



The State Bar *of California*

2023 Annual Financial Statement Audit Reports, Including Legal Services Trust Fund Report

Coco Zeng, Controller

Aracely Montoya-Chico, Chief Financial Officer

Audit Committee, May 10, 2024

Presentation Overview

- Audit reports and background
- Highlight of financial results
- Discussion on audit reports & required communication
 - Annie Louie- Partner with Macias Gini & O'Connell (MGO)



Background

- Audit Committee responsibility
- MGO was engaged in September 2023 for the FY 2023 audit
- Statutorily submission required by May 31
- Prepared by Office of Finance
- Reporting period – January 1 to December 31, 2023



2023 Audited Reports

Includes:

- A. Annual Audited Financial Statements & Independent Auditor's report
- B. Statement of Expenditures of Mandatory Fees
 - i. Compliance with Keller standard
 - ii. Cannot use mandatory fees paid by licensees for political or ideological activities not related to regulation of the legal profession
- C. Legal Services Trust Fund Program report
 - i. Provision of business and professions code 6210-6228
 - ii. Distribution of IOLTA funds to qualified legal services projects and legal support centers
- D. Report to the Audit Committee & the Board of Trustees



Statement of Net Position

Year over Year Comparison

	Dec 31, 2023 (in \$000s)	Dec 31, 2022 (in \$000s)	\$Var	% Var
Total Assets	\$457,720	\$295,480	\$162,240	55%
Cash and investments	313,642	155,941	157,701	101%
Capital assets	115,863	99,137	16,726	17%
Total Liabilities	\$248,671	\$197,583	\$51,088	26%
Lease liability	51,009	792	50,217	6341%
Loans payable	11,596	31,009	(19,413)	-63%
Net pension liability	92,287	81,349	10,938	13%
Total Net Position	\$226,873	\$114,048	\$112,825	99%

Highlights

- **Assets - increased by \$162M primarily driven by:**
 - a. significant rise in trust account revenues
 - b. increase in capital assets due to the leased asset for San Francisco office building, and
 - c. subscription assets related to the implementation of GASB 96
- **Liabilities - increased by \$51M primarily due to:**
 - a. Selling and leasing back the SF building in 2023, which increased the lease liability
 - b. increase in net pension liability due to an annual actuarial valuation, and
 - c. partial offset from a decrease in loans payable due to payoff of SF building-related loan



Statement of Revenues, Expenses and Changes in Net Position

Year over Year Comparison

	Dec 31, 2023 (in \$000s)	Dec 31, 2022 (in \$000s)	\$ Var	% Var
Operating Revenues	\$430,167	\$295,137	\$135,030	46%
Licensee fees and donations	106,991	106,637	354	0%
Trust account revenue	176,403	54,073	122,330	226%
Grant revenue	119,499	105,464	14,035	13%
Operating Expenses	\$328,715	\$290,562	\$38,153	13%
Chief Trial Counsel	73,022	64,172	8,850	14%
Admissions	25,477	25,450	27	0%
Grants	168,743	147,011	21,732	15%
Total nonoperating revenue and expenses	\$11,373	\$2,703	\$8,670	321%
Change in Net Position	\$112,825	\$7,277	\$105,548	1450%
Net Position – beginning	\$114,048	\$106,771	\$7,277	7%
Net Position – ending	\$226,873	\$114,048	\$112,825	99%

Highlights

- **Operating Revenues - increased \$135M due to:**
 - a. substantial increase in trust account revenue from higher account balances and interest yields, and
 - b. increase in grant revenues related to new grants administered
- **Operating Expenses - increased by \$38M due to:**
 - a. higher expenses associated with new positions in OCTC, and
 - b. increased grant expenses as more grant revenues were distributed in 2023





2023 AUDIT RESULTS

State Bar of California

Presented by Macias Gini & O'Connell LLP

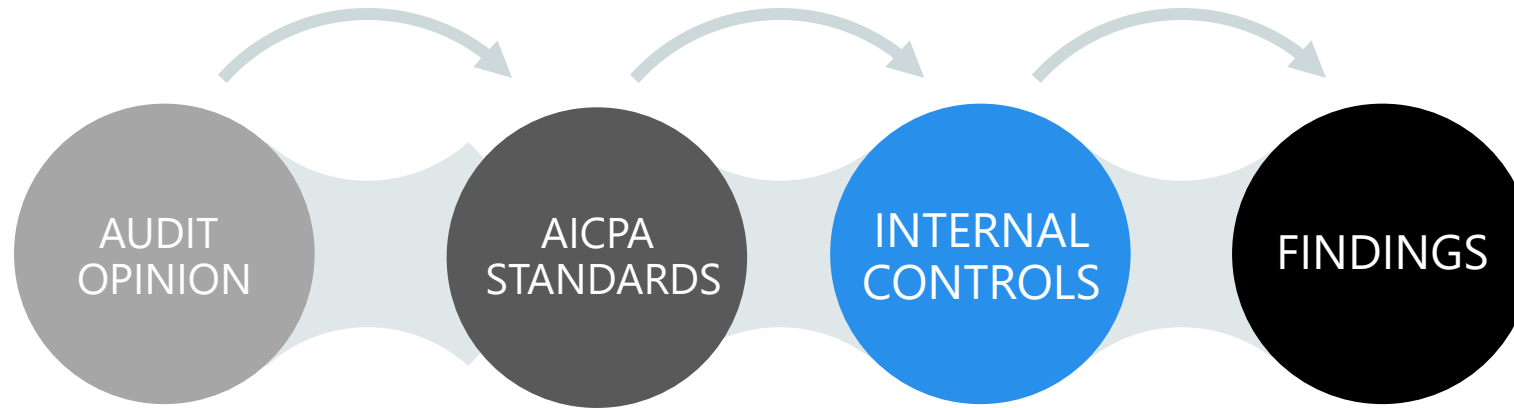
May 10, 2024

Scope of Services

1. Audit of the Basic Financial Statements
2. Examination report on State Bar of California's compliance with the Business and Professions Code related to the Legal Services Trust Fund
3. Examination report on the statement of expenditures of mandatory membership fees
4. Single Audit (*in progress*)
5. Report to the Board of Trustees

Auditor Responsibility

Our responsibility under U.S. Generally Accepted Auditing Standards and *Government 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 *Government Auditing Standards*, 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.

Management Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none">• Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP• Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – ICFR	<ul style="list-style-type: none">• 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
Management responsibilities – Other	<ul style="list-style-type: none">• To provide the auditor with:<ol style="list-style-type: none">1. access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;2. additional information that the auditor may request from management for the purpose of the audit; and3. unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence• Identifying and ensuring that the entity complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations• Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's:<ol style="list-style-type: none">1. disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's financial reporting2. acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	<ul style="list-style-type: none">• Oversight of the financial reporting process and internal control over financial reporting (ICFR)• Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none">• Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards• Ensuring that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the entity's financial statements.

Audit Results and Required Communications

Auditor's Report	Unmodified opinion
Deficiencies in internal controls	No matters to report
Significant accounting policies and practices	<p>Note 3 to basic financial statements Implementation of New GASB Statements:</p> <ul style="list-style-type: none">• Statement No. 94, <i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>• Statement No. 96, <i>Subscription-Based Information Technology Arrangements</i> (SBITA)• Statement No. 99, <i>Omnibus 2022</i> – para. 11-25 related to leases, public-private and public-public partnerships, and SBITAs <p>No exceptions noted.</p>

Required Communications (continued)

Significant accounting estimates

Fair value of investments	Investments are generally carried at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Allowance for doubtful accounts on accounts receivable	The allowance for losses on accounts receivable was based on historical experience and management's estimate regarding the likelihood of collectability.
Depreciation of capital assets, including leases and subscription-based information technology arrangements (SBITAs)	<p>Useful lives for depreciable capital assets were determined by management based on the nature of the capital asset. Lease and SBITA terms are derived from existing agreements and the State Bar's expectations for optional extensions or cancellations, where applicable. The State Bar uses the straight-line method of depreciation and amortization.</p> <p>The discount rate used for the calculation of the lease receivables and the subscription liabilities are based on the State Bar's incremental borrowing rate unless the rate is implicit in the lease.</p>
Pension and OPEB liabilities and related balances	Employer and employee contribution requirements, the net pension/OPEB liabilities and related deferred outflows and inflows of resources are based on actuarial calculations performed by the State Bar's and the CalPERS' independent actuaries.

Required Communications (continued)

Significant financial statement disclosures	<ul style="list-style-type: none">• Pension and OPEB benefits• Sale and leaseback of the San Francisco office building
Financial presentation and disclosure omissions	No matters to report
Corrected and uncorrected audit misstatements	No matters to report
Difficulties encountered in performing the audit	No matters to report
Disagreements with management	No matters to report
Representations Requested from Management	No matters to report
Management consultations with other independent accountants	No matters to report
Other Information in Documents Containing Audited Financial Statements	Required Supplementary Information (RSI) – unaudited Supplementary Information – audited in relation to the basic financial statements

Accounting Updates

Effective for fiscal year 2024

Statement No. 99, *Omnibus 2022* – para. 4-10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53

Statement No. 100, *Accounting Changes and Error Corrections*

Statement No. 101, *Compensated Absences*

Effective for fiscal year 2025

Statement No. 102, *Certain Risk Disclosures*

Questions?

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