



The State Bar of California

OPEN SESSION AGENDA ITEM NOVEMBER 2022 AUDIT COMMITTEE IV.A

DATE: November 17, 2022

TO: Members, Audit Committee

FROM: Aracely Montoya-Chico, Chief Financial Officer

SUBJECT: Presentation by and Discussion with Macias Gini & O'Connell Regarding the 2022 Fiscal Audit and Schedule

EXECUTIVE SUMMARY

This agenda item is a presentation by the independent external auditor on the 2022 Fiscal Year Audit. The auditor's communication with the Audit Committee is required under Statement on Auditing Standards #114. Results of the audit will be presented to the committee and the Board of Trustees at the May 2023 meeting.

BACKGROUND

Business and Professions Code section 6145 provides that the Board of Trustees shall contract with an independent national or regional public accounting firm for an audit of its financial statements for each fiscal year. A copy of the audit and financial statement shall be submitted within 120 days of the close of the fiscal year to the Board, the Chief Justice of the Supreme Court, and to the Assembly and Senate Committees on Judiciary.

The Audit Committee is charged with assisting the Board in fulfilling its oversight responsibility as related to the integrity of accounting and financial reporting processes, the system of internal controls, and audit processes. Generally accepted auditing standards require the independent auditor to meet with the Audit Committee as described under the Statement on Auditing Standards (SAS #114 – The Auditor's Communication with Those Charged with Governance, and under SAS #115 – Communicating Internal Control Related Matters Identified in an Audit). The purpose is to communicate information to those charged with governing the State Bar of California related to the audit of financial statements.

Specific items to be communicated include:

- Those charged with governance and management's responsibilities;
- The auditor's responsibilities under generally accepted auditing standards;
- An overview of the planned scope and timing of the audit; and
- Significant findings from the audit (post-audit).

DISCUSSION

The audit engagement letter, which addresses the items above in more detail, is provided as Attachment A.

The scope of the audit includes:

Audited Annual Financial Report. As the independent auditor, Macias Gini & O'Connell (MGO) shall issue a two-year report on the fair presentation of the financial statements in conformity with generally accepted accounting principles as of and for the years ended December 31, 2022, and 2021. The auditor shall communicate in a letter 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 to the Board of Trustees:

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

Special Examination. In addition to the audit of the State Bar's financial statements, MGO will examine the State Bar's:

1. Legal Services Trust Fund Program Report for the year ended December 31, 2022, and the State Bar's compliance with the provisions described in the California Business and Professions Code, Article 14, Funds for the Provision of Legal Services to Indigent Persons, sections 6210–6228.
2. Statement of Expenditures of Mandatory Membership Fees – MGO shall issue a report on the fair presentation of the statement in conformity with generally accepted

accounting principles for the year ended December 31, 2022. This is to confirm the State Bar's compliance with the United States Supreme Court's decision on *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar cannot use mandatory fees paid by its members for political or ideological activities not related to regulations of the legal profession or improvement of the quality of legal services in California.

The committee will be introduced to new accounting and auditing standards applicable to the State Bar this year. The committee will be afforded the opportunity to ensure that MGO is independent with respect to the State Bar. Lastly, the auditor would like to be advised of any areas of concern the committee would like to have addressed during the audit.

FISCAL/PERSONNEL IMPACT

None

AMENDMENTS TO RULES OF THE STATE BAR OF CALIFORNIA

None

AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL

None

STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS

None – compliance

RECOMMENDATIONS

None

ATTACHMENTS LIST

- A. Engagement Letter
- B. PowerPoint Presentation



October 10, 2022

Board of Trustees and Management
The State Bar of California
180 Howard Street
San Francisco, CA 94105

The following represents our understanding of the services we will provide to the State Bar of California.

You have requested that we audit the financial statements of the State Bar of California (State Bar) for the years ended December 31, 2022 and 2021 and related notes, which collectively comprise the State Bar's basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audits will be conducted with the objectives of our expressing an opinion on each opinion unit applicable to those basic financial statements.

The objectives of our audit of the financial statements are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and, if applicable, in accordance with *Government Auditing Standards*, and/or any state or regulatory audit requirements will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Accounting principles generally accepted in the United States of America (U.S. GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) require that certain required supplementary information (RSI) 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. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with U.S. GAAS. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI.

The following RSI is required by U.S. GAAP. This RSI will be subjected to certain limited procedures but will not be audited:

- 1) Management's Discussion and Analysis
- 2) Schedule of Changes in Net Pension Liability and Related Ratios
- 3) Schedule of Plan Contributions – Pension
- 4) Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios
- 5) Schedule of Contribution – OPEB Plans

Supplementary information other than RSI will accompany the State Bar's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with U.S. GAAS. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

- 1) Program Funds Schedule of Net Position
- 2) Program Funds Schedule of Revenues, Expenses, and Changes in Net Position

Audit of the Financial Statements

We will conduct our audits in accordance with U.S. GAAS, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). As part of an audit of financial statements in accordance with GAAS and, if applicable, in accordance with *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar's ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or noncompliance may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards* of the Comptroller General of the United States of America. Please note that the determination of abuse is subjective and *Government Auditing Standards* does not require auditors to detect abuse.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

We will issue a written report upon completion of our audit of the State Bar's basic financial statements. Our report will be addressed to the governing body of the State Bar. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or withdraw from the engagement. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

In addition to our audit of the basic financial statements of the State Bar, we will also perform the following:

- 1) Statement of Expenditures and Mandatory Fees for the year ended December 31, 2022 and the State Bar's compliance with the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar 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.
- 2) Legal Services Trust Fund Program Report for the year ended December 31, 2022 and the State Bar's compliance with the provisions described in the California Business and Professions Code, Article 14 Funds for the Provision of Legal Services to Indigent Person, Section 6210-6228 (the Code).
- 3) Consider certain policies and procedures for a deeper review to evaluate whether operational, compliance, and financial reporting controls are adequate as designed to support the State Bar's existing operations. The following Policies and Procedures are within the scope of review:
 - a. Accounts Payable and Cash Disbursement
 - b. Cash Receipts
 - c. Licensee Billing – Cash Receipts
 - d. Fixed Assets
 - e. Investments
 - f. General Accounting and Financial Reporting
 - g. Payroll
 - h. Travel Advance
 - i. Travel and Business-Related Expense Policy
 - j. General Procurement Manual
 - k. Signature Authorization Levels
 - l. IT Security Program
 - m. System Access Administration
- 4) Testing of internal controls to evaluate whether the policies and procedures of the State Bar are in place and being followed. The testing will be performed for the following processes:
 - a. Billing and collections
 - b. Purchasing, Accounts Payable, and Cash Disbursements
 - c. Human Resources and Payroll
 - d. Investment Management
 - e. General Ledger, Financial Close, and Reporting
 - f. Information Technology General Controls

Audit of Major Program Compliance

Our audit of the State Bar's major federal award programs compliance will be conducted in accordance with the requirements of the Single Audit Act, as amended; and the Uniform Guidance, and will include tests of accounting records, a determination of major programs in accordance with the Uniform Guidance and other procedures we consider necessary to enable us to express such an opinion on major federal award program compliance and to render the required reports. We cannot provide assurance that an unmodified opinion on compliance will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or withdraw from the engagement.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether material noncompliance with applicable laws and regulations, the provisions of contracts and grant agreements applicable to major federal award programs, and the applicable compliance requirements occurred, whether due to fraud or error, and express an opinion on the State Bar's compliance based on the audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the entity's compliance with the requirements of the federal programs as a whole.

As part of a compliance audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Our procedures will consist of determining major federal programs, performing the applicable procedures described in the U.S. Office of Management and Budget *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the State Bar's major programs, and performing such other procedures as we consider necessary in the circumstances. The purpose of those procedures will be to express an opinion on the State Bar's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Also, as required by the Uniform Guidance, we will obtain an understanding of the entity's internal control over compliance relevant to the audit in order to design and perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of the entity's major federal award programs. Our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report. However, we will communicate to you, regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we have identified during the audit.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the entity's major federal award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.

Management's Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

- 1) For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- 2) For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- 3) For identifying, in its accounts, all federal awards received and expended during the period and the federal programs under which they were received, including COVID-19 related federal awards such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act of 2021;
- 4) For maintaining records that adequately identify the source and application of funds for federally funded activities;
- 5) For preparing the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the Uniform Guidance;
- 6) For the designing, implementing, and maintaining effective internal control over federal awards that provides reasonable assurance that the State Bar is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards;
- 7) For identifying and ensuring that the State Bar complies with federal laws, statutes, regulations, rules, provisions of contracts or grant agreements, and the terms and conditions of federal award programs, and implementing systems designed to achieve compliance with applicable federal statutes, regulations, and the terms and conditions of federal award programs;
- 8) For disclosing accurately, currently, and completely the financial results of each federal award in accordance with the requirements of the award;
- 9) For identifying and providing report copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented;
- 10) For taking prompt action when instances of noncompliance are identified;
- 11) For addressing the findings and recommendations of auditors, for establishing and maintaining a process to track the status of such findings and recommendations and taking corrective action on reported audit findings from prior periods and preparing a summary schedule of prior audit findings;
- 12) For following up and taking corrective action on current year audit findings and preparing a corrective action plan for such findings;
- 13) For submitting the reporting package and data collection form to the appropriate parties;
- 14) For making the auditor aware of any significant contractor relationships where the contractor is responsible for program compliance;
- 15) To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements including the disclosures, and relevant to federal award programs, such as records, documentation, and other matters;
 - b. Additional information that we may request from management for the purpose of the audit; and

- c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- 16) For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;
- 17) For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
- 18) For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
- 19) For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on compliance;
- 20) For the accuracy and completeness of all information provided;
- 21) For taking reasonable measures to safeguard protected personally identifiable and other sensitive information; and
- 22) For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility:

- 1) For the preparation of the supplementary information in accordance with the applicable criteria;
- 2) To provide us with the appropriate written representations regarding supplementary information;
- 3) To include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and
- 4) To present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We understand that State Bar employees will prepare all confirmations we request and will locate any documentary evidence selected by us for testing.

If the State Bar intends to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Please also refer to the additional terms and conditions under Attachment I of this letter.

Nonattest Services

With respect to any nonattest services we perform, we will not assume management responsibilities on behalf of the State Bar. However, we will provide advice and recommendations to assist management of the State Bar in performing its responsibilities.

The State Bar's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries.

Provisions of Engagement Administration, Timing and Fees

We expect to complete and issue our reports no later than April 30, 2023 or other agreed-upon completion dates.

David Bullock is the engagement partner for the audit services specified in this letter. His responsibilities include supervising the services of Macias Gini & O'Connell, LLP (MGO) performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the Agreement, as amended. Invoices will be rendered monthly and are payable upon presentation. We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. We will be available during the year to consult with you on financial management and accounting matters of a routine nature.

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on the State Bar's Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional standards prohibit us from being the sole host and/or the sole storage for your financial and non-financial data. As such, it is your responsibility to maintain your original data and records and we cannot be responsible to maintain such original information. By signing this engagement letter, you affirm that you have all the data and records required to make your books and records complete.

MGO is owned by professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Therefore, depending on the nature of the services being provided, non-CPA owners may be involved in providing certain services hereunder.

The audit documentation for this engagement is the property of MGO and constitutes confidential information. However, we may be requested to make certain audit documentation available to regulators or their designees, and federal agencies and the U.S. Government Accountability Office pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of MGO's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. They may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

You agree to inform us of facts that may affect the financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

At the conclusion of our audit engagement, we will communicate to the State Bar Council the following significant findings from the audit:

- 1) Our view about the qualitative aspects of the entity's significant accounting practices;
- 2) Significant difficulties, if any, encountered during the audit;
- 3) Uncorrected misstatements, other than those we believe are trivial, if any;
- 4) Disagreements with management, if any;
- 5) Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- 6) Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- 7) Representations we requested from management;
- 8) Management's consultations with other accountants, if any; and
- 9) Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

In accordance with the requirements of *Government Auditing Standards*, we have attached a copy of our latest external peer review report of our firm for your consideration and files under Attachment II.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audits of the financial statements and of compliance over major federal award programs, including our respective responsibilities.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Respectfully,

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

Macias Gini & O'Connell, LLP

RESPONSE:

This letter correctly sets forth the understanding of the State Bar of California. Management acknowledge and agree with the arrangements for the audit of the basic financial statements, including our respective responsibilities.

Signature: _____

Title: _____

Attachment I – Additional Terms and Conditions

These Terms and Conditions form part of the Engagement Letter under which Macias Gini & O'Connell LLP (MGO) will provide professional services to you (Client), as further described in the Engagement Letter to which this is attached. By signing the Engagement Letter, you agree to be bound by these Terms and Conditions. If you are using the services on behalf of a business, you represent, warrant, and agree that you have the authority to bind that business or entity to these terms and any policies referenced herein, including but not limited to those terms that limit MGO's liability, and require mediation and/or arbitration for potential legal disputes.

1. Dispute Resolution and Time Limitation on Claims

If any dispute arises among the parties hereto under the Engagement Letter, including these Terms and Conditions, or any claim related to a claim concerning the services provided for under this agreement or the fees charged to the extent they exceed \$25,000, the parties agree to discuss the dispute, and, if necessary, to first try in good faith to settle the dispute by mediation administered by the American Arbitration Association (AAA) under its Rules for Professional Accounting and Related Services Disputes, or JAMS, or ADR Services, Inc. (ADR), before filing a complaint or otherwise resorting to litigation or arbitration. The parties further agree the mediation will take place at an AAA or other service provider location in the county in which the MGO office that provided the services under this agreement is located. Each party shall be responsible for its own mediation expenses, and shall share equally in the mediator's fees and expenses.

You and MGO agree that any dispute over fees charged by MGO, but only if the disputed fees are in excess of \$25,000, which cannot be resolved through the mediation process described above, will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the AAA, or JAMS or ADR, except that under all circumstances the arbitrator must follow the laws of the State in which the MGO office that provided the services under this agreement is located. The parties may mutually agree to an alternative arbitration service provider (e.g., JAMS or ADR), subject to the same requirements as those provided for at the AAA. Such arbitration shall be binding and final. THE PARTIES UNDERSTAND THAT, BY AGREEING TO ARBITRATE ALL FEE DISPUTES, EACH PARTY IS GIVING UP THE RIGHT TO HAVE THE DISPUTE DECIDED IN A COURT OF LAW BY A JUDGE OR JURY OR COURT TRIAL AND INSTEAD ARE ACCEPTING THE USE OF BINDING, NON-JUDICIAL ARBITRATION FOR RESOLUTION. Each party will bear its own costs of arbitration and both parties shall share equally the costs of the arbitrator(s).

If the parties cannot resolve their dispute, excluding any dispute over fees, through mediation, either party may pursue action in a State Court of competent jurisdiction in which the MGO office that provided the services under this Engagement Letter is located. Each party agrees that notwithstanding any applicable statute of limitations, any claim arising out of or related to this Engagement Letter must be filed within one (1) year after the party first knows of or has reason to know the facts underlying its claim or within two (2) years following the completion of the services provided for under this agreement, whichever is shorter. This paragraph may shorten, but in no event extend, any period of limitation an actions otherwise provided by applicable law.

2. Limitation on Damages and Liability

Unless otherwise prohibited by law or applicable professional standard, you agree that MGO and its personnel shall not be liable to you for any claims, liabilities, or expenses, whether in contract, in tort, at law, or in equity, arising out of or relating to MGO's failure to meet its obligations under this Engagement Letter, for an aggregate amount in excess of the amount of MGO's fees actually paid to it under this Engagement Letter. Unless otherwise prohibited by law or applicable professional standard, in no event shall MGO or its personnel be liable for loss of profits, business opportunity, or any consequential, special, indirect, incidental, punitive, or exemplary damages relating to this engagement. It is acknowledged by the

Attachment I – Additional Terms and Conditions

parties that the provisions of this Engagement Letter agreement, including the limitation on damages, have been negotiated at arms' length. This limitation on damages provision shall apply to the fullest extent of the law.

We rely in good faith on all information, assumptions, procedures and decisions communicated to us by you, your employees or your representatives, and we will not be responsible for any loss or other obligation arising from our reliance. Furthermore, the procedures we will perform in our engagement will be heavily influenced by, and dependent upon the written and oral representations and information that we receive from you. You agree that you are responsible for the accuracy and completeness of the representations and information provided to us by your employees, representatives and management, and you acknowledge that we may rely on the Client to ensure the accuracy and completeness of the representations and information we receive from its employees, representatives and management. In view of the foregoing, you agree to release, hold harmless, indemnify and defend MGO, its partners and personnel from any claims, costs (including attorneys' fees), losses, damages, liability, judgments, awards and settlements related to, arising out of, or resulting from misrepresentations, whether false, misleading, or incomplete information provided to us during our engagement by any of your employees, representatives or members of your management, whether or not such representations were intentional or authorized by you, except to the extent it is finally judicially determined that a claim, cost, loss, damage, liability, judgment, award or settlement was the result of fraud or intentional misconduct, or violation of statutory law, on the part of MGO. This provision shall survive the termination of this agreement and the completion of our services.

3. Governing Law, Jurisdiction, and Severability

This agreement and its terms shall be governed by, and construed in accordance with, the laws of the State in which the MGO office that provided the services under this Engagement Letter is located. More specifically, the parties agree to the personal jurisdiction by and venue in the state and federal courts in the county in which the MGO office that provided the service is located. The parties agree to this choice of law and jurisdiction, and waive any defense based upon an inconvenient forum. This term will be enforced to the fullest extent permitted by applicable law. If any provision of this Engagement Letter, including these Terms and Conditions, is found by the court of competent jurisdiction to be unenforceable, such provision shall not affect the other provisions. However, such unenforceable provision shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth in this agreement.

4. Subpoena and Other Release of Documents

As a result of our services to you, we may be required or requested to provide information, testimony, or documents to you or a third-party pursuant to a subpoena, court order or other administrative or legal process in connection with governmental regulations or activities, or a legal, arbitration or administrative proceeding, in which we are not a party. You agree that our efforts in complying with such requests or demands will be deemed a part of this engagement and MGO shall be entitled to additional compensation, and not limited to the budgeted or estimated fees and costs for the services provided for under the Engagement Letter, for our time and reimbursement for our out-of-pocket expenditures (including legal fees) in complying with such request or demand.

5. Use of Electronic Communication and Cloud-based Computing

In the performance of our professional services, we may communicate with each other and/or with others via email transmission. As emails can be intercepted and read, disclosed, or otherwise used by an unintended third party, we cannot guarantee that such email communication will be properly delivered and read only by the addressee. While we will use our best efforts to keep such communications secure in

Attachment I – Additional Terms and Conditions

accordance with our obligations under applicable laws and professional standards, you recognize and accept that we have no control over the unauthorized interception of these communications once they have been sent. Therefore, you hereby waive any liability whatsoever for any unintended interception or unintentional disclosure of email transmissions in connection with the performance of our professional services. MGO uses cloud-based computing services, including the storage of data and files, at third party, offsite, secure facilities. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmissions and cloud-based computing, including any direct or indirect damages that may result from any inadvertent or unanticipated disclosure of confidential or proprietary information, or disclosure through third party criminal conduct (e.g., hackers or hacking activities).

6. Privacy Policy

You are aware of, have had an opportunity to review, and consent to, MGO's Online Privacy Policy, which in compliance with the California Consumer Protection Act explains how MGO collects, uses, and protects personal information you provide to MGO, and explains your rights related thereto. MGO's Privacy policy also is in compliance with all applicable federal, state and local privacy and consumer protection laws and regulations. This is a link to MGO's Privacy Policy: <https://www.mgocpa.com/privacy>

7. Independence

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the client in the performance of our services. Any discussions that your representatives have with professional personnel of MGO regarding employment could pose a threat to our independence. Therefore, you agree to inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

Moreover, to the extent that you have engaged a company affiliated with MGO to provide services related to your efforts to identify, interview, and hire officers, directors, or management, or related human resource efforts on your behalf, you agree to inform MGO so that MGO can evaluate whether there are any potential or actual independence considerations that may preclude, or otherwise limit the services MGO is able to perform. Therefore, you agree to inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

If we provide both attest and non-attest services to you, then in order to maintain our independence, you assume all management responsibilities for any non-attest services that we provide as part of the Services. You will designate a qualified individual with suitable skill, knowledge, or experience, from your senior management to oversee the non-attest services, evaluate the adequacy and results of the non-attest services, and accept responsibility for such services.

8. Hiring of MGO Personnel

If you hire one of our personnel directly from MGO during the performance of our services or within ninety (90) days after the completion of our services, where this is not prohibited by the SEC rules, if applicable, you agree to pay us a fee of Twenty-Five Percent (25%) of that individual's base compensation within sixty (60) days from the first day of employment.

9. Termination of Services and Withdrawal

We may terminate this agreement and withdraw from providing further services if (a) any invoice become delinquent; (b) we become aware of any criminal, fraudulent, or similar acts by you or your management,

Attachment I – Additional Terms and Conditions

the Client, or its management is accused of or becomes the subject of an investigation by any governmental entity of criminal fraudulent or similar acts which causes us to have reasonable doubt as to the integrity of the Client or management; (c) you fail to provide us with information we request; (d) you cause a substantial delay in our engagement work or we are unable to complete the engagement or are unable to form an opinion for reasons beyond our control; (e) you violate any of the terms of this agreement or the Engagement Letter; or (f) we are no longer able to satisfy our professional obligations regarding independence or conflicts of interest, or pursuant to applicable professional standards, or statutes. If we withdraw for any reasons, you agree to pay all of our fees for work performed and expenses incurred through the effective date of our withdrawal.

10. Force Majeure

MGO shall not be liable for breach of this agreement or the Engagement Letter caused by circumstances beyond our reasonable control, including but not limited to the Client's unwillingness, or failure to provide information necessary for the services to be completed.

11. Assignment

The Client shall not assign any rights, obligations or claims relating to this agreement or the Engagement Letter.

12. Independent Contractor

The services MGO provides to you are that of any independent contractor, and not as your employee, agent, partner, joint venture, or otherwise. Neither you nor we have a right, power, or authority to bind the other.

13. General Provisions

Client and MGO acknowledge and agree that all prior understandings, representations, and agreements heretofore made or reached by them are merged into this agreement, which alone fully and completely expresses their agreement. Any such prior understandings, representations and agreements are void and nonactionable. This agreement may be amended or modified only by a written agreement signed by you and MGO. In the event that there is a conflict between these Terms and Conditions and the Engagement Letter, the terms of the Engagement Letter shall control.

This agreement is a private agreement that has been specifically tailored to the interests of you and MGO in the transaction and subject matter it addresses, and it does not, and is not intended to contemplate, touch upon or affect the general public or matters of public interest or necessity. You and MGO have the right and the opportunity to review, revise, and consult with counsel concerning the provisions of this agreement, and it is acknowledged that both parties possess relatively equal capacity and resources to negotiate and bargain for the provisions contained in this agreement. It is further acknowledged that neither party has control over the property, interests or rights of the other, and that no fiduciary relationship exists between them.

Because both parties have had the right to review and revise this agreement, the rule of construction that any ambiguities are to be construed against the drafting party shall not be employed in interpreting this agreement. To the extent any provision or term of this agreement is held unenforceable, the remaining terms and provisions shall remain in full force and effect, and enforceable.

This agreement may be executed in several counterparts which, when taken together, shall constitute the entire agreement. A facsimile or electronic signature shall be treated as an original signature, provided that

Attachment I – Additional Terms and Conditions

the party providing the facsimile or electronic signature shall be responsible for obtaining an ink signature that will be provided to the other party(ies) immediately upon request.

14. Confidentiality

We may from time to time and depending on the circumstances and nature of the services we are providing, share your confidential information with third-party service providers, some of whom may be cloud-based, but we remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality terms with all service providers to maintain the confidentiality of your information and will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure appropriate confidentiality terms with a third-party service provider, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Although we will use our best efforts to make the sharing of your information with such third parties secure from unauthorized access, no completely secure system for electronic data transfer exists. As such, by your signature below, you understand that the firm makes no warranty, expressed or implied, on the security of electronic data transfers.

15. Non-CPA Owner Notice Requirement

MGO is owned by professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Therefore, depending on the nature of the services being provided, non-CPA owners may be involved in providing certain services hereunder.

16. Potential Impact of the Coronavirus (COVID-19) Outbreak

Notwithstanding the unprecedented circumstances resulting from the COVID-19 outbreak, we continue to have a professional obligation to gather sufficient appropriate audit evidence in support of the State Bar's financial statements. Travel restrictions, actual or suspected infections, work from home requirements, changes – such as work force reductions – made to accommodate the current business environments, or other similar matters may result in delays in the State Bar's employees' ability to provide us the necessary audit evidence on a timely basis or at all. Similarly, such matters may impact our own ability to collect or appropriately assess necessary audit evidence on a timely basis or at all.

Should such events occur, the State Bar and MGO will make good faith efforts to complete alternative procedures to gather and assess necessary audit evidence. Such procedures might include, but not be limited to, our respective employees working from home, transferring more audit information via electronic modes (preferably through our secure MGO Exchange portal), and meeting virtually rather than in-person. As to audit evidence transferred via electronic modes, the State Bar is responsible to ensure that such evidence is authentic, complete, and accurate for the purposes it is meant to serve. MGO will perform, as it deems necessary, incremental procedures to validate the authenticity, completeness, and accuracy of such audit evidence.

Should impacts from the COVID-19 outbreak impede the ability to provide full cooperation and access, the State Bar will instead work with us in good faith to make alternative arrangements to accomplish the objectives of our audit. As necessary, we will notify the State Bar if such alternative procedures require additional efforts and, if possible, an estimate of the additional cost.

Attachment II – Peer Review Report



6025 SOUTH QUEBEC STREET, SUITE 260
CENTENNIAL, COLORADO 80111
303-792-3020 (o) | 303-232-7237 (f)
WWW.WCRCPA.COM

Report on the Firm's System of Quality Control

September 2, 2021

To the Partners of Macias Gini & O'Connell, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2021. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Attachment II – Peer Review Report

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2021, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Macias Gini & O'Connell, LLP has received a peer review rating of *pass*.

Watson Coon Ryan, LLC

Centennial, Colorado



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AUDIT OVERVIEW

State Bar of California

PRESENTED BY:

David Bullock, CPA

Partner

November 17, 2022

Guian Chhim, CPA

Senior Manager

AUDIT COMMITTEE:

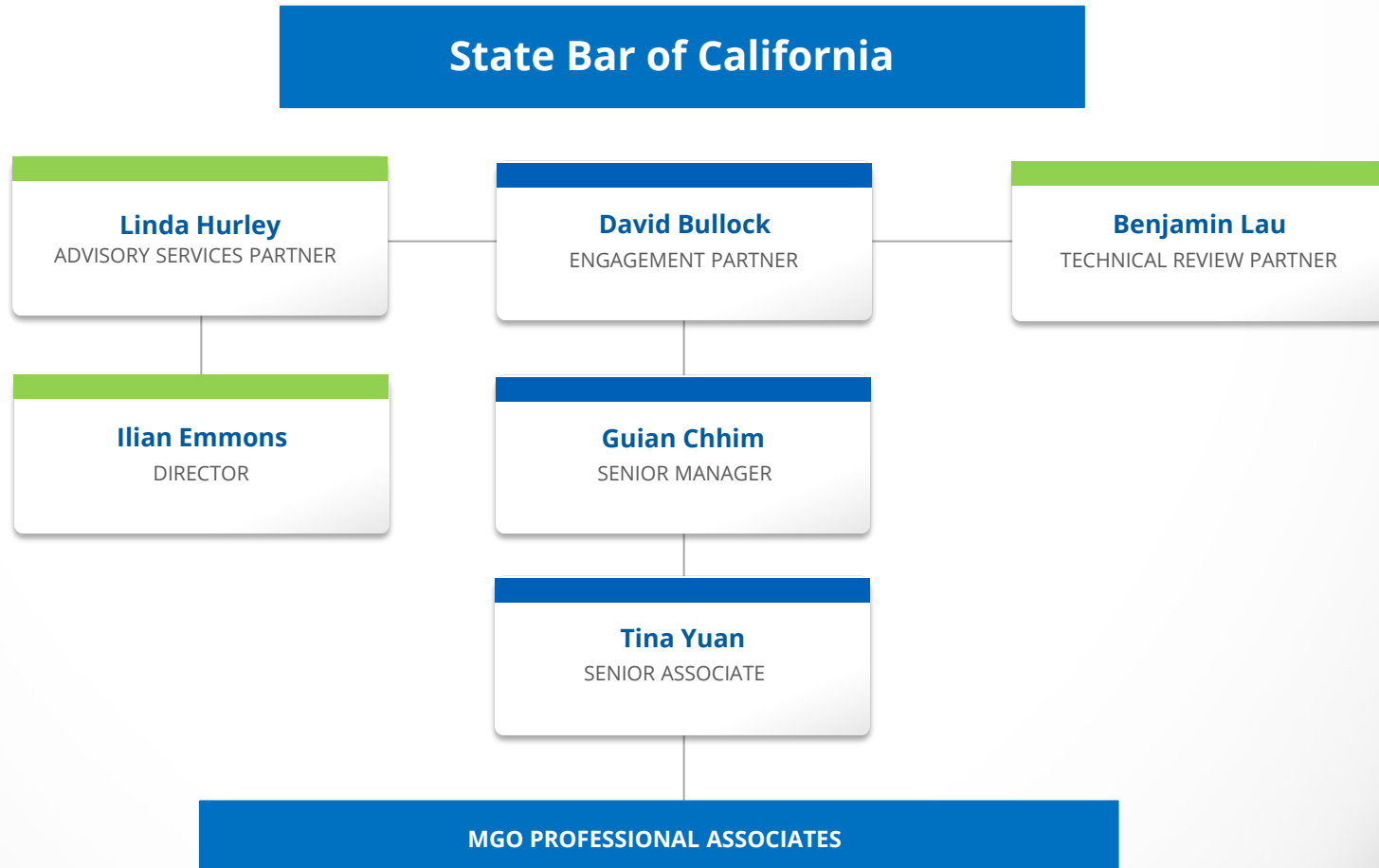
State Bar of California



We are pleased to present our audit plan for the State Bar of California for the year ending December 31, 2022.

We appreciate the opportunity to meet with you to discuss the audit plan, especially as a two-way dialogue can provide valuable information for the audit process. We look forward to working with you!

Your Dedicated Team:



Required Communications

with Those Charged with Governance



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Planning

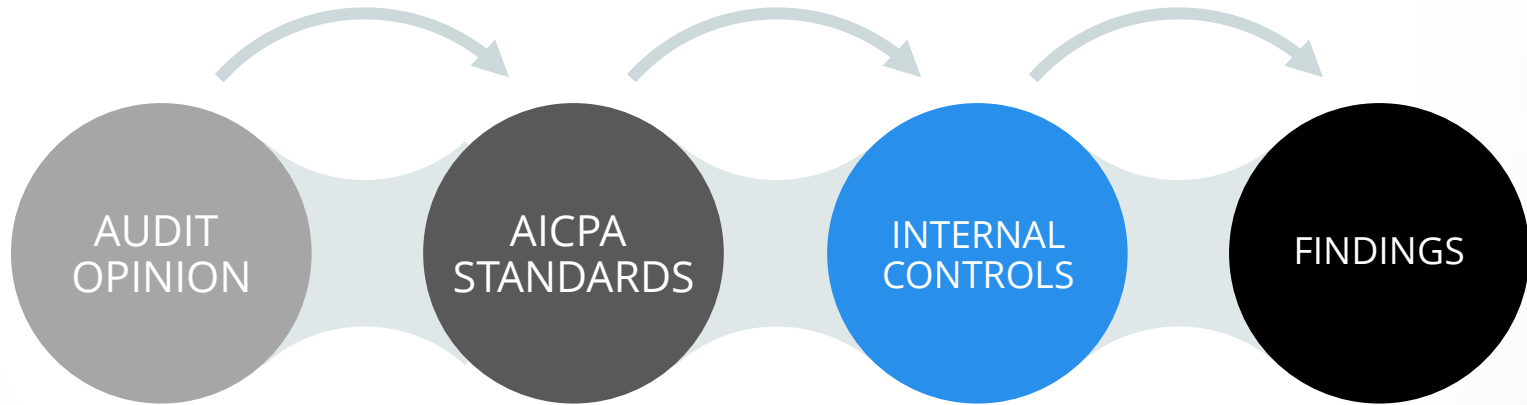
- Auditor's responsibility under U.S. Generally Accepted Auditing Standards
- Planned scope and timing of audit

Results

- Significant audit findings
- Qualitative aspects of accounting practices
- Difficulties encountered in performing the audit
- Corrected and uncorrected misstatements
- Management representations
- Management consultations with other independent accountants
- Other audit findings or issues

Our Responsibility

Our responsibility under U.S. Generally Accepted Auditing Standards.



To express our opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. This does not relieve you or management of your responsibilities.

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

To obtain an understanding of the State Bar and its environment, including internal controls over financial reporting and compliance, as a basis for designing our audit procedures, but not for the purpose of expressing an opinion on its effectiveness.

To communicate findings that, in our judgment, are 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. 5

The Annual Financial Audit

Audit Plan and Approach

- Tailored to the State Bar
- Risk-based approach
- Identify and research key issues



What is Materiality?

Materiality

The amount of a misstatement that could influence the economic decisions of users, taken on the basis of the financial statements.

How It's Calculated:

Using certain quantitative (e.g., total assets, total revenues, or other financial information) and qualitative factors (e.g., covenants, expectations, or industry factors)

It's Used To Identify:

- Significant risk areas
- Nature, timing, extent, and scope of test work
- Findings or misstatements

Significant Audit Areas



Financial closing and reporting –including drafting of financial statements and footnote disclosures



Investment valuation and disclosures



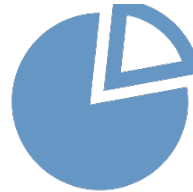
Accounts receivable and accounts payable

Significant Audit Areas

(continued)



Loans payable
and debt
covenant
compliance



Pension and other
post-employment
benefits (OPEB)
accounting,
valuation, and
disclosures



Revenue
recognition –
fees, donations,
and grants

Consideration of Fraud

Auditors must consider fraud to “improve the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit.”

How we gather information to identify fraud-related risks of material misstatement:

- Brainstorm with team
- Conduct personnel interviews
- Document understanding of internal controls
- Consider unusual or unexpected relationships identified in planning and performing the audit

Procedures to be performed:

- Examine general journal entries for nonstandard transactions
- Evaluate policies and accounting for revenue recognition
- Test and analyze significant accounting estimates for biases
- Evaluate the business rationale for significant unusual transactions

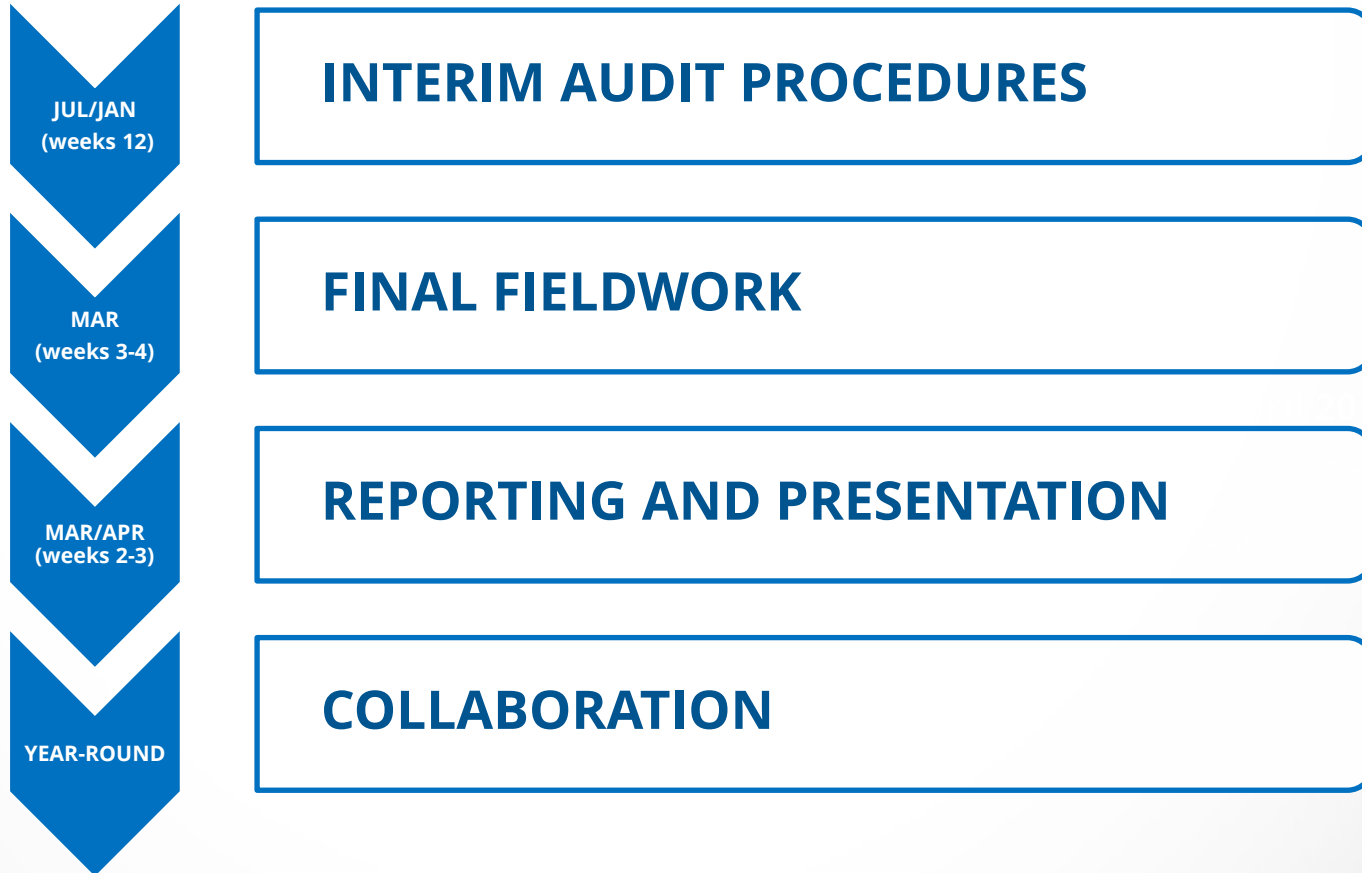
Deliverables

We will issue the following December 31, 2022 reports:

- Audit report on the basic financial statements of the State Bar of California
- Examination report on the statement of expenditures of mandatory membership fees of the State Bar of California
- Examination report on Legal Services Trust Fund Program
- Audit report under Uniform Guidance (Single Audit)
- Report to those charged with governance
 - Communicating required matters and matters related to internal controls and compliance with laws, regulations, contracts and agreements



Audit Timing



Accounting Update



New Standards

GASB pronouncement effective for 2021

- GASB 89 – Accounting for Interest Costs Incurred Before the End of a Construction Period.
- GASB 91 – Conduit Debt Obligations

New Standards



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GASB pronouncement effective for 2022

- GASB 87 – Leases
 - Establishes a single model for lease accounting, whereby all leases are considered financings of the right to use an underlying asset. The State Bar is now required to recognize a lease liability and an intangible right-to-use lease asset, as a lessee, and to recognize a lease receivable and a deferred inflow of resources, as a lessor.

Future Significant GASB Pronouncements

- GASB 96 – Subscription Based IT Arrangements
 - The State Bar is now required to recognize a liability for long-term IT-related contracts and an intangible right-to-use asset.

About MGO

One of the fastest growing professional services firms in the U.S., MGO combines deep industry expertise with proven accounting and advisory solutions to deliver tangible results. Our clients range from global aerospace and technology leaders to innovative start-ups and not-for-profit organizations – from the largest government entities in the country, to the biggest names in entertainment.

www.mgocpa.com



MARKETING OVERVIEW

Questions?



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