,690)	-	-	-	-
Net change in plan fiduciary net position	11,350,898	14,457,502	17,238,328	26,157,776	(2,591,187)	2,373,746	38,790,248
Plan fiduciary net position - beginning	335,728,113	321,270,611	304,032,283	277,874,507	280,465,694	278,091,948	239,301,700
Plan fiduciary net position - ending	<u>\$ 347,079,011</u>	<u>\$ 335,728,113</u>	<u>\$ 321,270,611</u>	<u>\$ 304,032,283</u>	<u>\$ 277,874,507</u>	<u>\$ 280,465,694</u>	<u>\$ 278,091,948</u>
Net pension liability - ending	<u>\$ 77,697,797</u>	<u>\$ 67,154,845</u>	<u>\$ 59,363,071</u>	<u>\$ 73,531,695</u>	<u>\$ 59,917,510</u>	<u>\$ 31,156,962</u>	<u>\$ 18,880,140</u>
Plan fiduciary net position as a percentage of the total pension liability	81.71%	83.33%	84.40%	80.52%	82.26%	90.00%	93.64%
Covered - employee payroll	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071	\$ 50,889,313	\$ 48,452,015	\$ 47,369,513	\$ 43,282,954

**Notes to Schedule:**

**Benefit Changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2019 valuation date. This applies for voluntary benefit changes as well as any offers of two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes of Assumptions:** During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50% to 7.65%. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65% to 7.15%. During measurement period 2018, the demographic

assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There is no change in assumptions during measurement period 2019 and 2020.

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

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

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**THE STATE BAR OF CALIFORNIA**  
**Schedule of Plan Contributions - Pension (Unaudited)**  
**As of December 31, 2020**  
**Last 10 Years \***

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

**Notes to Schedule**

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended June 30, 2020 was derived from the June 30, 2017 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of payroll
Asset Valuation Method	15 year smooth market
Inflation	2.625%
Payroll Growth	2.875%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.25% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 20174 CalPERS Experience Study for the period 1997 to 2
Mortality	Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

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

**THE STATE BAR OF CALIFORNIA**  
**Schedules of Changes in Net OPEB Liability (Asset) and Related Ratios (Unaudited)**  
**As of December 31, 2020**  
**Last 10 Years\***

<b>Measurement Period Ended June 30</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Total OPEB Liability</b>			
Service cost	\$ 580,569	\$ 547,707	\$ 489,826
Interest on total OPEB liability	1,071,758	1,043,546	1,611,348
Differences between actual and expected experience	267,916	-	-
Changes of assumptions	(943,036)	-	-
Changes of benefit terms	23,750,838	-	(10,325,826)
Benefits payments, including refunds of employee contributions	(1,133,033)	(1,172,820)	(1,418,516)
<b>Net change in total OPEB liability</b>	<b>23,595,012</b>	<b>418,433</b>	<b>(9,643,168)</b>
<b>Total OPEB liability - beginning</b>	<b>17,841,028</b>	<b>17,422,595</b>	<b>27,065,763</b>
<b>Total OPEB liability - ending</b>	<b>41,436,040</b>	<b>17,841,028</b>	<b>17,422,595</b>
<b>Plan fiduciary net position</b>			
Contributions - Employer	1,133,033	1,922,820	2,168,516
Net investment income	1,776,547	1,892,678	1,111,880
Benefits payments, including refunds of employee contributions	(1,133,033)	(1,172,820)	(1,418,516)
Administrative expense	(14,162)	(12,821)	(12,109)
<b>Net change in plan fiduciary net position</b>	<b>1,762,385</b>	<b>2,629,857</b>	<b>1,849,771</b>
<b>Plan fiduciary net position - beginning</b>	<b>28,056,821</b>	<b>25,426,964</b>	<b>23,577,193</b>
<b>Plan fiduciary net position - ending</b>	<b>29,819,206</b>	<b>28,056,821</b>	<b>25,426,964</b>
<b>Plan net OPEB liability (asset) - ending</b>	<b>\$ 11,616,834</b>	<b>\$ (10,215,793)</b>	<b>\$ (8,004,369)</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>72.0%</b>	<b>157.3%</b>	<b>145.9%</b>
<b>Covered-employee payroll</b>	<b>\$ 54,145,762</b>	<b>\$ 50,333,174</b>	<b>\$ 49,538,071</b>
<b>Plan net OPEB (Asset) as a percentage of covered-employee payroll</b>	<b>21.45%</b>	<b>-20.30%</b>	<b>-16.16%</b>

**Notes to Schedule:**

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

**Changes in benefit terms** - During Measurement Period 2018, the State Bar transitioned its health coverage to CalPERS health. Effective January 1, 2020, the State Bar updated the post-employment retiree health benefits for confidential, non-executive represented, judges and executive employees resulting in a \$23.7 million change.

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



**THE STATE BAR OF CALIFORNIA**  
**Schedules of Contribution - OPEB Plan (Unaudited)**  
**As of December 31, 2020**  
**Last 10 Years \***

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution**	\$ 3,660,000	\$ -	\$ -
Contributions	<u>4,603,702</u>	<u>1,150,166</u>	<u>2,179,258</u>
Contribution deficiency (excess)	<u>\$ (943,702)</u>	<u>\$ (1,150,166)</u>	<u>\$ (2,179,258)</u>
Covered payroll (measurement period ended June 30)	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071
Contribution as a percentage of covered-employee payroll	8.5%	2.3%	4.4%

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

\*\* The Actuarially Determined Contribution (ADC) is equal to the service cost plus an amortization of unfunded liability / (plan surplus) over 15 years.

**SUPPLEMENTARY INFORMATION**

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**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2020**

	General Fund	SF Tenant Improvement	Admissions	Grants	Client Security
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 14,151,218	\$ 2,799,304	\$ 13,901,549	\$ 255,287	\$ 4,429,545
Investments	32,506,150	-	-	-	-
Accounts and other receivables, net	1,174,659	-	-	-	-
Other current assets	2,764,227	-	5,604	-	-
Total current assets	<u>50,596,254</u>	<u>2,799,304</u>	<u>13,907,153</u>	<u>255,287</u>	<u>4,429,545</u>
Noncurrent assets					
Restricted cash	6,761	2,495,000	-	-	-
Capital assets					
Nondepreciable	19,537,615	-	-	-	-
Depreciable, net	86,523,206	-	-	-	-
Total noncurrent assets	<u>106,067,582</u>	<u>2,495,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>156,663,836</u>	<u>5,294,304</u>	<u>13,907,153</u>	<u>255,287</u>	<u>4,429,545</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension items	10,324,431	-	-	-	-
Other postemployment benefits items	4,380,602	-	-	-	-
Total deferred outflows of resources	<u>14,705,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>171,368,869</u>	<u>5,294,304</u>	<u>13,907,153</u>	<u>255,287</u>	<u>4,429,545</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities	9,914,946	-	225,296	2,741	84,300
Unearned fees collected in advance	20,705,825	-	2,778,314	-	1,987,502
Loans payable	960,000	998,781	-	-	-
Total current liabilities	<u>31,580,771</u>	<u>998,781</u>	<u>3,003,610</u>	<u>2,741</u>	<u>2,071,802</u>
Noncurrent liabilities					
Loans payable	13,237,000	4,906,113	-	-	-
Compensated absences	3,017,858	-	337,944	4,111	126,451
Net OPEB liability	11,616,834	-	-	-	-
Net pension liability	77,697,797	-	-	-	-
Total noncurrent liabilities	<u>105,569,489</u>	<u>4,906,113</u>	<u>337,944</u>	<u>4,111</u>	<u>126,451</u>
Total liabilities	<u>137,150,260</u>	<u>5,904,894</u>	<u>3,341,554</u>	<u>6,852</u>	<u>2,198,253</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension items	1,685,878	-	-	-	-
Other postemployment benefits items	990,201	-	-	-	-
Total deferred inflows of resources	<u>2,676,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>139,826,339</u>	<u>5,904,894</u>	<u>3,341,554</u>	<u>6,852</u>	<u>2,198,253</u>
<b>NET POSITION</b>					
Net investments in capital assets	91,863,821	(5,904,894)	-	-	-
Restricted for:					
Enabling legislation	-	-	10,565,599	-	2,231,292
Other restrictions	6,761	2,495,000	-	248,435	-
Unrestricted	<u>(60,328,052)</u>	<u>2,799,304</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 31,542,530</u>	<u>\$ (610,590)</u>	<u>\$ 10,565,599</u>	<u>\$ 248,435</u>	<u>\$ 2,231,292</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2020**

	Elimination of Bias	Equal Access	Information Technology Special Assessment	Justice Gap Fund	Lawyers Assistance Program
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 418,182	\$ 2,650,648	\$ 6,224	\$ 4,130,398	\$ 2,006,307
Investments	-	-	-	-	-
Accounts and other receivables, net	-	98,934	-	-	291,916
Other current assets	-	-	-	-	14,967
Total current assets	418,182	2,749,582	6,224	4,130,398	2,313,190
Noncurrent assets					
Restricted cash	-	-	-	-	-
Net OPEB asset	-	-	-	-	-
Capital assets					
Nondepreciable	-	-	-	-	-
Depreciable, net	-	-	-	-	-
Total noncurrent assets	-	-	-	-	-
Total assets	418,182	2,749,582	6,224	4,130,398	2,313,190
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	-
Other postemployment benefits items	-	-	-	-	-
Total deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	418,182	2,749,582	6,224	4,130,398	2,313,190
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities	-	272,989	-	-	27,120
Unearned fees collected in advance	84,408	-	-	292,037	523,555
Loans payable	-	-	-	-	-
Total current liabilities	84,408	272,989	-	292,037	550,675
Noncurrent liabilities					
Loans payable	-	-	-	-	-
Compensated absences	-	-	-	-	40,680
Net pension liability	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	40,680
Total liabilities	84,408	272,989	-	292,037	591,355
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	-
Other postemployment benefits items	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
Total liabilities and deferred inflows of resources	84,408	272,989	-	292,037	591,355
<b>NET POSITION</b>					
Net investments in capital assets	-	-	-	-	-
Restricted for:					
Enabling legislation	-	2,476,593	6,224	3,838,361	1,721,835
Other restrictions	333,774	-	-	-	-
Unrestricted	-	-	-	-	-
Total net position	\$ 333,774	\$ 2,476,593	\$ 6,224	\$ 3,838,361	\$ 1,721,835

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2020**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Grand Total
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 555,971	\$ 23,961,507	\$ 6,215,676	\$ 9,354,871	\$ 85,128,603
Investments	-	-	-	-	32,506,150
Accounts and other receivables, net	-	2,490,546	-	-	3,764,139
Other current assets	-	-	-	216,668	3,001,466
Total current assets	555,971	26,452,053	6,215,676	9,571,539	124,400,358
Noncurrent assets					
Restricted cash	-	-	-	-	2,501,761
Capital assets					
Nondepreciable	-	-	-	-	19,537,615
Depreciable, net	-	-	-	-	86,523,206
Total noncurrent assets	-	-	-	-	108,562,582
Total assets	555,971	26,452,053	6,215,676	9,571,539	232,962,940
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	10,324,431
Other postemployment benefits items	-	-	-	-	4,380,602
Total deferred outflows of resources	-	-	-	-	14,705,033
Total assets and deferred outflows of resources	555,971	26,452,053	6,215,676	9,571,539	247,667,973
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities	3,241	19,349	3,634	-	10,553,616
Unearned fees collected in advance	197,375	1,845,005	564,598	-	28,978,619
Loans payable	-	-	-	-	1,958,781
Total current liabilities	200,616	1,864,354	568,232	-	41,491,016
Noncurrent liabilities					
Loans payable	-	-	-	-	18,143,113
Compensated absences	4,862	29,024	5,451	-	3,566,381
Net OPEB asset	-	-	-	-	11,616,834
Net pension liability	-	-	-	-	77,697,797
Total noncurrent liabilities	4,862	29,024	5,451	-	111,024,125
Total liabilities	205,478	1,893,378	573,683	-	152,515,141
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	1,685,878
Other postemployment benefits items	-	-	-	-	990,201
Total deferred inflows of resources	-	-	-	-	2,676,079
Total liabilities and deferred inflows of resources	205,478	1,893,378	573,683	-	155,191,220
<b>NET POSITION</b>					
Net investments in capital assets	-	-	-	-	85,958,927
Restricted for:					
Enabling legislation	350,493	24,558,675	5,641,993	9,571,539	72,991,558
Other restrictions	-	-	-	-	3,083,970
Unrestricted	-	-	-	-	(69,557,702)
Total net position	\$ 350,493	\$ 24,558,675	\$ 5,641,993	\$ 9,571,539	\$ 92,476,753

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses and Changes in Net Position**  
**December 31, 2020**

	General Fund	SF Tenant Improvement	Admissions	Grants	Client Security
<b>OPERATING REVENUES</b>					
Licensee fees and donations	\$ 83,989,829	\$ -	\$ 886,663	\$ -	\$ 15,976,423
Examination application fees	-	-	20,135,282	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	3,320	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	1,843,213	-	-	-	-
Continuing legal education fees	728,087	-	-	-	-
Grant revenue	-	-	-	131,693	-
EAF AB145 filing fee revenue	-	-	-	-	-
Other revenue	1,599,948	-	910,984	-	7,049
Total operating revenues	88,164,397	-	21,932,929	131,693	15,983,472
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	60,998,440	-	-	-	-
State Bar Court	13,670,988	-	-	-	-
Attorney Regulation and Consumer Resources	5,411,806	-	-	-	-
Professional Competence	2,707,582	-	-	-	-
Probation	1,968,949	-	-	-	-
Mandatory Fee Arbitration	12,317	-	-	-	-
Judicial Evaluation	380,425	-	-	-	-
Center on Access to Justice	856,445	-	-	-	-
Communications	997,826	-	-	-	-
Governance	3,608,942	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-
Client Security Fund	-	-	-	-	13,827,903
Admissions	-	-	19,176,983	-	-
Grants	-	-	-	-	-
Unallocated Pension expense	3,338,775	-	-	-	-
General and administration	16,594,293	-	-	39,035	-
Total operating expenses	110,546,788	-	19,176,983	39,035	13,827,903
OPERATING INCOME (LOSS)	(22,382,391)	-	2,755,946	92,658	2,155,569
<b>NONOPERATING REVENUES AND EXPENSES</b>					
Investment income	856,452	16,218	218,355	-	53,304
Rental income	4,220,797	-	-	-	-
Interest expense on loan	(569,295)	(270,437)	-	-	-
Total nonoperating revenues and expenses	4,507,954	(254,219)	218,355	-	53,304
INCOME/(LOSS) BEFORE TRANSFERS	(17,874,437)	(254,219)	2,974,301	92,658	2,208,873
Transfer in	785,594	-	-	-	5,310
Transfer out	(62,059)	-	(826,491)	-	(2,485)
CHANGE IN NET POSITION	(17,150,902)	(254,219)	2,147,810	92,658	2,211,698
NET POSITION—beginning of year	48,693,432	(356,371)	8,417,789	155,777	19,594
NET POSITION - end of year	\$ 31,542,530	\$ (610,590)	\$ 10,565,599	\$ 248,435	\$ 2,231,292

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses and Changes in Net Position**  
**December 31, 2020**

	Elimination of Bias	Equal Access	Information Technology Special Assessment	Justice Gap Fund	Lawyers Assistance Program
<b>OPERATING REVENUES</b>					
Licensor fees and donations	\$ 321,917	\$ -	\$ -	\$ 1,820,706	\$ 198,044
Examination application fees	-	-	-	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	-	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	-	-	-	-	-
Continuing legal education fees	-	-	-	-	-
Grant revenue	-	16,215,600	-	-	-
EAF AB145 filing fee revenue	-	3,138,445	-	-	-
Other revenue	-	397,144	-	-	500
Total operating revenues	321,917	19,751,189	-	1,820,706	198,544
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	-	-	-	-	-
State Bar Court	-	-	-	-	-
Attorney Regulation and Consumer Resources	-	-	-	-	-
Professional Competence	-	-	-	-	-
Probation	-	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-	-
Judicial Evaluation	-	-	-	-	-
Center on Access to Justice	-	-	-	-	-
Communications	-	-	-	-	-
Governance	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	2,199,397
Client Security Fund	-	-	-	-	-
Admissions	-	-	-	-	-
Grants	-	25,006,696	-	-	-
Unallocated Pension expense	-	-	-	-	-
General and administration	284,388	982,971	-	4,226	-
Total operating expenses	284,388	25,989,667	-	4,226	2,199,397
<b>OPERATING INCOME (LOSS)</b>	37,529	(6,238,478)	-	1,816,480	(2,000,853)
<b>NONOPERATING REVENUES AND EXPENSES</b>					
Investment income	5,723	226,708	-	50,735	58,545
Rental income	-	-	-	-	-
Interest expense on loan	-	-	-	-	-
Total nonoperating revenues and expenses	5,723	226,708	-	50,735	58,545
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	43,252	(6,011,770)	-	1,867,215	(1,942,308)
Transfer in	-	-	-	-	131
Transfer out	-	-	-	(1,000,000)	-
<b>CHANGE IN NET POSITION</b>	43,252	(6,011,770)	-	867,215	(1,942,177)
<b>NET POSITION—beginning of year</b>	290,522	8,488,363	6,224	2,971,146	3,664,012
<b>NET POSITION - end of year</b>	\$ 333,774	\$ 2,476,593	\$ 6,224	\$ 3,838,361	\$ 1,721,835



**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses and Changes in Net Position**  
**December 31, 2020**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Interfunds Eliminations	Grand Total
<b>OPERATING REVENUES</b>						
Licensee fees and donations	\$ 757,954	\$ 6,418,590	\$ -	\$ -	\$ -	\$ 110,370,126
Examination application fees	-	-	-	-	-	20,135,282
Trust account revenue	-	26,276,804	-	-	-	26,276,804
Seminar/workshop revenue	-	-	-	-	-	3,320
Legal specialization fees	-	-	2,163,811	-	-	2,163,811
Law corporation registration fees	-	-	-	-	-	1,843,213
Continuing legal education fees	-	-	8,906	-	-	736,993
Grant revenue	-	-	-	42,788	-	16,390,081
EAF ABI45 filing fee revenue	-	-	-	-	-	3,138,445
Other revenue	-	-	11,863	-	-	2,927,488
Total operating revenues	757,954	32,695,394	2,184,580	42,788	-	183,985,563
<b>OPERATING EXPENSES</b>						
Chief Trial Counsel	-	-	-	-	-	60,998,440
State Bar Court	-	-	-	-	-	13,670,988
Attorney Regulation and Consumer Resources	-	-	-	-	-	5,411,806
Professional Competence	-	-	-	-	-	2,707,582
Probation	-	-	-	-	-	1,968,949
Mandatory Fee Arbitration	-	-	-	-	-	12,317
Judicial Evaluation	-	-	-	-	-	380,425
Center on Access to Justice	-	-	-	-	-	856,445
Communications	-	-	-	-	-	997,826
Governance	-	-	-	-	-	3,608,942
Lawyer Assistance Program	-	-	-	-	-	2,199,397
Client Security Fund	-	-	-	-	-	13,827,903
Admissions	-	-	-	-	-	19,176,983
Grants	-	55,294,144	-	11,111,629	-	91,412,469
Unallocated Pension expense	-	-	-	-	-	3,338,775
General and administration	902,614	1,410,109	1,084,990	149,577	-	21,452,203
Total operating expenses	902,614	56,704,253	1,084,990	11,261,206	-	242,021,450
<b>OPERATING INCOME (LOSS)</b>	(144,660)	(24,008,859)	1,099,590	(11,218,418)	-	(58,035,887)
<b>NONOPERATING REVENUES AND EXPENSES</b>						
Investment income	10,475	696,142	76,784	321,855	-	2,591,296
Rental income	-	-	-	-	-	4,220,797
Interest expense on loan	-	-	-	-	-	(839,732)
Total nonoperating revenues and expenses	10,475	696,142	76,784	321,855	-	5,972,361
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	(134,185)	(23,312,717)	1,176,374	(10,896,563)	-	(52,063,526)
Transfer in	-	1,000,000	100,000	-	(1,891,035)	-
Transfer out	-	-	-	-	1,891,035	-
<b>CHANGE IN NET POSITION</b>	(134,185)	(22,312,717)	1,276,374	(10,896,563)	-	(52,063,526)
<b>NET POSITION—beginning of year</b>	484,678	46,871,392	4,365,619	20,468,102	-	144,540,279
<b>NET POSITION - end of year</b>	\$ 350,493	\$ 24,558,675	\$ 5,641,993	\$ 9,571,539	\$ -	\$ 92,476,753

Draft 4/26/2021



# The State Bar *of California*

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**Title of Report:** 2020 Annual Legal Services Trust Fund Program Report  
**Statutory Citation:** Business and Professions Code sections 6145(a) and 6222  
**Date of Report:** April 30, 2021

The State Bar of California submits this 2020 Annual Legal Services Trust Fund Program Report to the Chief Justice of the California Supreme Court, and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code sections 6145(a) and 6222.

In 1981, legislation was enacted by the State of California to expand the availability and improve the quality of existing free legal services in civil matters to indigent persons, and to initiate new programs that would provide such services. Under the provisions of Business and Professions Code sections 6210–6228, interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After the payment of administrative costs, the State Bar distributes 85 percent of the funds to qualified legal service projects and 15 percent of the funds to qualified legal support centers.

This report consists of an operating statement of the Legal Services Trust Fund (LSTF) for the year ending December 31, 2020, notes to the operating statement, and grant disbursements schedules presented on a county-by-county basis. The operating statement summarizes the revenue sources of the LSTF funds, grant disbursements, and expenditures for administrative costs under article 14 of the Business and Professions Code.

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

This summary of the report and the report are submitted in compliance with Government Code section 9795. The full report and attachments are available for download on the State Bar website at: <http://www.calbar.ca.gov/About-Us/Our-Mission/Protecting-the-Public/Reports>.

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



# The State Bar of California

## **2020 Annual Legal Services Trust Fund Program Report**

**Pursuant to Business and Professions Code sections 6145(a)  
and 6222**

**April 30, 2021**

DRAFT

## **Independent Accountant's Report**

To the Boards of Trustees  
State Bar of California

We have examined the State Bar of California's ("State Bar") compliance with the requirements described in the California Business and Professions Code, Article 14 Funds for the Provision of Legal Services to Indigent Persons, sections 6210-6228 (the Code) for the year ended December 31, 2020, whereby interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After the payment of administrative costs, the State Bar distributes eighty-five percent of the funds to qualified legal service projects and fifteen percent of the funds to qualified support centers. The financial activity of the Legal Services Trust Fund is included in the accompanying Operating Statement (the Operating Statement) and related notes. Management of the State Bar is responsible for the State Bar's compliance with those requirements. Our responsibility is to express an opinion on the State Bar's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the State Bar complied, in all material respects, with the requirements of the Code. An examination involves performing procedures to obtain evidence about whether the State Bar complied with the requirements of the Code. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the State Bar's compliance with the requirements of the Code, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the State Bar's compliance with specified requirements.

In our opinion, the State Bar complied, in all material respects, with the aforementioned requirements of the Code for the year ended December 31, 2020.

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

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

San Francisco, California  
April 29, 2021

**THE STATE BAR OF CALIFORNIA**  
Office of Access & Inclusion  
2020 Legal Services Trust Fund Operating Statement

	<u>2020</u>	
<b>Revenues:</b>		
Trust Account Revenue	\$ 26,276,804	
Fee Statement Donations	6,417,676	
Transfers from Justice Gap Fund	1,000,000	
Investment Income	696,142	
Tax-Intercept Funds	914	
<b>Total Revenues (Note 2)</b>		<b>34,391,536</b>
<b>Expenses:</b>		
Grants to Legal Services Projects (Schedule 1A)	43,874,032	
Additional Grants to Pro Bono Programs (Schedule 1A)	3,082,948	
Grants to Support Centers (Schedule 2)	8,337,164	
<b>Total Grant Allocation (Note 3)</b>		<b>55,294,144</b>
<b>Add:</b>		
Administrative Costs (Note 4)	1,410,109	
<b>Total Additional Expenses</b>		<b>1,410,109</b>
<b>Total Expenses</b>		<b>56,704,253</b>
Net Operating Surplus/(Deficit) (Note 5)		(22,312,717)
Beginning Fund Balance (Note 6)		46,871,392
<b>Ending Fund Balance (Note 7)</b>		<b>\$ 24,558,675</b>

See Accompanying Notes to Operating Statement.

**THE STATE BAR OF CALIFORNIA**  
Office of Access & Inclusion  
Notes to the Legal Services Trust Fund Operating Statement  
For the Year Ended December 31, 2020

(1) Legal Services Trust Fund

In 1981, legislation was enacted by the State of California to expand the availability and improve the quality of existing free legal services in civil matters to indigent persons, and to initiate new programs that would provide such services. Under the provisions of Business and Professions Code sections 6210-6228, interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar of California (State Bar). After the payment of administrative costs, the State Bar distributes eighty-five percent of the funds to qualified legal services projects and fifteen percent of the funds to qualified legal support centers.

(2) Total Revenues

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

(3) Grant Allocation

IOLTA grants are allocated on a calendar year basis beginning January 1 and ending December 31. The total amount allocated for grants each year is determined by considering the projected fund balance as of January 1 and the projected income and expenses for the grant year. The 2020 grant allocation was calculated as follows:

Projected Net Assets as of January 1, 2020	\$ 43,006,098
Projected IOLTA Interest Revenue	39,066,192
Legal Services Contributions from Fee Statement	4,000,000
Projected Justice Gap Revenue	900,000
Investment Income	250,000
Net Administrative Expenses	(2,250,000)
Net Assets/Reserve Balance	(29,441,209)
Adjustments to Grants	(236,937)
<b>2020 Calendar Year Grant Allocation</b>	<b><u>\$ 55,294,144</u></b>

**THE STATE BAR OF CALIFORNIA**

Office of Access &amp; Inclusion

Notes to the Legal Services Trust Fund Operating Statement (Continued)

For the Year Ended December 31, 2020

(4) Administrative Costs

Operating expenses of \$1,410,109 incurred to administer the program are deducted from the Trust Fund revenue. Administrative costs include direct (\$988,603) and indirect (\$421,506) costs. For indirect cost allocation, the State Bar adopted a standardized cost allocation methodology (CAM), which distributes to individual functional programs the central administrative costs captured in the State Bar's support and administrative cost centers including, Human Resources, Finance, Information Technology, Board of Trustees, General Services and General Counsel.

(5) Net Operating Surplus

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

(6) Ending Fund Balance

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

(7) Grant Distribution

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

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



**THE STATE BAR OF CALIFORNIA**

Office of Access &amp; Inclusion

Notes to the Legal Services Trust Fund Operating Statement (Continued)

For the Year Ended December 31, 2020

Legal Services Project Grants. Section 6216(b). Eighty-five percent of the funds remaining after payment of administrative costs allocated pursuant to this article shall be distributed to qualified legal services projects. Distribution shall be by a pro rata county-by-county formula based upon the number of persons whose income is 125 percent or less of the current poverty threshold per county. For the purposes of this section, the source of data identifying the number of persons per county shall be the latest available figures from the United States Department of Commerce, Bureau of the Census. Projects from more than one county may pool their funds to operate a joint, multicounty legal services project serving each of their respective counties.

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

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

**THE STATE BAR OF CALIFORNIA**

Office of Access &amp; Inclusion

Notes to the Legal Services Trust Fund Operating Statement (Continued)

For the Year Ended December 31, 2020

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

- (8) The detailed breakdown of grants by county is set forth in Schedule 1 (2020 Grants by County). The detailed breakdown of grants to qualified legal services projects can be found in Schedule 1A (2020 Grants to Legal Services Projects by County). Grants to qualified Support Centers are described in Schedule 2 (2020 Grants to Support Centers).

## SCHEDULE 1

## THE STATE BAR OF CALIFORNIA

Office of Access &amp; Inclusion

2020 Grants by County

COUNTY	GRANTS	COUNTY	GRANTS
Alameda Total	\$ 1,448,120	Orange Total	\$ 3,148,611
Alpine Total	1,670	Placer Total	243,070
Amador Total	29,600	Plumas Total	20,240
Butte Total	360,210	Riverside Total	2,928,896
Calaveras Total	44,430	Sacramento Total	1,968,500
Colusa Total	26,600	San Benito Total	59,309
Contra Costa Total	904,620	San Bernardino Total	2,665,490
Del Norte Total	44,070	San Diego Total	3,462,570
El Dorado Total	146,650	San Francisco Total	789,870
Fresno Total	1,890,730	San Joaquin Total	1,007,440
Glenn Total	41,750	San Luis Obispo Total	286,130
Humboldt Total	226,150	San Mateo Total	460,680
Imperial Total	320,530	Santa Barbara Total	529,880
Inyo Total	15,800	Santa Clara Total	1,340,850
Kern Total	1,556,860	Santa Cruz Total	349,752
Kings Total	232,770	Shasta Total	251,470
Lake Total	112,250	Sierra Total	3,200
Lassen Total	24,840	Siskiyou Total	71,040
Los Angeles Total	13,987,442	Solano Total	403,880
Madera Total	263,700	Sonoma Total	443,170
Marin Total	166,010	Stanislaus Total	766,780
Mariposa Total	20,170	Sutter Total	136,160
Mendocino Total	136,610	Tehama Total	107,700
Merced Total	511,980	Trinity Total	21,230
Modoc Total	12,230	Tulare Total	983,670
Mono Total	11,450	Tuolumne Total	55,770
Monterey Total	557,330	Ventura Total	747,500
Napa Total	104,580	Yolo Total	299,530
Nevada Total	96,680	Yuba Total	108,760
Total Distributed to 75 Legal Services Organizations			46,956,980
Total Distributed to 22 Support Centers (Statewide)			8,337,164
<b>GRAND TOTAL 2020 IOLTA GRANT EXPENSES</b>			<b>\$ 55,294,144</b>

**THE STATE BAR OF CALIFORNIA**  
Office of Access & Inclusion  
2020 Legal Services Organizations by County

## SCHEDULE 1A

COUNTY	ORGANIZATION	BASIC	PRO BONO	TOTAL
Alameda	Advancing Justice - Asian Law Caucus	\$ 22,320	\$ -	\$ 22,320
Alameda	Aids Legal Referral Panel	4,220	-	4,220
Alameda	Alameda County Homeless Action Center	260,300	-	260,300
Alameda	Asian Pacific Islander Legal Outreach	50,860	-	50,860
Alameda	Bay Area Legal Aid	306,910	-	306,910
Alameda	California Indian Legal Services	1,640	-	1,640
Alameda	Centro Legal de la Raza	115,270	-	115,270
Alameda	Disability Rights California	49,280	-	49,280
Alameda	East Bay Community Law Center	305,710	-	305,710
Alameda	Family Violence Law Center	27,010	-	27,010
Alameda	Housing and Economic Rights Advocates	2,310	-	2,310
Alameda	La Raza Centro Legal	990	-	990
Alameda	Lawyers' Committee for Civil Rights	18,760	64,800	83,560
Alameda	Legal Access Alameda	23,160	80,010	103,170
Alameda	Legal Aid at Work	30,760	-	30,760
Alameda	Legal Assistance for Seniors	52,360	-	52,360
Alameda	Legal Services for Children	19,030	-	19,030
Alameda	Prison Law Office	3,960	-	3,960
Alameda	Public Advocates Inc.	8,460	-	8,460
<b>Alameda Total</b>		1,303,310	144,810	1,448,120
Alpine	California Indian Legal Services	530	-	530
Alpine	Disability Rights California	1,110	-	1,110
Alpine	Prison Law Office	-	-	-
Alpine	Public Advocates Inc.	30	-	30
<b>Alpine Total</b>		1,670	-	1,670
Amador	California Indian Legal Services	1,110	-	1,110
Amador	Disability Rights California	6,730	-	6,730
Amador	Legal Services of Northern California	20,540	-	20,540
Amador	Prison Law Office	990	-	990
Amador	Public Advocates Inc.	230	-	230
<b>Amador Total</b>		29,600	-	29,600
Butte	California Indian Legal Services	8,870	-	8,870
Butte	Disability Rights California	122,240	-	122,240
Butte	Legal Aid at Work	3,840	-	3,840
Butte	Legal Services of Northern California	210,640	-	210,640
Butte	Prison Law Office	9,160	-	9,160
Butte	Public Advocates Inc.	5,460	-	5,460
<b>Butte Total</b>		360,210	-	360,210
Calaveras	California Indian Legal Services	4,190	-	4,190
Calaveras	Disability Rights California	15,530	-	15,530
Calaveras	Legal Services of Northern California	23,670	-	23,670
Calaveras	Prison Law Office	100	-	100
Calaveras	Public Advocates Inc.	940	-	940
<b>Calaveras Total</b>		44,430	-	44,430
Colusa	California Indian Legal Services	220	-	220
Colusa	California Rural Legal Assistance, Inc.	8,260	-	8,260
Colusa	Disability Rights California	1,460	-	1,460
Colusa	Legal Services of Northern California	7,490	-	7,490
Colusa	Prison Law Office	8,910	-	8,910
Colusa	Public Advocates Inc.	260	-	260
<b>Colusa Total</b>		26,600	-	26,600
Contra Costa	Advancing Justice - Asian Law Caucus	178,570	-	178,570
Contra Costa	Aids Legal Referral Panel	2,980	-	2,980
Contra Costa	Asian Pacific Islander Legal Outreach	42,080	-	42,080
Contra Costa	Bay Area Legal Aid	210,860	-	210,860
Contra Costa	California Indian Legal Services	1,900	-	1,900
Contra Costa	Centro Legal de la Raza	134,590	-	134,590
Contra Costa	Contra Costa Senior Legal Services	54,540	-	54,540
Contra Costa	Disability Rights California	75,050	-	75,050
Contra Costa	Housing and Economic Rights Advocates	5,040	-	5,040
Contra Costa	La Raza Centro Legal	44,670	-	44,670
Contra Costa	Lawyers' Committee for Civil Rights	13,280	90,460	103,740
Contra Costa	Legal Aid at Work	24,970	-	24,970
Contra Costa	Legal Services for Children	15,720	-	15,720
Contra Costa	Prison Law Office	780	-	780
Contra Costa	Public Advocates Inc.	9,130	-	9,130
<b>Contra Costa Total</b>		814,160	90,460	904,620
Del Norte	California Indian Legal Services	8,380	-	8,380
Del Norte	Disability Rights California	4,090	-	4,090
Del Norte	Legal Services of Northern California	29,890	-	29,890
Del Norte	Prison Law Office	1,230	-	1,230
Del Norte	Public Advocates Inc.	480	-	480
<b>Del Norte Total</b>		44,070	-	44,070

El Dorado	California Indian Legal Services	4,380	-	4,380
El Dorado	Disability Rights California	27,710	-	27,710
El Dorado	Legal Aid at Work	1,380	-	1,380
El Dorado	Legal Services of Northern California	108,880	-	108,880
El Dorado	Prison Law Office	2,610	-	2,610
El Dorado	Public Advocates Inc.	1,690	-	1,690
<b>El Dorado Total</b>		146,650	-	146,650
Fresno	California Indian Legal Services	25,510	-	25,510
Fresno	California Rural Legal Assistance, Inc.	177,270	-	177,270
Fresno	Central California Legal Services	1,334,420	-	1,334,420
Fresno	Disability Rights California	202,770	-	202,770
Fresno	Disability Rights Legal Center	8,940	-	8,940
Fresno	Housing and Economic Rights Advocates	7,900	-	7,900
Fresno	Legal Aid at Work	33,990	-	33,990
Fresno	Prison Law Office	26,760	-	26,760
Fresno	Public Advocates Inc.	24,500	-	24,500
Fresno	San Joaquin College of Law	48,670	-	48,670
<b>Fresno Total</b>		1,890,730	-	1,890,730
Glenn	California Indian Legal Services	340	-	340
Glenn	Disability Rights California	8,480	-	8,480
Glenn	Legal Services of Northern California	31,720	-	31,720
Glenn	Prison Law Office	460	-	460
Glenn	Public Advocates Inc.	750	-	750
<b>Glenn Total</b>		41,750	-	41,750
Humboldt	California Indian Legal Services	23,230	-	23,230
Humboldt	Disability Rights California	42,900	-	42,900
Humboldt	Legal Aid at Work	2,420	-	2,420
Humboldt	Legal Services of Northern California	151,640	-	151,640
Humboldt	Prison Law Office	3,380	-	3,380
Humboldt	Public Advocates Inc.	2,580	-	2,580
<b>Humboldt Total</b>		226,150	-	226,150
Imperial	California Indian Legal Services	3,760	-	3,760
Imperial	California Rural Legal Assistance, Inc.	219,790	-	219,790
Imperial	Disability Rights California	25,990	-	25,990
Imperial	Elder Law & Advocacy	63,430	-	63,430
Imperial	Legal Aid at Work	2,250	-	2,250
Imperial	Prison Law Office	1,890	-	1,890
Imperial	Public Advocates Inc.	3,420	-	3,420
<b>Imperial Total</b>		320,530	-	320,530
Inyo	California Indian Legal Services	14,700	-	14,700
Inyo	Disability Rights California	980	-	980
Inyo	Prison Law Office	80	-	80
Inyo	Public Advocates Inc.	40	-	40
<b>Inyo Total</b>		15,800	-	15,800
Kern	California Indian Legal Services	8,100	-	8,100
Kern	California Rural Legal Assistance, Inc.	49,670	-	49,670
Kern	Centro Legal de la Raza	296,920	-	296,920
Kern	Disability Rights California	159,590	-	159,590
Kern	Disability Rights Legal Center	8,610	-	8,610
Kern	Greater Bakersfield Legal Assistance	987,810	-	987,810
Kern	Housing and Economic Rights Advocates	8,250	-	8,250
Kern	Legal Aid at Work	16,180	-	16,180
Kern	Prison Law Office	1,930	-	1,930
Kern	Public Advocates Inc.	19,800	-	19,800
<b>Kern Total</b>		1,556,860	-	1,556,860
Kings	California Indian Legal Services	16,670	-	16,670
Kings	California Rural Legal Assistance, Inc.	79,520	-	79,520
Kings	Central California Legal Services	13,910	-	13,910
Kings	Disability Rights California	72,900	-	72,900
Kings	Legal Aid at Work	7,400	-	7,400
Kings	Prison Law Office	13,300	-	13,300
Kings	Public Advocates Inc.	10,470	-	10,470
Kings	San Joaquin College of Law	18,600	-	18,600
<b>Kings Total</b>		232,770	-	232,770
Lake	California Indian Legal Services	8,430	-	8,430
Lake	Disability Rights California	34,590	-	34,590
Lake	Legal Aid at Work	1,170	-	1,170
Lake	Legal Services of Northern California	64,440	-	64,440
Lake	Prison Law Office	2,000	-	2,000
Lake	Public Advocates Inc.	1,620	-	1,620
<b>Lake Total</b>		112,250	-	112,250
Lassen	California Indian Legal Services	1,640	-	1,640
Lassen	Disability Rights California	6,910	-	6,910
Lassen	Legal Services of Northern California	15,440	-	15,440
Lassen	Prison Law Office	600	-	600
Lassen	Public Advocates Inc.	250	-	250
<b>Lassen Total</b>		24,840	-	24,840
Los Angeles	Alliance for Children's Rights	657,230	251,560	908,790
Los Angeles	Asian Americans Advancing Justice - Los Angeles	1,747,370	-	1,747,370
Los Angeles	Bet Tzedek Legal Services	1,055,480	403,990	1,459,470
Los Angeles	California Indian Legal Services	29,430	-	29,430
Los Angeles	Community Legal Aid SoCal	335,800	-	335,800
Los Angeles	Disability Rights California	939,650	-	939,650
Los Angeles	Disability Rights Legal Center	99,410	-	99,410
Los Angeles	Family Legal Assistance at CHOC Children&™s	650	-	650
Los Angeles	Harriett Buhai Center for Family Law	221,460	84,770	306,230

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Los Angeles	HEART L.A.	2,950	-	2,950
Los Angeles	Housing and Economic Rights Advocates	37,250	-	37,250
Los Angeles	Inner City Law Center	897,020	-	897,020
Los Angeles	LACBA Counsel for Justice	164,610	63,010	227,620
Los Angeles	Learning Rights Law Center	216,390	-	216,390
Los Angeles	Legal Aid at Work	87,730	-	87,730
Los Angeles	Legal Aid Foundation of Los Angeles	2,129,290	-	2,129,290
Los Angeles	Los Angeles Center for Law and Justice	303,530	-	303,530
Los Angeles	Mental Health Advocacy Services	113,570	-	113,570
Los Angeles	Neighborhood Legal Services	1,649,080	-	1,649,080
Los Angeles	Prison Law Office	160,670	-	160,670
Los Angeles	Public Advocates Inc.	85,620	-	85,620
Los Angeles	Public Counsel	1,549,690	593,150	2,142,840
Los Angeles	Veterans Legal Institute	16,943	5,819	22,762
Los Angeles	Wage Justice Center	84,320	-	84,320
<b>Los Angeles Total</b>		12,585,143	1,402,299	13,987,442
Madera	California Indian Legal Services	9,560	-	9,560
Madera	California Rural Legal Assistance, Inc.	198,310	-	198,310
Madera	Disability Rights California	39,240	-	39,240
Madera	Housing and Economic Rights Advocates	1,660	-	1,660
Madera	Legal Aid at Work	2,610	-	2,610
Madera	Prison Law Office	5,730	-	5,730
Madera	Public Advocates Inc.	3,910	-	3,910
Madera	San Joaquin College of Law	2,680	-	2,680
<b>Madera Total</b>		263,700	-	263,700
Marin	Aids Legal Referral Panel	3,290	-	3,290
Marin	Asian Pacific Islander Legal Outreach	11,280	-	11,280
Marin	Bay Area Legal Aid	5,460	-	5,460
Marin	California Indian Legal Services	270	-	270
Marin	Disability Rights California	20,270	-	20,270
Marin	Housing and Economic Rights Advocates	1,540	-	1,540
Marin	La Raza Centro Legal	1,360	-	1,360
Marin	Lawyers' Committee for Civil Rights	7,920	16,600	24,520
Marin	Legal Aid at Work	1,970	-	1,970
Marin	Legal Aid of Marin	93,220	-	93,220
Marin	Prison Law Office	1,020	-	1,020
Marin	Public Advocates Inc.	1,810	-	1,810
<b>Marin Total</b>		149,410	16,600	166,010
Mariposa	California Indian Legal Services	3,950	-	3,950
Mariposa	Central California Legal Services	2,140	-	2,140
Mariposa	Disability Rights California	13,710	-	13,710
Mariposa	Prison Law Office	40	-	40
Mariposa	Public Advocates Inc.	330	-	330
<b>Mariposa Total</b>		20,170	-	20,170
Mendocino	California Indian Legal Services	18,070	-	18,070
Mendocino	California Rural Legal Assistance, Inc.	240	-	240
Mendocino	Disability Rights California	19,560	-	19,560
Mendocino	Legal Aid at Work	1,000	-	1,000
Mendocino	Legal Services of Northern California	93,590	-	93,590
Mendocino	Prison Law Office	2,780	-	2,780
Mendocino	Public Advocates Inc.	1,370	-	1,370
<b>Mendocino Total</b>		136,610	-	136,610
Merced	California Indian Legal Services	790	-	790
Merced	California Rural Legal Assistance, Inc.	73,200	-	73,200
Merced	Central California Legal Services	312,990	-	312,990
Merced	Disability Rights California	82,300	-	82,300
Merced	Housing and Economic Rights Advocates	5,840	-	5,840
Merced	Legal Aid at Work	7,350	-	7,350
Merced	Prison Law Office	10,770	-	10,770
Merced	Public Advocates Inc.	12,090	-	12,090
Merced	San Joaquin College of Law	6,650	-	6,650
<b>Merced Total</b>		511,980	-	511,980
Modoc	California Indian Legal Services	2,450	-	2,450
Modoc	Disability Rights California	2,380	-	2,380
Modoc	Legal Services of Northern California	7,280	-	7,280
Modoc	Prison Law Office	10	-	10
Modoc	Public Advocates Inc.	110	-	110
<b>Modoc Total</b>		12,230	-	12,230
Mono	California Indian Legal Services	10,590	-	10,590
Mono	Disability Rights California	700	-	700
Mono	Prison Law Office	80	-	80
Mono	Public Advocates Inc.	80	-	80
<b>Mono Total</b>		11,450	-	11,450
Monterey	California Indian Legal Services	3,530	-	3,530
Monterey	California Rural Legal Assistance, Inc.	204,580	-	204,580
Monterey	Disability Rights California	41,710	-	41,710
Monterey	Housing and Economic Rights Advocates	-	-	-
Monterey	Legal Aid at Work	6,250	-	6,250
Monterey	Legal Services for Seniors	216,200	-	216,200
Monterey	Prison Law Office	13,140	-	13,140
Monterey	Public Advocates Inc.	7,580	-	7,580
Monterey	Watsonville Law Center	64,340	-	64,340
<b>Monterey Total</b>		557,330	-	557,330
Napa	Bay Area Legal Aid	61,720	-	61,720
Napa	California Indian Legal Services	60	-	60
Napa	California Rural Legal Assistance, Inc.	2,960	-	2,960

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Napa	Disability Rights California	29,680	-	29,680
Napa	Housing and Economic Rights Advocates	650	-	650
Napa	Legal Aid at Work	7,420	-	7,420
Napa	Prison Law Office	1,100	-	1,100
Napa	Public Advocates Inc.	990	-	990
<b>Napa Total</b>		104,580	-	104,580
Nevada	California Indian Legal Services	430	-	430
Nevada	Disability Rights California	27,850	-	27,850
Nevada	Legal Aid at Work	4,900	-	4,900
Nevada	Legal Services of Northern California	61,110	-	61,110
Nevada	Prison Law Office	590	-	590
Nevada	Public Advocates Inc.	1,800	-	1,800
<b>Nevada Total</b>		96,680	-	96,680
Orange	Asian Americans Advancing Justice - Los Angeles	153,640	-	153,640
Orange	California Indian Legal Services	8,250	-	8,250
Orange	Chapman University	87,810	-	87,810
Orange	Community Legal Aid SoCal	1,217,220	-	1,217,220
Orange	Disability Rights California	309,920	-	309,920
Orange	Family Legal Assistance at CHOC Children's	22,610	-	22,610
Orange	Housing and Economic Rights Advocates	26,830	-	26,830
Orange	Legal Aid at Work	30,060	-	30,060
Orange	Prison Law Office	39,030	-	39,030
Orange	Public Advocates Inc.	31,680	-	31,680
Orange	Public Law Center	856,800	309,320	1,166,120
Orange	Veterans Legal Institute	42,152	13,289	55,441
<b>Orange Total</b>		2,826,002	322,609	3,148,611
Placer	California Indian Legal Services	1,000	-	1,000
Placer	Disability Rights California	54,850	-	54,850
Placer	Legal Aid at Work	2,110	-	2,110
Placer	Legal Services of Northern California	179,530	-	179,530
Placer	Prison Law Office	3,130	-	3,130
Placer	Public Advocates Inc.	2,450	-	2,450
<b>Placer Total</b>		243,070	-	243,070
Plumas	California Indian Legal Services	4,120	-	4,120
Plumas	Disability Rights California	4,310	-	4,310
Plumas	Legal Services of Northern California	11,240	-	11,240
Plumas	Prison Law Office	340	-	340
Plumas	Public Advocates Inc.	230	-	230
<b>Plumas Total</b>		20,240	-	20,240
Riverside	California Indian Legal Services	21,200	-	21,200
Riverside	California Rural Legal Assistance, Inc.	309,920	-	309,920
Riverside	Disability Rights California	389,380	-	389,380
Riverside	Disability Rights Legal Center	111,170	-	111,170
Riverside	Family Legal Assistance at CHOC Children's	6,680	-	6,680
Riverside	Housing and Economic Rights Advocates	4,070	-	4,070
Riverside	Inland Counties Legal Services	1,429,780	-	1,429,780
Riverside	Inland Empire Latino Lawyers Association, Inc.	50,900	57,180	108,080
Riverside	Legal Aid at Work	32,060	-	32,060
Riverside	Legal Aid Society of San Bernardino	27,516	-	27,516
Riverside	Prison Law Office	62,020	-	62,020
Riverside	Public Advocates Inc.	44,390	-	44,390
Riverside	Riverside Legal Aid	180,200	202,430	382,630
<b>Riverside Total</b>		2,669,286	259,610	2,928,896
Sacramento	Advancing Justice - Asian Law Caucus	299,380	-	299,380
Sacramento	Asian Pacific Islander Legal Outreach	24,240	-	24,240
Sacramento	California Indian Legal Services	29,490	-	29,490
Sacramento	California Rural Legal Assistance, Inc.	-	-	-
Sacramento	Capital Pro Bono Inc.	68,710	196,850	265,560
Sacramento	Disability Rights California	382,610	-	382,610
Sacramento	Housing and Economic Rights Advocates	12,000	-	12,000
Sacramento	Legal Aid at Work	17,000	-	17,000
Sacramento	Legal Services of Northern California	536,320	-	536,320
Sacramento	McGeorge Community Legal Services	222,840	-	222,840
Sacramento	Prison Law Office	39,450	-	39,450
Sacramento	Public Advocates Inc.	18,620	-	18,620
Sacramento	UC Davis School of Law Legal Clinics	120,990	-	120,990
<b>Sacramento Total</b>		1,771,650	196,850	1,968,500
San Benito	California Indian Legal Services	170	-	170
San Benito	California Rural Legal Assistance, Inc.	28,020	-	28,020
San Benito	Disability Rights California	20,630	-	20,630
San Benito	Legal Aid at Work	380	-	380
San Benito	Prison Law Office	980	-	980
San Benito	Public Advocates Inc.	390	-	390
San Benito	Senior Citizens Legal Services	8,739	-	8,739
<b>San Benito Total</b>		59,309	-	59,309
San Bernardino	California Indian Legal Services	31,630	-	31,630
San Bernardino	Disability Rights California	468,700	-	468,700
San Bernardino	Disability Rights Legal Center	122,300	-	122,300
San Bernardino	Family Legal Assistance at CHOC Children's	4,060	-	4,060
San Bernardino	Housing and Economic Rights Advocates	32,590	-	32,590
San Bernardino	Inland Counties Legal Services	1,330,510	-	1,330,510
San Bernardino	Inland Empire Latino Lawyers Association, Inc.	58,690	-	58,690
San Bernardino	Learning Rights Law Center	35,030	-	35,030
San Bernardino	Legal Aid at Work	181,030	-	181,030
San Bernardino	Legal Aid Society of San Bernardino	291,500	-	291,500
San Bernardino	Prison Law Office	56,130	-	56,130

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San Bernardino	Public Advocates Inc.	53,320	-	53,320
<b>San Bernardino Total</b>		2,665,490	-	2,665,490
San Diego	Affordable Housing Advocates	19,730	-	19,730
San Diego	California Indian Legal Services	24,660	-	24,660
San Diego	California Rural Legal Assistance, Inc.	91,100	-	91,100
San Diego	Casa Cornelia Law Center	324,670	200,490	525,160
San Diego	Disability Rights California	273,040	-	273,040
San Diego	Elder Law & Advocacy	201,850	-	201,850
San Diego	Housing and Economic Rights Advocates	15,690	-	15,690
San Diego	Legal Aid at Work	28,230	-	28,230
San Diego	Legal Aid Society of San Diego	1,623,650	-	1,623,650
San Diego	Prison Law Office	34,820	-	34,820
San Diego	Public Advocates Inc.	22,730	-	22,730
San Diego	San Diego Volunteer Lawyer Program	236,050	145,770	381,820
San Diego	USD School of Law Legal Clinics	220,090	-	220,090
<b>San Diego Total</b>		3,116,310	346,260	3,462,570
San Francisco	Advancing Justice - Asian Law Caucus	27,250	-	27,250
San Francisco	Aids Legal Referral Panel	38,760	-	38,760
San Francisco	Asian Pacific Islander Legal Outreach	55,470	-	55,470
San Francisco	Bay Area Legal Aid	146,890	-	146,890
San Francisco	California Indian Legal Services	3,550	-	3,550
San Francisco	Disability Rights California	16,940	-	16,940
San Francisco	Eviction Defense Collaborative	54,160	-	54,160
San Francisco	Housing and Economic Rights Advocates	790	-	790
San Francisco	Justice & Diversity Center of the Bar Association of San Francisco	195,770	66,910	262,680
San Francisco	La Raza Centro Legal	8,260	-	8,260
San Francisco	Lawyers' Committee for Civil Rights	35,330	12,080	47,410
San Francisco	Legal Aid at Work	39,310	-	39,310
San Francisco	Legal Assistance to the Elderly	30,700	-	30,700
San Francisco	Legal Services for Children	54,110	-	54,110
San Francisco	Prison Law Office	1,160	-	1,160
San Francisco	Public Advocates Inc.	2,430	-	2,430
<b>San Francisco Total</b>		710,880	78,990	789,870
San Joaquin	Asian Pacific Islander Legal Outreach	119,880	-	119,880
San Joaquin	California Indian Legal Services	13,320	-	13,320
San Joaquin	California Rural Legal Assistance, Inc.	459,480	-	459,480
San Joaquin	Disability Rights California	325,030	-	325,030
San Joaquin	Housing and Economic Rights Advocates	16,260	-	16,260
San Joaquin	Legal Aid at Work	28,120	-	28,120
San Joaquin	Prison Law Office	21,690	-	21,690
San Joaquin	Public Advocates Inc.	23,660	-	23,660
<b>San Joaquin Total</b>		1,007,440	-	1,007,440
San Luis Obispo	California Indian Legal Services	3,710	-	3,710
San Luis Obispo	California Rural Legal Assistance, Inc.	144,090	-	144,090
San Luis Obispo	Disability Rights California	81,180	-	81,180
San Luis Obispo	Legal Aid at Work	1,720	-	1,720
San Luis Obispo	Prison Law Office	4,740	-	4,740
San Luis Obispo	Public Advocates Inc.	2,160	-	2,160
San Luis Obispo	San Luis Obispo Legal Assistance Foundation	48,530	-	48,530
<b>San Luis Obispo Total</b>		286,130	-	286,130
San Mateo	Advancing Justice - Asian Law Caucus	9,560	-	9,560
San Mateo	Aids Legal Referral Panel	2,400	-	2,400
San Mateo	Asian Pacific Islander Legal Outreach	14,470	-	14,470
San Mateo	Bay Area Legal Aid	30,650	-	30,650
San Mateo	California Indian Legal Services	210	-	210
San Mateo	California Rural Legal Assistance, Inc.	-	-	-
San Mateo	Community Legal Services in East Palo Alto	167,850	44,390	212,240
San Mateo	Disability Rights California	13,380	-	13,380
San Mateo	Housing and Economic Rights Advocates	1,160	-	1,160
San Mateo	La Raza Centro Legal	4,190	-	4,190
San Mateo	Lawyers' Committee for Civil Rights	6,330	1,670	8,000
San Mateo	Legal Aid at Work	26,370	-	26,370
San Mateo	Legal Aid Society of San Mateo County	125,120	-	125,120
San Mateo	Legal Services for Children	8,310	-	8,310
San Mateo	Prison Law Office	1,600	-	1,600
San Mateo	Public Advocates Inc.	3,020	-	3,020
<b>San Mateo Total</b>		414,620	46,060	460,680
Santa Barbara	California Indian Legal Services	3,540	-	3,540
Santa Barbara	California Rural Legal Assistance, Inc.	257,840	-	257,840
Santa Barbara	Disability Rights California	75,110	-	75,110
Santa Barbara	Disability Rights Legal Center	7,970	-	7,970
Santa Barbara	Legal Aid at Work	3,340	-	3,340
Santa Barbara	Legal Aid Foundation of Santa Barbara County	168,640	-	168,640
Santa Barbara	Prison Law Office	8,600	-	8,600
Santa Barbara	Public Advocates Inc.	4,840	-	4,840
<b>Santa Barbara Total</b>		529,880	-	529,880
Santa Clara	Advancing Justice - Asian Law Caucus	14,790	-	14,790
Santa Clara	Bay Area Legal Aid	104,540	-	104,540
Santa Clara	California Indian Legal Services	1,920	-	1,920
Santa Clara	California Rural Legal Assistance, Inc.	4,410	-	4,410
Santa Clara	Community Legal Services in East Palo Alto	49,430	120,300	169,730
Santa Clara	Dependency Advocacy Center	192,420	-	192,420
Santa Clara	Disability Rights California	50,630	-	50,630
Santa Clara	Housing and Economic Rights Advocates	4,070	-	4,070
Santa Clara	La Raza Centro Legal	9,820	-	9,820
Santa Clara	Law Foundation of Silicon Valley	507,380	-	507,380

(Continued)



Santa Clara	Lawyers' Committee for Civil Rights	5,660	13,780	19,440
Santa Clara	Legal Aid at Work	6,120	-	6,120
Santa Clara	Prison Law Office	5,880	-	5,880
Santa Clara	Public Advocates Inc.	8,080	-	8,080
Santa Clara	Santa Clara County Asian Law Alliance	132,360	-	132,360
Santa Clara	Santa Clara University Alexander Law Center	65,080	-	65,080
Santa Clara	Senior Adults Legal Assistance	44,180	-	44,180
<b>Santa Clara Total</b>		1,206,770	134,080	1,340,850
Santa Cruz	California Indian Legal Services	1,030	-	1,030
Santa Cruz	California Rural Legal Assistance, Inc.	202,160	-	202,160
Santa Cruz	Disability Rights California	29,960	-	29,960
Santa Cruz	Housing and Economic Rights Advocates	2,460	-	2,460
Santa Cruz	Legal Aid at Work	4,410	-	4,410
Santa Cruz	Prison Law Office	4,000	-	4,000
Santa Cruz	Public Advocates Inc.	3,230	-	3,230
Santa Cruz	Senior Citizens Legal Services	37,722	-	37,722
Santa Cruz	Watsonville Law Center	64,780	-	64,780
<b>Santa Cruz Total</b>		349,752	-	349,752
Shasta	California Indian Legal Services	8,950	-	8,950
Shasta	Disability Rights California	29,510	-	29,510
Shasta	Disability Rights Legal Center	800	-	800
Shasta	Legal Aid at Work	2,890	-	2,890
Shasta	Legal Services of Northern California	181,650	-	181,650
Shasta	Prison Law Office	25,330	-	25,330
Shasta	Public Advocates Inc.	2,340	-	2,340
<b>Shasta Total</b>		251,470	-	251,470
Sierra	California Indian Legal Services	30	-	30
Sierra	Disability Rights California	90	-	90
Sierra	Legal Services of Northern California	3,030	-	3,030
Sierra	Prison Law Office	40	-	40
Sierra	Public Advocates Inc.	10	-	10
<b>Sierra Total</b>		3,200	-	3,200
Siskiyou	California Indian Legal Services	10,200	-	10,200
Siskiyou	Disability Rights California	9,560	-	9,560
Siskiyou	Legal Aid at Work	1,310	-	1,310
Siskiyou	Legal Services of Northern California	44,700	-	44,700
Siskiyou	Prison Law Office	4,010	-	4,010
Siskiyou	Public Advocates Inc.	1,260	-	1,260
<b>Siskiyou Total</b>		71,040	-	71,040
Solano	Aids Legal Referral Panel	2,520	-	2,520
Solano	California Indian Legal Services	1,920	-	1,920
Solano	Disability Rights California	73,360	-	73,360
Solano	Housing and Economic Rights Advocates	3,190	-	3,190
Solano	Legal Aid at Work	1,820	-	1,820
Solano	Legal Services for Children	40,320	-	40,320
Solano	Legal Services of Northern California	182,200	-	182,200
Solano	Prison Law Office	5,400	-	5,400
Solano	Public Advocates Inc.	7,000	-	7,000
Solano	UC Davis School of Law Legal Clinics	86,150	-	86,150
<b>Solano Total</b>		403,880	-	403,880
Sonoma	Aids Legal Referral Panel	3,290	-	3,290
Sonoma	California Indian Legal Services	2,830	-	2,830
Sonoma	California Rural Legal Assistance, Inc.	112,850	-	112,850
Sonoma	Disability Rights California	53,120	-	53,120
Sonoma	Housing and Economic Rights Advocates	2,600	-	2,600
Sonoma	Legal Aid at Work	16,340	-	16,340
Sonoma	Legal Aid of Sonoma County	199,600	44,320	243,920
Sonoma	Prison Law Office	3,070	-	3,070
Sonoma	Public Advocates Inc.	5,150	-	5,150
<b>Sonoma Total</b>		398,850	44,320	443,170
Stanislaus	Asian Pacific Islander Legal Outreach	35,460	-	35,460
Stanislaus	California Indian Legal Services	6,490	-	6,490
Stanislaus	California Rural Legal Assistance, Inc.	392,920	-	392,920
Stanislaus	Disability Rights California	190,870	-	190,870
Stanislaus	Housing and Economic Rights Advocates	9,340	-	9,340
Stanislaus	Legal Aid at Work	12,220	-	12,220
Stanislaus	Prison Law Office	4,470	-	4,470
Stanislaus	Public Advocates Inc.	14,030	-	14,030
Stanislaus	Senior Advocacy Network	100,980	-	100,980
<b>Stanislaus Total</b>		766,780	-	766,780
Sutter	California Indian Legal Services	2,850	-	2,850
Sutter	California Rural Legal Assistance, Inc.	78,720	-	78,720
Sutter	Disability Rights California	20,850	-	20,850
Sutter	Legal Aid at Work	7,830	-	7,830
Sutter	Prison Law Office	2,400	-	2,400
Sutter	Public Advocates Inc.	1,630	-	1,630
Sutter	Yuba-Sutter Legal Center for Seniors	21,880	-	21,880
<b>Sutter Total</b>		136,160	-	136,160
Tehama	California Indian Legal Services	7,180	-	7,180
Tehama	Disability Rights California	39,500	-	39,500
Tehama	Legal Services of Northern California	53,180	-	53,180
Tehama	Prison Law Office	5,330	-	5,330
Tehama	Public Advocates Inc.	2,510	-	2,510
<b>Tehama Total</b>		107,700	-	107,700
Trinity	California Indian Legal Services	1,730	-	1,730
Trinity	Disability Rights California	2,950	-	2,950

(Continued)

Trinity	Legal Aid at Work	4,980	-	4,980
Trinity	Legal Services of Northern California	11,170	-	11,170
Trinity	Prison Law Office	200	-	200
Trinity	Public Advocates Inc.	200	-	200
<b>Trinity Total</b>		21,230	-	21,230
Tulare	California Indian Legal Services	20,820	-	20,820
Tulare	California Rural Legal Assistance, Inc.	128,960	-	128,960
Tulare	Central California Legal Services	522,290	-	522,290
Tulare	Disability Rights California	212,290	-	212,290
Tulare	Housing and Economic Rights Advocates	10,590	-	10,590
Tulare	Legal Aid at Work	18,360	-	18,360
Tulare	Prison Law Office	3,030	-	3,030
Tulare	Public Advocates Inc.	23,740	-	23,740
Tulare	San Joaquin College of Law	43,590	-	43,590
<b>Tulare Total</b>		983,670	-	983,670
Tuolumne	California Indian Legal Services	3,500	-	3,500
Tuolumne	Central California Legal Services	460	-	460
Tuolumne	Disability Rights California	48,500	-	48,500
Tuolumne	Prison Law Office	2,910	-	2,910
Tuolumne	Public Advocates Inc.	400	-	400
<b>Tuolumne Total</b>		55,770	-	55,770
Ventura	California Indian Legal Services	3,380	-	3,380
Ventura	California Rural Legal Assistance, Inc.	372,010	-	372,010
Ventura	Disability Rights California	171,890	-	171,890
Ventura	Disability Rights Legal Center	17,790	-	17,790
Ventura	Learning Rights Law Center	146,210	-	146,210
Ventura	Legal Aid at Work	8,910	-	8,910
Ventura	Prison Law Office	13,650	-	13,650
Ventura	Public Advocates Inc.	13,660	-	13,660
<b>Ventura Total</b>		747,500	-	747,500
Yolo	California Indian Legal Services	2,550	-	2,550
Yolo	Disability Rights California	26,850	-	26,850
Yolo	Legal Aid at Work	2,310	-	2,310
Yolo	Legal Services of Northern California	201,550	-	201,550
Yolo	Prison Law Office	3,410	-	3,410
Yolo	Public Advocates Inc.	2,220	-	2,220
Yolo	UC Davis School of Law Legal Clinics	60,640	-	60,640
<b>Yolo Total</b>		299,530	-	299,530
Yuba	California Indian Legal Services	2,000	-	2,000
Yuba	California Rural Legal Assistance, Inc.	76,680	-	76,680
Yuba	Disability Rights California	13,140	-	13,140
Yuba	Legal Aid at Work	640	-	640
Yuba	Prison Law Office	1,650	-	1,650
Yuba	Public Advocates Inc.	830	-	830
Yuba	Yuba-Sutter Legal Center for Seniors	13,820	-	13,820
<b>Yuba Total</b>		108,760	-	108,760
<b>GRAND TOTAL</b>		<b>\$ 43,874,032</b>	<b>\$ 3,082,948</b>	<b>\$ 46,956,980</b>

**SCHEDULE 2**

**THE STATE BAR OF CALIFORNIA**  
Office of Access & Inclusion  
2020 Grants to Support Centers

<b>ORGANIZATION</b>	<b>IOLTA Grant Allocation</b>
California Advocates for Nursing Home Reform	\$ 378,962
California Rural Legal Assistance Foundation	378,962
California Women's Law Center	378,962
Center for Gender and Refugee Studies - California	378,962
Center for Human Rights and Constitutional Law	378,962
Child Care Law Center	378,962
Coalition of California Welfare Rights Organizations	378,962
Disability Rights Education and Defense Fund	378,962
Family Violence Appellate Project	378,962
Immigrant Legal Resource Center	378,962
Impact Fund	378,962
Justice in Aging	378,962
Legal Services for Prisoners with Children	378,962
National Center for Youth Law	378,962
National Health Law Program	378,962
National Housing Law Project	378,962
National Immigration Law Center	378,962
OneJustice	378,962
Public Interest Law Project	378,962
Western Center on Law and Poverty	378,962
Worksafe, Inc.	378,962
Youth Law Center	378,962
<b>TOTAL</b>	<b>\$ 8,337,164</b>

Draft 4/26/2021



# The State Bar of California

## **Statement of Expenditures of Mandatory Fees and Independent Accountant's Report Year Ended December 31, 2020**

**April 30, 2021**

## **Independent Accountant's Report**

To the Boards of Trustees  
State Bar of California

We have examined the State Bar of California's ("State Bar") compliance with the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar of California cannot use mandatory fees paid by its licensees for political or ideological activities not related to regulation of the legal profession or improvement of quality of legal services in California, for the year ended December 31, 2020. The expenditures of mandatory fees for the year ended December 31, 2020 is included in the accompanying Statement of Expenditures of Mandatory Fees ("Statement") and related notes. Management of the State Bar is responsible for the State Bar's compliance with those requirements. Our responsibility is to express an opinion on the State Bar's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the State Bar complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether the State Bar complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the State Bar's compliance with the requirements of the Code, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the State Bar's compliance with specified requirements.

In our opinion, the State Bar complied, in all material respects, with the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar of California cannot use mandatory fees paid by its licensees for political or ideological activities not related to regulation of the legal profession or improvement of quality of legal services in California, based on the criteria set forth in the note to the Statement, for the year ended December 31, 2020.

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

San Francisco, California  
April 29, 2021

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2020

	<u>Dollar Amount</u>	<u>Percentage of Total Program Expenses</u>
<b>CHARGEABLE EXPENSES AND RELATED</b>		
<b>PROGRAM REVENUES:</b>		
Chief Trial Counsel	\$ 60,998,440	61.53%
Client Security Fund	13,827,903	13.95%
State Bar Court	13,670,988	13.79%
Attorney Regulation and Consumer Resources	5,411,806	5.46%
Professional Competence	2,707,582	2.73%
Lawyer Assistance Program	2,199,397	2.22%
Probation	1,968,949	1.99%
Communications	997,826	1.01%
Center on Access to Justice	856,445	0.86%
Judicial Evaluation	380,425	0.38%
Mandatory Fee Arbitration	12,317	0.01%
Program Revenues	<u>(3,893,607)</u>	<u>-3.93%</u>
Total chargeable program expenses	<u>\$ 99,138,471</u>	<u>100.00%</u>

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2020

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

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

Accounting principles generally accepted in the United States of America are applied by the State Bar in conformance with pronouncements of the Governmental Accounting Standards Board. Amounts in the Statement of Expenditures of Mandatory Fees (“Statement”) were derived from the State Bar’s audited 2020 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 2020 financial statements, the Statement is not a substitute for the financial statements, nor is it intended to be a complete presentation of the State Bar’s revenues and expenses in conformity with accounting principles generally accepted in the United States of America. Amounts reported in the Statement can be agreed to amounts reported in the State Bar’s financial statements.

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2020

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

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

Since January 1, 2000, the amount of expenses that the State Bar may incur for legislative activity outside of the parameters of *Keller* was restricted by statute to the total revenue collected from those licensees electing to pay the \$5 and not take the deduction from the annual fee under Cal. Bus. & Prof. Code §6140.05. Instead of categorizing its programs as within or outside of *Keller*, the State Bar has elected to restrict the expenses of all of its legislative activity to voluntary funds. Similarly, the State Bar has a \$5 deduction for activities under the State Bar's Bar Relations and Elimination of Bias program and limited its funding to voluntary fees paid by licensees not taking this deduction. Licensees who do not wish to support either the State Bar's Legislative Activities or its Bar Relations and Elimination of Bias program can deduct the amounts from their annual fees. As a result, no part of the mandatory annual fees that a lawyer must pay as a condition of practicing law are used to fund non-chargeable expenses. Therefore, for purposes of the Statement, there are no non-chargeable expenditures for mandatory licensing fees for the year ended December 31, 2020.

**3. DESCRIPTION OF CHARGEABLE PROGRAMS**

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

a. *Chief Trial Counsel*

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



**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2020

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

b. *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.)

c. *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)

d. *Attorney Regulations and Consumer Resources*

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

e. *Professional Competence*

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

f. *Lawyer Assistance Program*

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

g. *Probation*

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2020

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

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

h. *Communications*

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

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

i. *Center on Access to Justice*

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

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

j. *Judicial Evaluation*

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2020

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

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

k. *Mandatory Fee Arbitration*

The Fee Arbitration Program (Business and Prof. Code § 6200 et seq.) provides for resolution of fee disputes between attorneys and clients. It is mandatory for the lawyer if the client requests arbitration. Most complaints come to the program independently of the Office of Trial Counsel's Intake Unit, and the availability of this service almost certainly prevents the filing of additional disciplinary complaints. Maintaining a program that decreases the number of additional complaints assists the disciplinary system in processing those cases that cannot otherwise be handled. Although it may be argued that the arbitration program is not necessarily an indispensable part of an attorney disciplinary process, the California Supreme Court has held it is a valuable and justifiable component of a comprehensive disciplinary system. (In re Attorney Discipline System, 19 Cal. 4<sup>th</sup> 582, 622 (1999).)

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2020

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

The 2020 State Bar indirect cost allocation to chargeable programs is summarized below:

General Counsel	\$ 4,903,586
Finance	2,888,220
Member Billing	508,862
Human Resources	2,412,337
General Services - Los Angeles	4,560,064
General Services - San Francisco	5,084,840
Building Improvement/Property Related	507,500
Information Technology	13,297,554
Governance	3,404,854
Communication	683,862
Other - Non Departmental	330,400
Indirect Cost Pool	38,582,079
Less: Overhead Allocation to Other Programs	(8,168,381)
Overhead Allocation to Chargeable Program	<u>\$ 30,413,698</u>

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

- m. *Program Revenues* – Program revenues related to chargeable expenses from the General Fund, Building Fund, Client Security Fund, Lawyers Assistance Fund, and the Support and Administration Fund of the State Bar are held to fund the related program expenses. Other revenues include charges by the State Bar to the California Lawyers Association (CLA) for administrative and support services in the annual collect of member dues. Program revenues for 2020 are comprised of:

Law Corporation Registration Fees	\$ 1,843,212
Continuing Legal Education Fees	728,087
Seminar/Workshop Revenue	3,320
Other	1,318,988
Total	<u>\$ 3,893,607</u>

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2020

**4. OPTIONAL DEDUCTIONS**

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

These deductions are allowed for the following activities:

a. *Lobbying*

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

b. *Elimination of Bias*

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

c. *Legal Services Voluntary Assistance Option*

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



# The State Bar of *California*

## **Report to the Audit Committee and the Board of Trustees Year Ended December 31, 2020**

April 30, 2021

**STATE BAR OF CALIFORNIA**  
Report to the Audit Committee and the Board of Trustees  
For the Year Ended December 31, 2020

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

In planning and performing our audit of the basic financial statements of the State Bar of California (State Bar), as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be significant deficiency.

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider item number 2020-001 to be significant deficiency. The identified significant deficiency is not considered to be a material weakness.

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

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



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

Very truly yours,

San Francisco, California  
April 29, 2021

DRAFT

**STATE BAR OF CALIFORNIA**  
Report to the Audit Committee and the Board of Trustees  
For the Year Ended December 31, 2020

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

As communicated in our engagement letter dated November 10, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

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

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

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

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

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

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the State Bar is included in Note 3 to the financial statements. As described in Note 3 to the State Bar's basic financial statements, the State Bar implemented Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* in 2020. Implementation of this statement did not have a significant impact on the State Bar's financial statements.

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

**STATE BAR OF CALIFORNIA**

Report to the Audit Committee and the Board of Trustees (Continued)  
For the Year Ended December 31, 2020

*Significant Accounting Estimates*

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

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

***Fair value of investments.*** Management's investments are generally carried at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The State Bar's investments are classified as level 1 and level 2 of the fair value hierarchy established by GASB Statement No. 72. Investments classified in level 1 are valued using prices quoted in active markets for those securities. Government agencies securities are classified in Level 2 and valued using quoted prices for identical securities in markets that are not active. Corporate bonds and municipal bond are classified in level 2 and valued using quoted prices for similar securities in active markets.

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

***Valuation of net pension liability, pension expense and pension related deferred inflows and outflows of resources.*** The net pension liability, pension expense and pension related deferred inflows and outflows of resources are based on an actuarial valuation as of June 30, 2019 and rolled forward to June 30, 2020, performed by the California Public Employees' Retirement System's (CalPERS) actuaries. The pension plan is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating entities with the State of California.

***Valuation of net OPEB liability, OPEB expense and OPEB related deferred outflows of resources.*** The net OPEB asset, OPEB expense and OPEB related deferred outflows of resources are based on an actuarial valuation as of January 1, 2020 rolled forward to June 30, 2020 performed by the State Bar's independent actuaries for the OPEB plan. The OPEB plan is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating entities with the State of California.

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

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

*Financial Statement Disclosures*

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

**STATE BAR OF CALIFORNIA**

Report to the Audit Committee and the Board of Trustees (Continued)  
For the Year Ended December 31, 2020

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

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

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

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**7. *Disagreements with Management***

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

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

We have requested certain written representations from management, which are included in the management representation letter dated April 29, 2021.

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

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

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

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

**STATE BAR OF CALIFORNIA**

Report to the Audit Committee and the Board of Trustees (Continued)  
For the Year Ended December 31, 2020

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

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the State Bar's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we applied certain limited procedures to the Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Plan Contributions – Pension, the Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios, and the Schedule of Contributions – OPEB Plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

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

**STATE BAR OF CALIFORNIA**

Report to the Audit Committee and the Board of Trustees (Continued)  
For the Year Ended December 31, 2020

**SCHEDULE OF COMMENT AND RESPONSE**

**Finding 2020-001 – Significant Deficiency**  
**Improve Internal Controls Over the Financial Reporting**

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

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

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

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

- Accounts Receivable and Trust Account Revenues – The State Bar did not have adequate reviews over the reconciliation between accounts receivable and trust account revenue. This resulted in \$2.1 million adjustment to increase accounts receivable balance to claim and recognize trust account revenue for the month of December 2020.
- Timely receipt of complete draft reports due to delay in resolution of reconciliation of capital assets, compensated absences, and statement of cash flows that could be attributable to new system implementation.

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

**STATE BAR OF CALIFORNIA**

Report to the Audit Committee and the Board of Trustees (Continued)  
For the Year Ended December 31, 2020

***Management Response***

In addition to the departure of key positions, the implementation of the new financial system created different processes that were put in place with limited documentation and training, which put a strain on the timely review of the reconciliation process. Management has since hired additional staff to involve in the process, has developed more comprehensive training and enhanced documentation over the reconciliation process for both monthly and year-end reviews.

Key vacancies in the Office of Finance in 2020 and 2021 and new financial system continued to impact the timely creation of various reports, especially for payroll and fixed assets. Several key positions have since been filled and management is proactively working to ensure similar issues do not occur for 2021 audit.

**STATE BAR OF CALIFORNIA**  
Status of Prior Year's Finding  
For the Year Ended December 31, 2020

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

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

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

Status: In progress. The State Bar continued to struggle with closing the books timely in the current year due to turnover and effects of COVID-19 pandemic. See current year finding 2020-001.