



The State Bar of California

OPEN SESSION AGENDA ITEM AUDIT COMMITTEE III.A

DATE: January 8, 2024

TO: Members, Audit Committee

FROM: Aracely Montoya-Chico, Chief Financial Officer

SUBJECT: Discussion with Macias Gini & O'Connell Regarding the 2023 Fiscal Audit and Schedule

EXECUTIVE SUMMARY

This agenda item presents an overview of the 2023 fiscal year audit plan and required communication by the auditor. The audit plan will be presented by the independent external auditor, Macias Gini & O'Connell (MGO). The auditor's communication to those charged with governance, the Audit Committee of the State Bar, is required under Statement on Auditing Standards No. 114 (SAS No. 114). Results of the audit will be presented to the committee and the Board of Trustees at the May 2024 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 by May 31 following 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 meet with the Audit Committee as described under SAS No. 114, and under SAS No. 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 relate to the audit of financial statements. Specific items to be communicated to those charged with governance include:

- 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, MGO, will 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 2023. 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.

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 for the year ended December 31, 2023. MGO shall issue a report in accordance with attestation standards, on 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. The provisions state interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After 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 support centers.
2. Statement of Expenditures of Mandatory Membership Fees for the year ended December 31, 2023. MGO shall issue a report in accordance with attestation standards, 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.

During the discussion at the Audit Committee meeting, the committee will be informed of new accounting and auditing standards applicable to the State Bar in 2023. The committee will also be able to advise MGO of any areas of desired focus for incorporation into the audit workplan.

FISCAL/PERSONNEL IMPACT

None

AMENDMENTS TO RULES

None

AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL

None

STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS

None – compliance

RECOMMENDATIONS

None

ATTACHMENT LIST

- A.** Engagement Letter

December 18, 2024

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

This letter (“Arrangement Letter”) is to explain our understanding of the arrangements for the services MACIAS GINI & O’CONNELL LLP (“MGO”, “we”, “us”, or “our”) is to perform for the State Bar of California (State Bar) as of and for the year ending December 31, 2023. We ask that you confirm this understanding.

The Objective and Scope of the Audit of the Financial Statements

You have requested that MGO audit the State Bar’s financial statements as of and for the year ending December 31, 2023, and the related notes, which collectively comprise the basic financial statements.

The objectives of our audit 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 *Government Auditing Standards* issued by the Comptroller General of the United States (“GAS”) will always detect a material misstatement when it exists. Misstatements 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. 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 controls.

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 Plan

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

You have also requested that MGO perform the audit of the State Bar as of December 31, 2023 to satisfy the audit requirements imposed by the Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance").

Data Collection Form

Prior to the completion of our engagement, we will complete the sections of the Data Collection Form that are our responsibility. The form will summarize our audit findings, amounts and conclusions. It is management's responsibility to submit a reporting package including financial statements, schedule of expenditure of federal awards, summary schedule of prior audit findings and corrective action plan along with the Data Collection Form to the federal audit clearinghouse. The financial reporting package must be text searchable, unencrypted, and unlocked. Otherwise, the reporting package will not be accepted by the federal audit clearinghouse. We will assist you in the electronic submission and certification. You may request from us copies of our report for you to include with the reporting package submitted to pass-through entities.

The Data Collection Form is required to be submitted within the earlier of 30 days after receipt of our auditors' reports or nine months after the end of the audit period, unless specifically waived by a federal cognizant or oversight agency for audits. Data Collection Forms submitted untimely are one of the factors in assessing programs at a higher risk.

The Responsibilities of the Auditor

We will conduct our audit in accordance with GAAS, GAS, the Uniform Guidance. Those standards require that we comply with applicable ethical requirements. As part of an audit in accordance with GAAS, GAS, and the Uniform Guidance, 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, based on an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, 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.
- Consider the entity's system of internal control 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 controls, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and GAS. Because the determination of waste or abuse is subjective, GAS does not require auditors to perform specific procedures to detect waste or abuse in financial statement audits.

We will communicate to the Board of Trustees (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

We are responsible for the compliance audit of major programs under the Uniform Guidance, including the determination of major programs, the consideration of internal control over compliance, and reporting responsibilities.

Our report(s) on internal control over financial reporting and over compliance for major programs will include any significant deficiencies and material weaknesses in internal control over financial reporting and over compliance for major programs of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control over financial reporting and over compliance for major programs consistent with requirements of the standards and regulations identified above. Our report(s) on compliance matters will address material errors, fraud, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts; and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with requirements of the standards and regulations identified above.

We will maintain our independence in accordance with the standards of the American Institute of Certified Public Accountants ("AICPA") and GAS.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Management is responsible for:

1. Identifying and ensuring that the State Bar complies with the laws and regulations applicable to its activities, and for informing us about all known violations of such laws or regulations, other than those that are clearly inconsequential;
2. The design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the State Bar involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements; and

3. Informing us of its knowledge of any allegations of fraud or suspected fraud affecting the State Bar received in communications from employees, former employees, analysts, regulators, vendors, customers or others.

Management is responsible for the preparation of the RSI which U.S. GAAP require to be presented to supplement the basic financial statements.

Management is also responsible for the preparation of the supplementary information presented in relation to the financial statements as a whole in accordance with U.S. GAAP. Management agrees to include the auditor's report on the supplementary information in any document that contains the supplementary information and indicates that the auditor has reported on such supplementary information. Management also agrees to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

The Board of Trustees is responsible for informing us of its views about the risks of fraud, waste or abuse within the State Bar, and its knowledge of any fraud, waste or abuse or suspected fraud, waste or abuse affecting the State Bar.

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 U.S. GAAP;
2. To evaluate subsequent events through the date the financial statements are issued . Management also agrees that it will not conclude on subsequent events earlier than the date of the management representation letter referred to below;
3. 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;
4. For report distribution; and
5. 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 information relevant to disclosures;
 - b. Draft financial statements, including information relevant to their preparation and fair presentation, when needed, to allow for the completion of the audit in accordance with the proposed timeline;
 - c. Additional information that we may request from management for the purpose of the audit; and
 - d. Unrestricted access to persons within the State Bar from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, when appropriate, those charged with governance written confirmation concerning representations made to us in connection with the audit, including among other items:

1. That management has fulfilled its responsibilities as set out in the terms of this Arrangement Letter; and

2. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Because the audit will be performed in accordance with the Single Audit Act and the Uniform Guidance, management is responsible for (a) identifying all federal awards received and expended; (b) preparing and the fair presentation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with Uniform Guidance requirements; (c) internal control over compliance; (d) compliance with federal statutes, regulations, and the terms and conditions of federal awards; (e) making us aware of significant vendor relationships where the vendor is responsible for program compliance; (f) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings and a corrective action plan; (g) timely and accurate completion of the data collection form and (h) submitting the reporting package and data collection form.

Reporting

We will issue a written report upon completion of our audit of the State Bar's financial statements. Our report will be addressed to the Board of Trustees 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 opinion or add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report.

If circumstances arise relating to the condition of the State Bar's records, the availability of appropriate audit evidence or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting or misappropriation of assets which, in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including, but not limited to, declining to express an opinion or issue a report, or withdrawing from the engagement.

In addition to our report on the State Bar's financial statements, we will also issue the following reports:

1. A report on the fairness of the presentation of the State Bar's schedule of expenditures of federal awards for the year ending December 31, 2023;
2. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with GAS;
3. Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance;
4. An accompanying schedule of findings and questioned costs; and
5. A report on the Statement of Expenditures and Mandatory Fees for the year ending December 31, 2023 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.
6. A report on the Legal Services Trust Fund Program for the year ending December 31, 2023 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).

Records and Assistance

During the course of our engagement, we may accumulate records containing data that should be reflected in the State Bar's books and records. The State Bar will determine that all such data, if necessary, will be so reflected. Accordingly, the State Bar will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by State Bar personnel, including the preparation of schedules and analyses of accounts, will be discussed and coordinated with Aracely Montoya-Chico, Chief Financial Officer. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit reports.

Non-audit Services

In connection with our audit, we will assist management in completing the auditee sections of the Data Collection Form.

GAS independence standards require that the auditor maintain independence so that opinions, findings, conclusions, judgments and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a non-audit service to the State Bar, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is consideration of management's ability to effectively oversee the non-audit services to be performed. The State Bar has agreed that Aracely Montoya-Chico, Chief Financial Officer possesses suitable skill, knowledge or experience and that the individual understands the non-audit services to be performed sufficiently to oversee them. Accordingly, the management of the State Bar agrees to the following:

1. State Bar has designated Aracely Montoya-Chico, Chief Financial Officer as a senior member of management who possesses suitable skill, knowledge and experience to oversee the services;
2. Aracely Montoya-Chico, Chief Financial Officer will assume all management responsibilities for subject matter and scope of the non-audit services;
3. The State Bar will evaluate the adequacy and results of the services performed; and
4. The State Bar accepts responsibility for the results and ultimate use of the services.

GAS further requires that we establish an understanding with the State Bar's management or those charged with governance of the objectives of the non-audit services, the services to be performed, the State Bar's acceptance of its responsibilities, the auditor's responsibilities and any limitations of the non-audit services. We believe this Arrangement Letter documents that understanding.

Other Relevant Information

In accordance with GAS, a copy of our most recent peer review report is enclosed for your information.

Fees, Costs and Timing

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.

We expect to begin our audit upon execution of our service agreement with the State Bar, and to issue our reports around April 30, 2024.

Our fees for the services described above will be billed in accordance with our service agreement with the State Bar. Our fee estimate and completion of our work are based upon the following criteria:

1. Anticipated cooperation from State Bar personnel
2. Timely responses to our inquiries
3. Timely completion and delivery of client assistance requests
4. Timely communication of all significant accounting and financial reporting matters
5. The assumption that unexpected circumstances will not be encountered during the engagement

If any of the aforementioned criteria are not met, then fees may increase. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission.

Annie Louie is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising MGO services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Use of Subcontractors and Third-Party Products

From time to time and depending upon the circumstances, MGO may, in our sole discretion, utilize entities owned in whole or in part by MGO (each, an “Affiliate”), located within or outside the United States, to assist in the audit or perform internal and/or administrative support ancillary to the services, but MGO will remain responsible for and supervise all such services.

In such circumstances, it may be necessary for us to disclose Confidential Information (as such term is defined below) to them. Those third-party service providers and/or affiliates of MGO we use to assist us in providing services to you are collectively referred to herein as “Subcontractors.” You hereby consent to us sharing your information, including Confidential Information, with our Subcontractors; provided that such recipients are bound by written obligations of confidentiality that are as protective of your Confidential Information as the confidentiality terms set forth herein. You acknowledge and agree that: (i) our use of Subcontractors may involve the processing, input, disclosure, movement, transfer, and storage of your information and data outside of our technology infrastructure; and (ii) a MGO affiliate may also share with us any work product, time and billing information, or any other information concerning you or your affiliates reasonably necessary for us to perform the services requested under this Arrangement Letter.

We also may provide services to you using certain third-party hardware, software, software services, managed services (including, but not limited to, web hosting, data security, data back-up, email security, or similar services subject to direct end-user or subscription agreements), applications, and equipment (collectively, “Third-Party Products”). You acknowledge that your or our use of a Third-Party Product may involve the processing, input, disclosure, movement, transfer, and storage of information provided by you to us, including Personal Information and Confidential Information, within the Third-Party Product’s infrastructure and not ours, and that the terms of use and service set forth in the end-user license, subscription, or other agreement with the licensor of such Third-Party Product, including, but not limited to, applicable laws, will govern all obligations of such licensor relating to data privacy, storage, recovery, security, and processing within such Third-Party Product’s infrastructure, as well as, the service levels associated with such Third-Party Product. You hereby consent to the disclosure of your information, including your Confidential Information and Personal Information, to the licensors of such Third-Party Products for the purpose described herein.

You acknowledge that your or our use of Third-Party Products may be subject to limitations, delays, interruptions, errors, and other problems which are beyond our control, including, without limitation, internet outage or lack of availability related to updates, upgrades, patches, fixes, maintenance, or other issues. We will not be liable for any delays, delivery failures, or other losses or damages resulting from such issues. Nor will we be held responsible or liable for any loss, or unauthorized use or disclosure, of any information or data provided by you, including, without limitation, Personal Information provided by you, resulting from your or our use of a Third-Party Product.

Engagement with MGO Affiliates

If you have or expect to engage an affiliate of MGO (see list of affiliates below) to perform services during the audit and professional engagement period (as defined below), you must notify MGO prior to entering into such engagement with the MGO affiliate. In addition, prior to signing this Arrangement Letter, you must notify MGO of any service an MGO affiliate has performed prior to the audit and professional engagement period in order for MGO to ensure our independence in relation to this engagement. You will also be required to provide such representation within the management representation letter prior to the issuance of our report.

Audit and professional engagement period includes both:

- i. The period covered by any financial statements being audited or reviewed (the “audit period”); and
- ii. The period of the engagement to audit or review the audit client's financial statements or to prepare a report to be issued (the “professional engagement period”):
 - a. The professional engagement period begins when MGO either signs an initial Arrangement Letter (or other agreement to review or audit a client's financial statements) or begins audit, review, or attest procedures, whichever is first; and
 - b. The professional engagement period ends when the audit client or MGO terminate the engagement and the audit client is no longer a client of MGO.

MGO Affiliates:

- MGO Group LLC
- MGO India, Pvt. Ltd.
- MGO Insurance Services, LLC
- MGO NY, CPAs, LLP (MGONY)
- MGO Private Wealth, LLC
- MGO Technology Group, LLC

Use and Ownership; Access to Documentation

The Documentation for this engagement is the property of MGO. For the purposes of this Arrangement Letter, the term “Documentation” shall mean the confidential and proprietary records of MGO’s procedures performed, relevant evidence obtained, other engagement-related workpapers, and conclusions reached. Documentation shall not include custom-developed documents, data, reports, analyses, recommendations, and deliverables authored or prepared by MGO for the State Bar under this Arrangement Letter, or any documents belonging to the State Bar or furnished to MGO by the State Bar.

Review of Documentation by a successor auditor or as part of due diligence is subject to applicable MGO policies, and will be agreed to, accounted for and billed separately. Any such access to our Documentation is subject to a successor auditor signing an Access & Release Letter substantially in MGO’s form. MGO reserves the right to decline a successor auditor’s request to review our workpapers.

In the event we are required by government regulation, subpoena or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the State Bar, the State Bar

will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

You acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least seven years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to the requested audit documentation will be provided under the supervision of MGO audit personnel and at a location designated by our firm.

Indemnification, Limitation of Liability, and Claim Resolution

Because MGO will rely on the State Bar and its management and the Board of Trustees to discharge the foregoing responsibilities, the State Bar agrees to indemnify, hold harmless and release MGO and its partners, principals, officers, directors, employees, affiliates, subsidiaries, contractors, Subcontractors, agents, representatives, successors, or assigns from all claims, liabilities, losses and costs arising in circumstances where there has been a knowing misrepresentation by a member of the State Bar's management and the Board of Trustees.

THE STATE BAR AND MGO AGREE THAT NO CLAIM ARISING OUT, FROM, OR RELATING TO THE SERVICES RENDERED PURSUANT TO THIS ARRANGEMENT LETTER SHALL BE FILED MORE THAN TWO YEARS AFTER THE DATE OF THE AUDIT REPORT ISSUED BY MGO OR THE DATE OF THIS ARRANGEMENT LETTER IF NO REPORT HAS BEEN ISSUED. IN NO EVENT SHALL MGO OR THE STATE BAR, OR ANY OF THEIR RESPECTIVE PARTNERS, PRINCIPALS, OFFICERS, DIRECTORS, EMPLOYEES, AFFILIATES, SUBSIDIARIES, CONTRACTORS, SUBCONTRACTORS, AGENTS, REPRESENTATIVES, SUCCESSORS, OR ASSIGNS (COLLECTIVELY, THE "COVERED PARTIES" AND EACH INDIVIDUALLY, A "COVERED PARTY"), BE LIABLE FOR THE INTERRUPTION OR LOSS OF BUSINESS, ANY LOST PROFITS, SAVINGS, REVENUE, GOODWILL, SOFTWARE, HARDWARE, OR DATA, OR THE LOSS OF USE THEREOF (REGARDLESS OF WHETHER SUCH LOSSES ARE DEEMED DIRECT DAMAGES), OR INCIDENTAL, INDIRECT, PUNITIVE, CONSEQUENTIAL, SPECIAL, EXEMPLARY, OR SIMILAR SUCH DAMAGES, EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. TO THE FULLEST EXTENT PERMITTED BY LAW, THE TOTAL AGGREGATE LIABILITY OF THE COVERED PARTIES ARISING OUT OF, FROM, OR RELATING TO THIS ARRANGEMENT LETTER, OR THE REPORT ISSUED OR SERVICES PROVIDED HEREUNDER, REGARDLESS OF THE CIRCUMSTANCES OR NATURE OR TYPE OF CLAIM, INCLUDING, WITHOUT LIMITATION, CLAIMS ARISING FROM A COVERED PARTY'S NEGLIGENCE OR BREACH OF CONTRACT OR WARRANTY, OR RELATING TO OR ARISING FROM A GOVERNMENT, REGULATORY OR ENFORCEMENT ACTION, INVESTIGATION, PROCEEDING, OR FINE, WILL NOT EXCEED THE TOTAL AMOUNT OF THE FEES PAID BY THE STATE BAR TO MGO UNDER THIS ARRANGEMENT LETTER. NOTWITHSTANDING THE FOREGOING, NOTHING IN THIS LIMITATION OF LIABILITY PROVISION SHALL, OR SHALL BE INTERPRETED OR CONSTRUED TO, RELIEVE THE STATE BAR OF ITS PAYMENT OBLIGATIONS TO MGO UNDER THIS ARRANGEMENT LETTER.

Confidentiality

MGO and the State Bar may, from time to time, disclose Confidential Information (as defined below) to one another. Accordingly, MGO and the State Bar agree as the recipient of such Confidential Information

(the “Receiving Party”) to keep strictly confidential all Confidential Information provided to it by the disclosing party (the “Disclosing Party”) and use, modify, store, and copy such Confidential Information only as necessary to perform its obligations and exercise its rights under this Arrangement Letter. Except as otherwise set forth herein, the Receiving Party may only disclose the Confidential Information of the Disclosing Party to its personnel, agents, and representatives who are subject to obligations of confidentiality at least as restrictive as those set forth herein and only for the purpose of exercising its rights and fulfilling its obligations hereunder. To avoid any doubt, MGO is permitted to disclose the State Bar’s Confidential Information to MGO’s personnel, agents, and representatives to provide the services or exercise its rights under this Arrangement Letter or for the purpose of maintaining compliance with applicable laws and professional, regulatory, and/or ethical standards.

As used herein, “Confidential Information” means, information in any form, oral, graphic, written, electronic, machine-readable or hard copy consisting of: (i) any nonpublic information provided by the Disclosing Party, including, but not limited to, all of its inventions, designs, data, source and object code, programs, program interfaces, know-how, trade secrets, techniques, ideas, discoveries, marketing and business plans, pricing, profit margins and/or similar information; (ii) any information that the Disclosing Party identifies as confidential; or (iii) any information that, by its very nature, a person in the same or similar circumstances would understand should be treated as confidential, including, but not limited to, this Arrangement Letter.

As used herein, the term “Confidential Information” will not include information that: (i) is publicly available at the time of disclosure by the Disclosing Party; (ii) becomes publicly available by publication or otherwise after disclosure by the Disclosing Party, other than by breach of the confidentiality obligations set forth herein by the Receiving Party; (iii) was lawfully in the Receiving Party’s possession, without restriction as to confidentiality or use, at the time of disclosure by the Disclosing Party; (iv) is provided to the Receiving Party without restriction as to confidentiality or use by a third party without violation of any obligation to the Disclosing Party; or (v) is independently developed by employees or agents of the Receiving Party who did not access or use the Confidential Information.

The Receiving Party will treat the Disclosing Party’s Confidential Information with the same degree of care as the Receiving Party treats its own confidential and proprietary information, but in no event will such standard of care be less than a reasonable standard of care. The Receiving Party will promptly notify the Disclosing Party if it becomes aware that any of the Confidential Information of the Disclosing Party has been used or disclosed in violation of this Arrangement Letter.

Notwithstanding the foregoing, in the event that the Receiving Party becomes legally compelled to disclose any of the Confidential Information of the Disclosing Party, or as may be required by applicable regulations or professional standards, the Receiving Party will use commercially reasonable efforts to provide the Disclosing Party with notice prior to disclosure, to the extent permitted by law.

External Computing Options

If, at the State Bar’s request, any member of MGO agrees to use certain external commercial services, including but not limited to services for cloud storage, remote control, and/or file sharing options (collectively, “External Computing Options”), that are outside of MGO’s standard security protocol, the State Bar acknowledges that such External Computing Options may be associated with heightened security and privacy risks. Accordingly, MGO disclaims, and the State Bar agrees, to release MGO from, and indemnify MGO for, all liability arising out of or related to the use of such External Computing Options.

Use of Extraction Scripts or Services

With your approval, MGO may use Extraction Scripts or Services to extract certain general ledger and subledger information from your financial accounting system to facilitate the performance of our services. The

Extraction Scripts or Services and all information, content, materials, products (including software), and other services included in or otherwise made available to you through the Extraction Scripts or Services are provided by MGO on an “as is” and “as available” basis, unless otherwise specified in writing. MGO makes no representations or warranties of any kind, expressed or implied, as to the operation of the Extraction Scripts or Services, or the information, content, materials, products (including software), or other services included in or otherwise made available to you through the Extraction Scripts or Services, unless otherwise specified in writing. You expressly agree that your use of the Extraction Scripts or Services is at your sole risk, and you release MGO from any liability connected therewith. MGO shall not share or sell any of the extracted information to third parties, and MGO shall use such information solely to facilitate performance of the services described in this Agreement

Data Protection Compliance

Our Privacy Policy (“Privacy Policy”) is located on our website at <https://www.mgocpa.com/privacy>. Our Privacy Policy may be amended from time to time in our sole discretion and without prior notice, and is hereby incorporated by reference into this Arrangement Letter. You acknowledge that you have read and understand the Privacy Policy and agree to the practices as described therein.

We take reasonable steps to comply with all applicable privacy, cybersecurity, and data protection laws that may apply to Personal Information and Confidential Information we process on behalf of our clients. Upon written request, but not more than annually during the term of this Arrangement Letter, we will deliver to you a copy of our third-party provided ISO27001 report evidencing the operating effectiveness of our Information Technology (“IT”) control environment. We will also provide summaries of our IT security and disaster recovery policies and make our senior IT personnel reasonably available for discussion upon request. Our ISO27001 report and any information we disclose to you concerning our IT control environment shall constitute Confidential Information of MGO and shall be subject to the confidentiality obligations set forth in this Arrangement Letter.

Prior to disclosing to us or our Subcontractors or granting us or our Subcontractors with access to your data, you will identify in writing any personal, technical, or other data provided or made accessible to us or our Subcontractors pursuant to this Arrangement Letter that may be subject to heightened protections under applicable privacy, cybersecurity, export control, and/or data protection laws, including, but not limited to, protected health information pursuant to the Health Information Portability and Accountability Act of 1996 (“HIPAA”), classified or controlled unclassified information subject to the National Industrial Security Program, the National Industrial Security Program Operating Manual, or the Defense Federal Acquisition Regulation Supplement (“DFARS”), data subject to Export Administration Regulations (“EAR”), or International Traffic in Arms Regulations (“ITAR”) controlled data. Unless otherwise expressly agreed upon and specified in writing by MGO and the State Bar, you shall not provide us or any of our Subcontractors with access to such data and you shall be responsible for the handling of all such data in connection with the performance of the services requested hereunder, including, but not limited to, the scrubbing, de-identification, de-aggregation, protection, encryption, transfer, movement, input, storage, migration, deletion, copying, processing, and modification of such data.

MGO and the State Bar acknowledge and agree that they may correspond or convey information and documentation, including Confidential Information and Personal Information, via various forms of electronic transmission, including, but not limited to, Third-Party Products, such as, email, FTP and cloud-based sharing and hosting applications (e.g., portals, data analytics tools, and helpdesk and support ticketing

applications), and that neither party has control over the performance, operation, reliability, availability, or security of these electronic transmissions methods. Therefore, neither party will be liable for any loss, damage, expense, harm, disclosure or inconvenience resulting from the loss, delay, interception, corruption, unauthorized disclosure, or alteration of any electronic transmission where the party has used commercially reasonable efforts to protect such information. We offer our clients various platforms for the exchange of information. You hereby agree that you shall be bound by and comply with any and all user terms and conditions made available (whether by link, click-through, or otherwise) with respect to such platforms.

Personal Information

As used herein, the term “Personal Information” means any personal information that directly or indirectly identifies a natural person as may be defined by applicable privacy, data protection or cybersecurity laws, and includes, but is not limited to, nonpublic, personally identifiable information such as Social Security numbers, Social Insurance numbers, driver’s license numbers or state- or province-issued identification card numbers, credit or debit card numbers with or without any required security code, number or passwords, health information, and other personal information as defined by applicable laws, whether of the State Bar or the State Bar’s customers or other third parties.

Each party agrees to transmit Personal Information consistent with applicable laws and any other obligations the respective party may have. In the event you transmit to us Personal Information in an unencrypted format or via unencrypted means, you agree that we have no obligation to notify you of the foregoing.

You represent and warrant that you have provided all notices and obtained all consents required under applicable data protection laws prior to your collection, use and disclosure to us or our Subcontractors of such Personal Information and shall take reasonable steps to ensure that such Personal Information does not include irrelevant or unnecessary information about individuals.

Where we are acting as a service provider under the California Consumer Privacy Act, including as amended or replaced (“CCPA”), we (i) will not sell any Personal Information received from the State Bar; (ii) will not disclose Personal Information to another business, person, or third party, except for the purpose of maintaining or providing the services or exercising our rights as specified in this Arrangement Letter, including to provide Personal Information to advisers or sub-contractors, or to the extent such disclosure is required by law. We certify that we understand and will comply with the requirements enumerated in (i) and (ii). For the avoidance of doubt, all permitted uses of Personal Information by service providers that are enumerated in the CCPA are understood to apply to the Personal Information processed by us.

We are permitted to use all Personal Information to perform our obligations and exercise our rights under this Arrangement Letter. The parties agree that as part of the performance of the services as described in this Arrangement Letter, and as part of the direct business relationship between the parties, we may use the Personal Information to improve and develop services and for other similar internal and business purposes. We agree to maintain appropriate security measures to protect such Personal Information in accordance with applicable laws.

If we become aware of an unauthorized acquisition or use of State Bar-provided Personal Information, we will promptly inform you of such unauthorized acquisition or use as required by applicable laws and, upon your written request, reasonably cooperate with you at your sole cost in support of any breach notification requirements as imposed upon you by applicable laws.

Retention of Records

We will return to you all original records you provide to us in connection with this engagement. Further, in addition to providing you with those deliverables set forth in this Arrangement Letter, we will provide to

you a copy of any records we prepare or accumulate in connection with such deliverables which are not otherwise reflected in your books and records without which your books and records would be incomplete. You have the sole responsibility for retaining and maintaining in your possession or custody all of your financial and nonfinancial records related to this engagement. We will not host, and will not accept responsibility to host, any of your records. We, however, may maintain a copy of any records of yours necessary for us to comply with applicable law and/or professional standards or to exercise our rights under this Arrangement Letter. Any such records retained by us will be subject to the confidentiality obligations set forth herein and destroyed in accordance with our record retention policies.

Termination

Your failure to make full payment of any and all undisputed amounts invoiced in a timely manner constitutes a material breach for which we may refuse to provide deliverables and/or, upon written notice, suspend or terminate our services under this Arrangement Letter. We will not be liable to you for any resulting loss, damage or expense connected with the suspension or termination of our services due to your failure to make full payment of undisputed amounts invoiced in a timely manner.

In the event you terminate this engagement, you will pay us for all services rendered (including deliverables and products delivered), expenses incurred, and noncancelable commitments made by us on your behalf through the effective date of termination.

We will not be responsible for any delay or failure in our performance resulting from acts beyond our reasonable control or unforeseen or unexpected circumstances, such as, but not limited to, acts of God, government or war, riots or strikes, disasters, fires, floods, epidemics, pandemics or outbreaks of communicable disease, cyberattacks, and internet or other system or network outages. At your option, you may terminate this Arrangement Letter where our services are delayed more than 120 days; however, you are not excused from paying us for all amounts owed for services rendered and deliverables provided prior to the termination of this Arrangement Letter.

When an engagement has been suspended at the request of management or the Board of Trustees and work on that engagement has not recommenced within 120 days of the request to suspend our work, we may, at our sole discretion, terminate this Arrangement Letter without further obligation to you. Resumption of our work following termination may be subject to our client acceptance procedures and, if resumed, will require additional procedures not contemplated in this Arrangement Letter. Accordingly, the scope, timing and fee arrangement discussed in this Arrangement Letter will no longer apply. In order for us to recommence work, the execution of a new Arrangement Letter will be required.

We may terminate this Arrangement Letter upon written notice if we determine that our continued performance would result in a violation of law, regulatory requirements, applicable professional or ethical standards, or our client acceptance or retention standards.

The parties agree that those provisions of this Arrangement Letter which, by their context, are intended to survive, including, but not limited to, payment, limitations on liability, claim resolution, use and ownership, and confidentiality obligations, shall survive the termination of this Arrangement Letter.

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.

Miscellaneous

We may mention your name and provide a general description of the engagement in our client lists and marketing materials. Notwithstanding anything stated to the contrary in this Arrangement Letter, the State Bar acknowledges and consents that we also may utilize Confidential Information and Personal Information that you have provided to us in connection with this engagement to develop, enhance, modify, and improve technologies, tools, methodologies, services and offerings and/or for development or performance of data analysis, business analytics or insights, or other insight generation. Information developed in connection with these purposes may be used or disclosed to you or current or prospective clients to provide them services or offerings. We will not use or disclose such Confidential Information or Personal Information in a way that would permit the State Bar or an individual to be identified by third parties without your prior written consent.

The State Bar agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the State Bar agrees to contact us before it includes our reports, or otherwise makes reference to us, in any public or private securities offering. Our association with an official statement is a matter for which separate arrangements may be necessary. The State Bar agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed.

We agree that our association with any proposed offering is not necessary, providing the State Bar agrees to clearly indicate that we are not associated with the contents of any such official statement or memorandum. The State Bar agrees that the following disclosure will be prominently displayed in any such official statement or memorandum:

Macias Gini & O'Connell LLP, our independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this [official statement] [memorandum].

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, you agree to compensate us for any additional costs incurred as a result of your employment of one of our partners, principals or employees.

Entire Agreement

If any term or provision of this Arrangement Letter is determined to be invalid or unenforceable, such term or provision will be deemed stricken, and all other terms and provisions will remain in full force and effect.

This Arrangement Letter may be amended or modified only by a written instrument executed by both parties.

Electronic Signatures and Counterparts

Each party hereto agrees that any electronic signature of a party to this Arrangement Letter or any electronic signature to a document contemplated hereby (including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature. Any such electronically signed document shall be deemed (a) to be "written" or "in writing," (b) to have been signed and (c) to constitute a record established and maintained in the ordinary course of business and an original written record when printed from electronic files. Each party hereto also agrees that electronic delivery of a signature to any such document (via email or otherwise) shall be as effective as manual delivery of a manual signature. For purposes hereof, "electronic signature" includes, but is not limited to,

(a) a scanned copy (as a "pdf" (portable document format) or other replicating image) of a manual ink signature, (b) an electronic copy of a traditional signature affixed to a document, (c) a signature incorporated into a document utilizing touchscreen capabilities or (d) a digital signature. This Arrangement Letter may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement. Paper copies or "printouts," of such documents if introduced as evidence in any judicial, arbitral, mediation or administrative proceeding, will be admissible as between the parties to the same extent and under the same conditions as other original business records created and maintained in documentary form. Neither party shall contest the admissibility of true and accurate copies of electronically signed documents on the basis of the best evidence rule or as not satisfying the business records exception to the hearsay rule.

Please sign and return a copy of this Arrangement Letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements, including our respective responsibilities.

Acknowledgement and Acceptance

Each party acknowledges that it has read and agrees to all of the terms and conditions contained herein. Each party and its signatory below represents that said signatory is a duly authorized representative of such party and has the requisite power and authority to bind such party to the undertakings and obligations contained herein.

AGREED TO AND ACKNOWLEDGED BY:

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

Confirmed on behalf of the State Bar of California:

Audit Committee or Board Chair

Date

Chief Financial Officer

Date

Attachment I – 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 I – 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