



# THE STATE BAR OF CALIFORNIA

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**Title of Report:** 2012 Financial Statement and Independent Auditor's Report of the State Bar of California

**Statutory Citation:** Business and Professions Code section 6145

**Date of Report:** April 30, 2013

The State Bar of California has submitted its 2012 Financial Statement and Independent Auditor's Report to the Chief Justice of the Supreme Court, and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145.

This report consists of an independent auditor's report, management's discussion and analysis, the basic financial statements, the notes to the basic financial statements, and the required supplementary information. The basic financial statements provide information and understanding of the State Bar's Enterprise Fund and the Trust for the Post-Retirement Welfare Benefits Plan for Executive Staff Employees.

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

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

The full report is available at:

<http://www.calbar.ca.gov/AboutUs/Reports.aspx>

A printed copy of the report may be obtained by calling 916-442-8018.

**THE STATE BAR OF CALIFORNIA**

Financial Statements and  
Independent Auditor's Report  
For the Years Ended December 31, 2012 and 2011

and Supplementary Information  
For the Year Ended December 31, 2012

**THE STATE BAR OF CALIFORNIA**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
State Bar of California  
San Francisco, California

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

We have audited the accompanying financial statements of the business-type activity and the Trust for Post-Retirement Welfare Benefit Plan for Executive Staff Employees of the State Bar of California (State Bar) as of and for the years ended December 31, 2012 and 2011, which collectively comprise the State Bar's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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

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

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and the Trust for Post-Retirement Welfare Benefit Plan for Executive Staff Employees of the State Bar as of December 31, 2012, and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress, and the schedule of employer contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Macias Gini & Cunnell LLP*

Walnut Creek, California  
April 29, 2013

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – Unaudited**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**Introduction**

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

**The State Bar of California**

Created by the state legislature in 1927, the State Bar of California is a public corporation within the judicial branch of government, serving as an arm of the California Supreme Court. In 1960, California voters approved a ballot measure adding the State Bar as an entity in the State constitution. The primary purpose of the State Bar is to serve as an administrative adjunct to the California Supreme Court in all matters pertaining to the admission, discipline, and regulation of California lawyers. The State Bar Act and California court rules vest in the State Bar the duty to regulate the legal profession, formulate and elevate educational and professional standards, raise the quality of legal services, advance the science of jurisprudence, and aid in the improvement of the administration of justice.

The State Bar is a unified bar, meaning that membership is mandatory for all attorneys who are licensed to practice law in the State of California. The State Bar is governed by a Board of Trustees. The current board includes ten elected lawyers from the State Bar Districts holding office before December 31, 2011; two lawyers elected by members of the State Bar in the new State Bar Districts; two public members; one lawyer member appointed by the California Supreme Court, one lawyer member appointed by the Speaker of the Assembly; and the State Bar president, who is elected by the other board members. These members with the current vacancies of four other public members make up the twenty-one seats of the 2012-2013 board year.

Beginning in 2012, SB 163 (Stats. 2011, Ch. 417) changed the governance structure of the State Bar. The State Bar’s governing board, formerly known as the Board of Governors, has been renamed to the Board of Trustees. Between January 1, 2012 and October 31, 2014, the board will gradually transition from twenty-three members to nineteen members. The nineteen members will include six lawyer members elected from new State Bar Districts based on California’s six appellate court districts; five lawyer members appointed by the California Supreme Court; one lawyer member appointed by the Senate Committee on Rules; one lawyer member appointed by the Speaker of the Assembly; and six public members of whom four are appointed by California’s Governor, one by the State Senate Committee on Rules and one by the Speaker of the Assembly.

The State Bar’s programs are segregated into twenty-four separate program funds - the largest being the General Fund. The State Bar’s programs are financed primarily by fees paid by attorneys and applicants to practice law. At the end of 2012, the State Bar had approximately 242,000 members, an increase of 2.3% compared to 2011, making it the largest unified state bar in the country.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

Membership fees for 2012 and 2011 were set by the State Legislature at \$410 for active members and \$125 for inactive members, with a one-time rebate of \$10 for 2012. The membership fees are allocated to the following funds:

	2012		2011	
	Active Fee	Inactive Fee	Active Fee	Inactive Fee
General Fund	\$ 285	\$ 45	\$ 295	\$ 55
General Fund-Discipline Activity	25	25	25	25
Legal Services Trust Fund *	20	20	10	10
Legislative Activity Fund *	5	5	5	5
Bar Relations & Elimination of Bias Fund *	5	5	5	5
Client Security Fund	40	10	40	10
Building Special Assessment Fund	10	10	10	10
IT Special Assessment Fund	10	-	10	-
Lawyers Assistance Program Fund	10	5	10	5
Total	<u>\$ 410</u>	<u>\$ 125</u>	<u>\$ 410</u>	<u>\$ 125</u>
Less: \$10 Rebate for 2012:	<u>(10)</u>	<u>(10)</u>		
Net Membership Fees:	<u>\$ 400</u>	<u>\$ 115</u>		

\* Optional fees; member may deduct from annual membership fee.

**Financial Statement Overview**

The State Bar’s financial report consists of Management’s Discussion and Analysis, the basic financial statements, the notes to the basic financial statements, and the required supplementary information. The basic financial statements provide information and understanding of the State Bar’s Enterprise Fund and the Trust for the Post-Retirement Welfare Benefits Plan for Executive Staff Employees (“OPEB Trust”). The basic financial statements and related information are organized in this report as follows:

The Statements of Net Position—present the financial position of the State Bar at the end of the fiscal year. The statements report all assets, liabilities, and the difference as net position. The net position section is displayed in three components – restricted; invested in capital assets; and unrestricted.

The Statements of Revenues, Expenses, and Changes in Net Position—disclose the sources of revenues, the various expenses, and the impact on net position for the State Bar.

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

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

Required Supplementary Information—presents schedules of funding progress for the State Bar’s pension and OPEB Trust plans, and the schedule of employer contributions for the OPEB Trust plan.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**Financial Highlights**

**Fiscal Year 2012 Compared to Fiscal Year 2011**

**Statements of Net Position**

The following is a summary comparison of the State Bar's Statements of Net Position as of December 31, 2012 and 2011:

	<b>2012</b>	<b>2011 *</b>	<b>Change</b>
Cash, cash equivalents, and investments	\$ 109,646,639	\$ 98,404,727	\$ 11,241,912
Other assets	10,775,169	16,306,237	(5,531,068)
Capital assets, net	<u>75,741,178</u>	<u>31,687,408</u>	<u>44,053,770</u>
Total assets	<u>196,162,986</u>	<u>146,398,372</u>	<u>49,764,614</u>
Current liabilities	36,578,890	38,587,369	(2,008,479)
Noncurrent liabilities	<u>24,622,027</u>	<u>503,661</u>	<u>24,118,366</u>
Total liabilities	<u>61,200,917</u>	<u>39,091,030</u>	<u>22,109,887</u>
Net position			
Restricted	73,421,180	45,857,223	27,563,957
Invested in capital assets, net of related debt	50,363,577	31,687,408	18,676,169
Unrestricted	<u>11,177,312</u>	<u>29,762,711</u>	<u>(18,585,399)</u>
Total net position	<u>\$ 134,962,069</u>	<u>\$ 107,307,342</u>	<u>\$ 27,654,727</u>

\* As of December 31, 2011, liabilities were restated and decreased by \$19,137,103. The components of net position were also restated and increased the restricted balance by \$11,921,822 and the unrestricted balance by \$7,215,281. See Note 4 for discussion.

**Assets** – As of December 31, 2012, the State Bar's total assets were \$196.2 million, up by \$49.8 million, or 34.0% compared to \$146.4 million last year. The increase is due to a combination of (1) a net \$44 million increase in capital assets due to the Los Angeles building acquisition and the sale of the Los Angeles parking lot, partially offset by normal depreciation; (2) an \$11.3 million increase in cash and investments, and (3) a \$5.5 million decrease in other assets and grant receivables.

Cash and investments consist of balances in demand deposit accounts, money market accounts, the State Bar's share of California's Local Agency Investment Fund, and investment securities. For the year ended December 31, 2012, the combined cash and investment balance was \$109.6 million, which is an \$11.2 million or an 11.4% increase from \$98.4 million last year. The primary reasons for this increase are the retention of \$4.3 million in cash proceeds from the sale of the Los Angeles parking lot as well as reduced operational costs in 2012.

The combined balance in other assets consisted of interest receivable, prepayments, grants receivable, other receivable, and the Other Postemployment Benefits Obligation (OPEB) asset. The combined balance declined by \$5.5 million, or 33.9% compared to 2011, due largely to the decrease in Equal Access Fund grant receivables. In 2011, there was a delay in the receipt of these grant revenues that resulted in the recording of a grant receivable. In 2012, the grant proceeds were received before the end of the year.

## THE STATE BAR OF CALIFORNIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued) YEARS ENDED DECEMBER 31, 2012 AND 2011

**Liabilities** – The Bar's total liabilities consisted of accounts payable to vendor accounts, unearned fees collected in advance, grants payable, loans payable, and employee vacation and sick leave accruals. As of December 31, 2012, State Bar's total liabilities were \$61.2 million, up by \$22.1 million, or 51% compared to last year. The increase is mainly due to a combination of (1) a \$25.4 million mortgage loan obligation obtained for the Los Angeles building acquisition; (2) a \$3.2 million increase in accounts payable to vendors due to the timing of payments; (3) a \$0.8 million increase in unearned member dues collected in advance; and (4) offset by a \$7.3 million net decrease in grants payables due to the timing of quarterly grant distribution to grantees.

**Net Position** – The State Bar's net position as of December 31, 2012, was \$135.0 million, which is up by \$27.7 million, or 25.8% compared to 2011. The increase in net position is due largely to the \$24.6 million gain generated from the disposal of a parking lot in Los Angeles.

#### Statements of Revenues and Expenses

Following is a summary comparison of the State Bar's statements of revenues and expenses for the years ended December 31, 2012 and 2011:

	2012	2011 *	Change
<b>OPERATING REVENUES</b>			
Program revenues	\$ 127,623,294	\$ 126,964,957	\$ 658,337
Other	4,786,458	4,701,284	85,174
Total operating revenues	<u>132,409,752</u>	<u>131,666,241</u>	<u>743,511</u>
<b>OPERATING EXPENSES</b>			
Program expenses	101,554,896	122,697,785	(21,142,889)
General and administration	28,868,915	14,751,414	14,117,501
Total operating expenses	<u>130,423,811</u>	<u>137,449,199</u>	<u>(7,025,388)</u>
OPERATING INCOME/(LOSS)	1,985,941	(5,782,958)	7,768,899
NONOPERATING REVENUES	<u>25,668,786</u>	<u>1,296,276</u>	<u>24,372,510</u>
CHANGE IN NET POSITION	27,654,727	(4,486,682)	32,141,409
NET POSITION - beginning of year	<u>107,307,342</u>	<u>111,794,024</u>	<u>(4,486,682)</u>
NET POSITION - end of year	<u>\$ 134,962,069</u>	<u>\$ 107,307,342</u>	<u>\$ 27,654,727</u>

\*Net position, beginning, for 2011 was restated and increased by \$11,620,745. In addition, programs expenses were restated and decreased by \$7,516,358 for 2011. See Note 4 for discussion.

**Operating Revenues** – For the fiscal year ended December 31, 2012, the State Bar's total operating and non-operating revenues were \$158.1 million.

Total operating revenues for all programs for 2012 were \$132.4 million, which is at a near constant level compared with last year. The net fiscal impact of Senate Bill 163 regarding the one-time member dues rebate of \$10 for each member in 2012 is minimal, as additional fees from new members partially offset the revenue loss from this rebate. Total non-operating revenues for 2012 were \$25.7 million, which is up by \$24.4 million from 2011, due primarily to the capital gain generated from the disposal of land.

## THE STATE BAR OF CALIFORNIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued) YEARS ENDED DECEMBER 31, 2012 AND 2011

**Operating Expenses** – For fiscal year 2012, the State Bar's total operating expenses were \$130.4 million, which were down by \$7.0 million or 5.1% compared to \$137.4 million last year. The decrease is a result of cost savings from operations and lower personnel costs. In 2012, a change was made in the classification of certain costs between program expenses and general and administration costs. In 2011 program expenses included allocated indirect costs to all State Bar programs. In 2012, indirect costs were classified as general and administrative expense to better reflect direct program expenses. Additionally, the 2011 operating expenses classified the expenses of the State Bar Education Foundation – which administered many of the Sections educational programs – under general and administration costs. On December 31 2011, the Education Foundation was closed. Accordingly, the expenses previously reported under the Foundation are now classified as Sections program costs.

#### Fiscal Year 2011 Compared to Fiscal Year 2010

##### Statements of Net Position

Following is a summary comparison of the State Bar's Statements of Net Assets as of December 31, 2011 and 2010:

	2011	2010 *	Change
Cash, cash equivalents, and investments	\$ 98,404,727	\$ 107,625,606	\$ (9,220,879)
Other assets	16,306,237	12,516,196	3,790,041
Capital assets, net	<u>31,687,408</u>	<u>32,067,715</u>	<u>(380,307)</u>
Total assets	<u>146,398,372</u>	<u>152,209,517</u>	<u>(5,811,145)</u>
Current liabilities	38,587,369	39,860,508	(1,273,139)
Noncurrent liabilities	<u>503,661</u>	<u>554,985</u>	<u>(51,324)</u>
Total liabilities	<u>39,091,030</u>	<u>40,415,493</u>	<u>(1,324,463)</u>
Net position			
Restricted	45,857,223	46,586,104	(728,881)
Invested in capital assets	31,687,408	32,067,715	(380,307)
Unrestricted	<u>29,762,711</u>	<u>33,140,205</u>	<u>(3,377,494)</u>
Total net position	<u>\$ 107,307,342</u>	<u>\$ 111,794,024</u>	<u>\$ (4,486,682)</u>

\* As of December 31, 2010, liabilities were restated and decreased by \$11,620,745. Restricted net position was also restated and increased by \$11,620,745. See Note 4 for discussion.

**Assets** – For the fiscal year ended December 31, 2011, the State Bar's total assets were \$146.4 million, down by \$5.8 million, or 3.8% compared to \$152.2 million last year. The decrease is due to a combination of (1) a net decrease of \$9.2 million in cash and investments; (2) a \$0.8 million decrease in accounts receivable and other assets; (3) a \$0.4 million decrease in capital asset due to normal depreciation; and (4) partially offset by a \$4.7 million increase in the Other Postemployment Benefits (OPEB) asset.

Cash and investments consist of balances in demand deposit accounts, money market accounts, the State Bar's share of California's Local Agency Investment Fund, and investment securities. For the year ended December 31, 2011, the combined cash and investment balance was \$98.4 million. The decrease of \$9.2 million, or an 8.6% decline compared to \$107.6 million last year, is due to a \$6.7 million scheduled employer contribution to the OPEB Trust, and the additional payroll costs incurred in 2011 as a result of the Board of Trustees' approval of 5% lump sum payments to all employees, as well as severance payments to retirees accepted for the separation incentive program.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

The combined balance in other assets consisted of interest receivable, prepayments, grants receivable, other receivable, and the OPEB asset. The combined balance increased by \$3.8 million, or 30.3% compared to 2010. The increase is due primarily to the scheduled contribution to the OPEB Trust previously mentioned, and is partially offset by current year OPEB expenses of \$2.0 million.

Capital assets decreased by \$0.4 million compared to last year. The 1.2% decrease was primarily attributable to normal depreciation on capital assets, partially offset by the addition of office equipment.

**Liabilities** – The State Bar's total liabilities for 2011 were \$39.1 million. The decrease of \$1.3 million, or 3.3%, when compared to last year is primarily due to a \$2.0 million decrease in grants payable.

**Net Position** – The State Bar's net assets as of December 31, 2011, were \$107.3 million, down by \$4.5 million, or 4.0% compared to 2010. The decrease in net position reflects the result of operating losses in various program funds, such as General Fund, Annual Meeting Fund, Benefit Reserve Fund, Education Foundation Fund, Elimination of Bias and Bar Relations Fund, Equal Access Fund, Lawyer Assistance Fund, Legal Services Trust Fund, Technology Improvements Fund, and Fixed Asset Fund. At December 31, 2011, the Legal Services Trust Fund and the Support and Administration program fund had net deficits totaling \$0.4 million.

**Statements of Revenues and Expenses**

Following is a summary comparison of the State Bar's statements of revenues and expenses for the years ended December 31, 2011 and 2010:

	2011 *	2010 *	Change
<b>OPERATING REVENUES</b>			
Program revenues	\$ 126,964,957	\$ 124,835,212	\$ 2,129,745
Other	4,701,284	5,092,704	(391,420)
Total operating revenues	<u>131,666,241</u>	<u>129,927,916</u>	<u>1,738,325</u>
<b>OPERATING EXPENSES</b>			
Program expenses	122,697,785	112,520,532	10,177,253
General and administration	14,751,414	14,815,663	(64,249)
Total operating expenses	<u>137,449,199</u>	<u>127,336,195</u>	<u>10,113,004</u>
OPERATING INCOME/(LOSS)	(5,782,958)	2,591,721	(8,374,679)
NONOPERATING REVENUES	<u>1,296,276</u>	<u>1,504,217</u>	<u>(207,941)</u>
CHANGE IN NET POSITION	<u>(4,486,682)</u>	<u>4,095,938</u>	<u>(8,582,620)</u>
NET POSITION - beginning of year	<u>111,794,024</u>	<u>107,698,086</u>	<u>4,095,938</u>
NET POSITION - end of year	<u>\$ 107,307,342</u>	<u>\$ 111,794,024</u>	<u>\$ (4,486,682)</u>

\*Net position, beginning, for 2011 and 2010, was restated and increased by \$11,620,745 and \$8,712,766, respectively. In addition, programs expenses were restated and decreased by \$7,516,358 and \$2,907,979, for 2011 and 2010, respectively. See Note 4 for discussion.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**Operating Revenues** – For the fiscal year ended December 31, 2011, the State Bar's total operating and non-operating revenues were \$133.0 million.

Total operating revenues for all programs for 2011 were \$131.7 million, which was an increase of \$1.7 million or 1.3% compared to 2010. The increase was due to a combination of (1) a \$1.5 million increase in membership revenue due to additional revenue from new members and late penalties; (2) a \$0.9 million increase in Legal Specialization fees due to fee increases in 2011; (3) a \$1.2 million increase in examination application fees and continuing legal education fees; and (4) a \$1.7 million decrease in Legal Services Trust Fund (LSTF) trust account interest revenue, grant revenues, and the EAF AB145 filing fee.

Revenues from membership fees for the General Fund for 2011 were \$58.9 million, which was slightly down by \$0.5 million compared to \$59.4 million in 2010. The \$10 diversion from General Fund membership dues to the Temporary Emergency Legal Services Voluntary Assistance Program under the LSTF effectively reduced member dues revenue available to the General Fund by approximately \$1.7 million. With additional fees from new members and increases in late payment penalty revenue in 2011, the General Fund is able to maintain its revenue at basically the same level as in 2010.

Non-operating revenues for 2011 are \$1.3 million, which were down by \$0.2 million or 13.8% compared to 2010. The decrease was due primarily to the decrease in investment income resulting from the decline in government bond yields in 2011.

**Operating Expenses** – For fiscal year 2011, the State Bar's total operating expenses were \$137.4 million, which represents a \$10.1 million or 7.9% increase compared to \$127.3 million last year. The increase is due to a combination of (1) a \$4.5 million increase in Client Security Fund claims payout; (2) an approximately \$3.7 million additional payroll cost as a result of new hiring, the Board of Trustees' approval of a 5% lump sum payment to all employees, as well as severance payments to retirees under the separation incentive program; and (3) an increase of \$1.9 million in other program costs. These overall increases in expenditures should be viewed in the appropriate context. Last year, in response to the Governor's veto of the 2010 fee bill, the State Bar took various steps to postpone certain program costs and delayed the filling of a significant number of vacant positions. After adjusting for the 2011 increase in claims expenses, the operating expenditures for 2011 are generally in line with the baseline operating expenditures of 2008 and 2009.

**Capital Asset and Debt Administration**

In November 2012, the State Bar purchased a building located at 845 South Figueroa Street in Los Angeles to house its Southern California operations upon expiration of the State Bar's current lease in 2014. The purchase price of the five-story building was \$50 million. Tenant improvements, moving costs, broker's commissions and interim debt service are estimated at \$20 million. Funding sources for the total project costs are: \$28 million from the sale of the State Bar's Los Angeles parking lot; \$25.5 million in loan proceeds from Bank of America; \$10.2 million from the \$10 dedicated building fee; and approximately \$6.3 million from available fund balances and interfund loans.

Additional information on the State Bar's capital assets and loans payable can be found in Notes 6 and 8, respectively, of this report.

**THE STATE BAR OF CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**Economic Factors Facing the State Bar**

Each year, the California State Legislature approves a State Bar dues bill that authorizes the State Bar to charge the annual membership fee that is set by the Board of Trustees to pay for discipline and other State Bar functions.

Authority for the collection of 2013 dues was approved on September 17, 2012, under Assembly Bill 2685. This bill established the 2013 dues at the same level as 2012 and continues the \$20 diversion to the Temporary Emergency Legal Services Voluntary Assistance Option pursuant to Sections 6140 and 6141 of the State Bar Act. Under this legislation, members may elect to reduce their fees by this amount if they choose not to support these activities. The funding associated with the \$20 optional fee will be directed to the State Bar's Legal Services Trust Fund program for distribution to nonprofit organizations that provide free civil legal services to low income Californians. The optional fee diversion will sunset at the end of 2013.

**Financial Contact**

The State Bar's financial statements are designed to present readers with a general overview of the State Bar's finances and to demonstrate the State Bar's accountability. If you have any questions about the report or need additional financial information, please contact the State Bar's Chief Financial Officer at 180 Howard Street, San Francisco, California 94105.

**THE STATE BAR OF CALIFORNIA**  
**BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 63,022,957	\$ 54,784,513
Investments	46,623,682	43,620,214
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,861,663 in 2012 and \$1,925,289 in 2011	2,647,616	8,003,117
Other current assets	<u>1,362,959</u>	<u>1,133,016</u>
Total current assets	<u>113,657,214</u>	<u>107,540,860</u>
Noncurrent assets		
Other postemployment benefits assets	6,764,594	7,170,104
Capital assets		
Nondepreciable	48,664,375	4,596,490
Depreciable, net	<u>27,076,803</u>	<u>27,090,918</u>
Total noncurrent assets	<u>82,505,772</u>	<u>38,857,512</u>
Total assets	<u>196,162,986</u>	<u>146,398,372</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and other liabilities	10,378,470	7,181,823
Unearned fees collected in advance	22,213,686	21,383,096
Loans payable	1,244,649	-
Grants payable	<u>2,742,085</u>	<u>10,022,450</u>
Total current liabilities	<u>36,578,890</u>	<u>38,587,369</u>
Noncurrent liabilities		
Loans payable	24,132,952	-
Compensated absences	<u>489,075</u>	<u>503,661</u>
Total noncurrent liabilities	<u>24,622,027</u>	<u>503,661</u>
Total liabilities	<u>61,200,917</u>	<u>39,091,030</u>
<b>NET POSITION</b>		
Restricted	73,421,180	45,857,223
Invested in capital assets, net of related debt	50,363,577	31,687,408
Unrestricted	<u>11,177,312</u>	<u>29,762,711</u>
Total net position	<u>\$ 134,962,069</u>	<u>\$ 107,307,342</u>

See accompanying notes to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>OPERATING REVENUES</b>		
Membership fees and donations	\$ 76,712,003	\$ 76,104,672
Examination application fees	18,553,395	17,527,293
Trust account revenue	5,007,709	6,077,611
Law practices (sections) fees	4,875,667	4,820,817
Seminar/workshop revenue	1,012,426	1,084,016
Advertising revenue	143,608	87,932
Convention income	1,080,889	1,102,331
Legal specialization fees	1,999,741	1,791,879
Law corporation registration fees	772,107	735,626
Continuing legal education fees	1,589,772	1,593,599
Grants	10,169,532	10,220,390
EAF AB145 filing fees	5,706,445	5,818,791
Other	<u>4,786,458</u>	<u>4,701,284</u>
Total operating revenue	<u>132,409,752</u>	<u>131,666,241</u>
<b>OPERATING EXPENSES</b>		
Discipline and adjudication	36,376,838	55,757,792
Examination costs and administration	18,069,136	18,516,019
Grants	26,838,463	28,931,145
Law practices (sections)	7,661,473	4,699,933
CSF application payments	6,384,848	7,372,856
Communications	683,334	1,170,969
Administration of justice	575,228	560,944
Governance	1,693,648	1,416,941
Administration of the profession	2,081,127	2,688,099
Program development	1,190,801	1,583,087
General and administration	<u>28,709,422</u>	<u>14,751,414</u>
Total operating expenses	<u>130,264,318</u>	<u>137,449,199</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>2,145,434</u>	<u>(5,782,958)</u>
<b>NONOPERATING REVENUES</b>		
Investment income	293,976	385,982
Gain on disposal of land	24,563,140	-
Rental income	811,670	910,294
Interest expense on loan	<u>(159,493)</u>	<u>-</u>
Total nonoperating revenues	<u>25,509,293</u>	<u>1,296,276</u>
<b>CHANGE IN NET POSITION</b>	27,654,727	(4,486,682)
<b>NET POSITION—beginning of year (restated)</b>	<u>107,307,342</u>	<u>111,794,024</u>
<b>NET POSITION—end of year</b>	<u>\$ 134,962,069</u>	<u>\$ 107,307,342</u>

See accompanying notes to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from members, applicants, grants and other professionals	\$ 138,505,974	\$ 132,253,023
Payments to suppliers	(83,744,088)	(84,503,736)
Payments to employees	<u>(49,067,777)</u>	<u>(57,541,745)</u>
Net cash provided by/(used in) operating activities	<u>5,694,109</u>	<u>(9,792,458)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of investments	52,483,431	33,077,037
Purchases of investments	(55,486,899)	(40,500,000)
Interest received from investments	325,150	427,710
Cash received from rental income	<u>870,365</u>	<u>910,294</u>
Net cash used in investing activities	<u>(1,807,953)</u>	<u>(6,084,959)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(48,902,925)	(766,425)
Sale of capital assets	27,947,015	-
Proceeds from loan agreement	25,500,000	-
Payment of obligations under loan agreement	(122,399)	-
Interest paid on debt	<u>(69,403)</u>	<u>-</u>
Net cash provided by/(used in) capital and and related financing activities	<u>4,352,288</u>	<u>(766,425)</u>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,238,444</b>	<b>(16,643,842)</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u><b>54,784,513</b></u>	<u><b>71,428,355</b></u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u><u><b>\$ 63,022,957</b></u></u>	<u><u><b>\$ 54,784,513</b></u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES</b>		
Operating loss	\$ 2,145,434	\$ (5,782,958)
Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities		
Depreciation and amortization	1,465,280	1,146,732
Changes in assets and liabilities		
Accounts and other receivables	5,265,632	610,370
Other postemployment benefits assets	405,510	(4,639,275)
Other current assets	(229,943)	197,136
Accounts payable and other liabilities	3,091,971	673,001
Unearned fees collected in advance	830,590	(23,588)
Grants payable	<u>(7,280,365)</u>	<u>(1,973,876)</u>
Net cash provided by/(used in) operating activities	<u><u><b>\$ 5,694,109</b></u></u>	<u><u><b>\$ (9,792,458)</b></u></u>

See accompanying notes to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**FIDUCIARY FUND – TRUST FOR POST-RETIREMENT WELFARE**  
**BENEFITS PLAN FOR EXECUTIVE STAFF EMPLOYEES**  
**STATEMENTS OF PLAN NET POSITION**  
**DECEMBER 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and cash equivalents		
Money market funds	\$ 5,387,019	\$ 2,861,944
Investments		
U.S. government agencies	6,003,810	-
U.S. Treasury obligations	-	11,498,780
Interest receivable	8,726	11,666
Total assets	11,399,555	14,372,390
 <b>NET POSITION HELD IN TRUST FOR</b>		
POST-RETIREMENT WELFARE BENEFITS	\$ 11,399,555	\$ 14,372,390

See accompanying notes to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**FIDUCIARY FUND – TRUST FOR POST-RETIREMENT WELFARE**  
**BENEFITS PLAN FOR EXECUTIVE STAFF EMPLOYEES**  
**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>ADDITIONS</b>		
Employer contributions	\$ 935,378	\$ 6,681,208
Investment income/(expense)		
Interest income	29,126	14,389
Net depreciation in the fair value of plan investments	<u>3,855</u>	<u>(12,185)</u>
Total additions	<u>968,359</u>	<u>6,683,412</u>
<b>DEDUCTIONS</b>		
Transfer to California Employers' Retiree Benefit Trust	3,000,000	-
Benefits payments	935,378	681,208
Bank processing fees	<u>5,816</u>	<u>5,481</u>
Total deductions	<u>3,941,194</u>	<u>686,689</u>
Change in trust net position	<u>(2,972,835)</u>	<u>5,996,723</u>
<b>NET POSITION HELD IN TRUST FOR</b>		
<b>POST-RETIREMENT WELFARE BENEFITS</b>		
Beginning of year	<u>14,372,390</u>	<u>8,375,667</u>
End of year	<u>\$ 11,399,555</u>	<u>\$ 14,372,390</u>

See accompanying notes to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**1. DESCRIPTION OF ENTITY**

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

Prior to 2012, the State Bar’s reporting entity included a blended component unit – the State Bar Education Foundation (“Education Foundation”). This nonprofit public benefit corporation organized and administered the educational programs and activities conducted by the State Bar for a number of years. The Education Foundation was dissolved on December 31, 2011; however, the Education Foundation continued to administer educational programs throughout 2011 and was recorded in the State Bar’s financial statements as a blended component unit for that year. This information is important to readers of the 2012 financial statements in understanding the change in the reporting entity. The expenses associated with educational programs are now reported as operating expenses of the State Bar’s Law Practice Sections.

**2. BASIS OF PRESENTATION**

The basic financial statements, providing information of the State Bar’s Enterprise Fund and the Trust for Post-Retirement Welfare Benefits Plan for Executive Staff employees (“OPEB Trust”), have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”). The State Bar follows the “business-type” activities reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, that provides a comprehensive one-line look at the State Bar’s financial activities.

**Enterprise Fund**—The Enterprise Fund is used to report all business-type activities. The State Bar maintains twenty-five individual program funds for internal reporting purposes. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the related cash flows.

**Fiduciary Fund**—The State Bar uses the Fiduciary Fund to account for assets held in trust for the Post-Retirement Welfare Benefits Plan for Executive Staff Employees (“OPEB Plan”). The Fiduciary Fund is reported using the economic measurement focus and the accrual basis of accounting. The OPEB Plan does not issue a separate stand-alone financial statement. The assets in this OPEB Plan are held by the State Bar as a trustee to pay health care premiums for retired executive employees, and the resources in this Plan are not available to support the State Bar’s other programs. Contributions are recognized as additions when paid into the OPEB Trust. Benefits are recognized when due and payable under the provisions of the OPEB Plan. Administrative costs are paid by the State Bar.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Cash and Cash Equivalents** include all cash and liquid investments with remaining maturity of three months or less at the date of purchase. At December 31, 2012, and 2011, cash equivalents consisted of demand deposit accounts, money market accounts and deposits in the California Local Agency Investment Fund (LAIF).

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

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

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

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

The Legal Services Trust Fund receives interest on attorney-client trust accounts and distributes those funds as grants to eligible programs throughout California. Grant expense is recognized in the period in which the Legal Services Trust Fund Commission awards the grants. Grants payable represent unpaid installments on awarded grants.

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

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

*Defined Pension Benefits* are reported in accordance with the provisions of GASB Statement No. 50, *Pension Disclosures – an amendment to GASB Statement No. 25 and No. 27*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. See Note 8 for related disclosures.

*Other Postemployment Benefits* are reported in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. See Note 10 for related disclosures.

*Restricted Net Position* reflects the net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Restricted net position was \$64.2 million at December 31, 2012, of which \$52.2 million was restricted by enabling legislation; and \$45.9 million at December 31, 2011, of which \$41.6 million was restricted by enabling legislation.

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

**Implementation of New Accounting Standards**

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, amends Statement No. 45 to clarify that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The State Bar's most recent actuarial evaluation is dated June 30, 2011, the same date as the most recent valuation for the California Employers' Retiree Benefit Trust, in which the State Bar participates.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement codifies all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The State Bar has evaluated this pronouncement and has determined no significant impact to the financial statements.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The State Bar has revised its financial statements and related note disclosures to reflect change in reference from net assets to net position. The State Bar noted no other significant impacts to the financial statements.

**4. CLIENT SECURITY FUND RESTATEMENT**

Business and Professions Code section 6140.5 authorizes the State Bar to establish the Client Security Fund (CSF) “to relieve or mitigate pecuniary losses caused by the dishonest conduct of those active members of the bar.” Each active member of the State Bar is assessed \$40 and each inactive member is assessed \$10 as part of their respective annual membership fees to be applied to CSF. Payment from CSF is discretionary and the bar is free to prescribe applicable regulations and conditions for payments.

In prior years, the State Bar reported an estimated liability of expected CSF payments based on historical payout ratios and the number of outstanding applications at year-end. This liability was reported as other current liabilities and noncurrent claims payable in the State Bar’s consolidated financial statements even though payouts from this fund are completely discretionary and no applicant to the program has any right to payment.

In 2012, the State Bar updated its legal analysis of CSF and the governing rules of the program and determined that no liability should be recorded in the financial statements because the State Bar did not have any outstanding obligations, as determined by final approved applications at year-end. Accordingly, net position was restated and increased by \$11,620,745 as of January 1, 2011.

**5. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**A. Enterprise Fund**

*Cash and cash equivalents*—At December 31, 2012, cash equivalents consisted of demand deposit accounts, money market accounts and deposits in the California Local Agency Investment Fund (LAIF). At December 31, 2012, the carrying amount of the State Bar’s deposits was \$20,361,381 and the bank balance was \$18,146,210. At December 31, 2011, the carrying amount of the State Bar’s deposits was \$8,571,555 and the bank balance was \$6,259,414. The difference between the carrying amount and the bank balance represents outstanding checks and deposits in transit. The State Bar’s deposits were insured up to \$250,000 by the Federal Deposit Insurance Corporation and the balance in excess of \$250,000 was fully collateralized.

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

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

At December 31, 2012, the PMIA balance was \$63.3 billion, of which 98.2% is invested in non-derivative financial products with 0.6% in structured notes and 1.2% in asset-backed securities. The total amount invested by all public agencies in LAIF was \$20.3 billion, and the State Bar's investment in LAIF was \$42.7 million. The average maturity of PMIA investments was 208 days as of December 31, 2012. At December 31, 2011, the PMIA balance was \$67.9 billion, of which 97.0% is invested in non-derivative financial products with 1.0% in structured notes and 2.0% in asset-backed securities. The total amount invested by all public agencies in LAIF was \$22.7 billion, and the State Bar's investment in LAIF was \$46.2 million. The average maturity of PMIA investments was 256 days as of December 31, 2011.

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

Investments by type as of December 31, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
	<b>Fair Value</b>	<b>Fair Value</b>
U.S. government agencies	\$ 46,526,970	\$ 43,528,670
Equity securities	96,712	91,544
Total investments	<u>\$ 46,623,682</u>	<u>\$ 43,620,214</u>

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

**Custodial Credit Risk**—The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The California Government Code and the State Bar of California's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments; however, the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state laws (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

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

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

<u>Issuer</u>	<u>Investment Type</u>	<u>2012 Fair Value</u>	<u>2011 Fair Value</u>
Federal Home Loan Bank	U.S. government agencies	35,514,400	20,005,850
Federal Farm Credit Bank	U.S. government agencies	9,008,610	23,522,820

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The terms of a debt investment may cause its fair value to be highly sensitive to changes in interest rates. Fixed income security investments subject to interest rate risk at December 31, 2012, and 2011, are as follows:

	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>	<u>Weighted Average Maturity (Years)</u>
<b>December 31, 2012:</b>			
U.S. government agencies	\$ 46,526,970	100.0%	0.71
<b>December 31, 2011:</b>			
U.S. government agencies	\$ 43,528,670	100.0%	0.27

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

Fixed income security investments that are subject to credit risk at December 31, 2012, and 2011, are as follows:

	<u>2012</u>		<u>2011</u>	
<u>Moody's Rating:</u>	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>
AAA	\$ 46,526,970	100.0%	\$ 40,528,220	87.1%
Unrated *	-	0.0%	3,000,450	6.4%
Total fixed income securities	\$ 46,526,970	100.0%	\$ 43,528,670	93.6%

\* The unrated security in 2011 was rated AA by Standard & Poor's.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

**B. Fiduciary Fund—Trust for the Post-Retirement Welfare Benefits Plan for Executive Staff Employees (“OPEB Trust”)**

Cash, cash equivalents, and investments reported in the Fiduciary Fund for the OPEB Trust as of December 31, 2012, and 2011, are as follows:

	<b>2012</b>	<b>2011</b>
	<b>Fair Value</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 5,387,019	\$ 2,861,944
U.S. government agencies	6,003,810	11,498,780
Total cash, cash equivalents, and investments	<u>\$ 11,390,829</u>	<u>\$ 14,360,724</u>

Investments are subject to certain types of risks, including custodial credit risk, concentration of credit risk, interest rate risk, and credit risk. The following sections describe those risks.

*Custodial Credit Risk for investments* is the risk that the State Bar will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if that outside party fails. The OPEB Trust does not have a policy addressing this risk, but the OPEB Trust’s custodian holds all trust investments in the OPEB Trust’s name.

*Concentration of Credit Risk.* At December 31, 2012, the OPEB Trust held all of its investments of \$6,003,810 in Federal Farm Credit Bank securities. At December 31, 2011, the OPEB Trust held \$5,496,890 in Federal Home Loan Bank securities and \$6,001,890 in Federal Farm Credit Bank securities, which represented more than 5% of the OPEB Trust’s investments.

*Interest Rate Risk.* Fixed income security investments subject to interest rate risk at December 31, 2012 and 2011, are as follows:

	<b>2012</b>	<b>Fair Value as a</b>	<b>Weighted Average</b>
	<b>Fair Value</b>	<b>Percentage of</b>	<b>Maturity</b>
		<b>Fixed Income Securities</b>	<b>(Years)</b>
U.S. government agencies	\$ 6,003,810	100.0%	0.37

  

	<b>2011</b>	<b>Fair Value as a</b>	<b>Weighted Average</b>
	<b>Fair Value</b>	<b>Percentage of</b>	<b>Maturity</b>
		<b>Fixed Income Securities</b>	<b>(Years)</b>
U.S. government agencies	\$ 11,498,780	100.0%	1.02

*Credit Risk.* At December 31, 2012, and 2011, the State Bar’s investments in the OPEB Trust were rated AAA by Moody’s Investors Service.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**6. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2012 and 2011 are as follows:

	<b>Balance January 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2012</b>
Capital assets, not being depreciated:				
Land	\$ 4,596,490	\$ 18,325,000	\$ (3,383,875)	\$ 19,537,615
Construction in progress	-	29,126,760	-	29,126,760
Total capital assets, not being depreciated	<u>4,596,490</u>	<u>47,451,760</u>	<u>(3,383,875)</u>	<u>48,664,375</u>
Capital assets, being depreciated:				
Buildings and leasehold improvements	38,888,377	-	-	38,888,377
Equipment and software	4,836,204	1,451,163	-	6,287,367
Furniture and fixtures	<u>1,675,389</u>	-	-	<u>1,675,389</u>
Total capital assets, being depreciated	<u>45,399,970</u>	<u>1,451,163</u>	<u>-</u>	<u>46,851,133</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(12,682,487)	(1,100,990)	-	(13,783,477)
Equipment and software	(3,951,518)	(363,950)	-	(4,315,468)
Furniture and fixtures	<u>(1,675,047)</u>	<u>(340)</u>	-	<u>(1,675,387)</u>
Total accumulated depreciation	<u>(18,309,052)</u>	<u>(1,465,280)</u>	<u>-</u>	<u>(19,774,332)</u>
Total capital assets, being depreciated, net	<u>27,090,918</u>	<u>(14,117)</u>	<u>-</u>	<u>27,076,801</u>
Capital assets, net	<u>\$ 31,687,408</u>	<u>\$ 47,437,643</u>	<u>\$ (3,383,875)</u>	<u>\$ 75,741,176</u>
	<b>Balance January 1, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2011</b>
Capital assets, not being depreciated:				
Land	\$ 4,596,490	-	-	\$ 4,596,490
Total capital assets, not being depreciated	<u>4,596,490</u>	<u>-</u>	<u>-</u>	<u>4,596,490</u>
Capital assets, being depreciated:				
Buildings and leasehold improvements	38,888,377	-	-	38,888,377
Equipment and software	4,069,779	766,425	-	4,836,204
Furniture and fixtures	<u>1,675,389</u>	-	-	<u>1,675,389</u>
Total capital assets, being depreciated	<u>44,633,545</u>	<u>766,425</u>	<u>-</u>	<u>45,399,970</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(11,857,996)	(824,491)	-	(12,682,487)
Equipment and software	(3,639,494)	(312,024)	-	(3,951,518)
Furniture and fixtures	<u>(1,664,830)</u>	<u>(10,217)</u>	-	<u>(1,675,047)</u>
Total accumulated depreciation	<u>(17,162,320)</u>	<u>(1,146,732)</u>	<u>-</u>	<u>(18,309,052)</u>
Total capital assets, being depreciated, net	<u>27,471,225</u>	<u>(380,307)</u>	<u>-</u>	<u>27,090,918</u>
Capital assets, net	<u>\$ 32,067,715</u>	<u>\$ (380,307)</u>	<u>\$ -</u>	<u>\$ 31,687,408</u>

Depreciation expense for the years ended December 31, 2012, and 2011, was \$1,465,280 and \$1,146,732 respectively.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**6. CAPITAL ASSETS (Continued)**

Assembly Bill (AB) No. 3049 was signed into by law in July 2008, and authorized a \$10 special assessment fee in the State Bar's membership fee beginning in 2009 and ending by December 31, 2013. AB 3049 required that all fees collected under this provision from January 1, 2009 be accumulated and reserved in a special fund for the construction, purchase or lease of a facility in southern California upon the expiration of the State Bar's existing lease of a facility in Los Angeles in January 2014.

To meet the requirements of AB 3049, in November, 2012, the State Bar purchased real property located at 845 South Figueroa Street in Los Angeles for \$50 million. To finance this purchase, the State Bar sold its parking lot in Los Angeles for \$29 million, and also entered into a 15-year loan agreement in the amount of \$25.5 million with Bank of America. As of December 31, 2012, this property is under construction and no depreciation will be calculated until the property is placed in operation in 2014.

**7. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

At December 31, 2011, and 2010, current accounts payable and other liabilities consisted of the following:

	<b>2012</b>	<b>2011</b>
Accounts payable	\$ 6,742,116	\$ 2,489,069
Compensated absences	3,248,858	3,154,772
Other liabilities	387,496	1,537,982
	<b>\$ 10,378,470</b>	<b>\$ 7,181,823</b>

Obligations that are due within a year are presented as current liabilities in the statements of net position. Compensated absences include noncurrent portions that are due beyond one year. The table below provides additional information for these balances:

	<b>Balance January 1, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2012</b>	<b>Amount due within one year</b>
Compensated absences	\$ 3,658,433	\$ 4,048,727	\$ (3,969,227)	\$ 3,737,933	\$ 3,248,858
	<b>Balance January 1, 2011</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2011</b>	<b>Amount due within one year</b>
Compensated absences	\$ 3,899,608	\$ 3,389,543	\$ (3,630,718)	\$ 3,658,433	\$ 3,154,772

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**8. LOAN PAYABLE**

On November 1, 2012, the State Bar entered into a Real Estate Loan Agreement in the amount of \$25,500,000 with Bank of America, N.A. for the purpose of financing the costs of purchasing the real property located at 845 South Figueroa Street, Los Angeles, California 90017. The loan bears a tax-exempt fixed rate of 4.26% per year and is due on November 1, 2027.

The annual repayment schedule as of December 31, 2012 is as follows:

Year Ending December 31	Principal	Interest
2013	\$ 1,244,649	\$ 1,056,971
2014	1,298,719	1,002,901
2015	1,355,137	946,482
2016	1,414,007	887,613
2017	1,475,433	826,186
2018-2022	8,396,131	3,111,967
2023-2027	10,193,525	1,122,772
Total	<u>\$ 25,377,601</u>	<u>\$ 8,954,892</u>

**9. PENSION PLAN**

**Plan Description**—The State Bar’s defined benefit plan, the Miscellaneous Plan of the State Bar of California (“Plan”), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees’ Retirement System (“CalPERS”), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating entities within the State of California. All full-time State Bar employees must participate in the Plan. Benefits vest after five years of service. State Bar employees who retire at age 50 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.426% of their highest 12 consecutive months of average salary for each year of credited service. The rate incrementally increases for each successive year before retirement to a maximum of 2.418% at age 63. These benefit provisions and all other requirements are established by state statute.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CalPERS. That report may be obtained from the CalPERS Executive Office at 400 Q Street, Sacramento, California, 95814.

**Funding Policy**—State Bar employees are required to contribute 7% of their annual covered salary (less allowable CalPERS deductions). The State Bar paid the required employee contributions of \$2,844,810 in 2012 and \$2,950,733 in 2011 on the employees’ behalf based on contractual agreements with its employee groups. In addition, the State Bar is required to contribute the remaining amounts necessary to fund the benefits for its members.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**9. PENSION PLAN (Continued)**

The actuarial funding method used for the Plan is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percentage of pay in each year from the age of hire (entry age) to the assumed retirement age. The State Bar's required employer contributions were 9.897% for the period of July 1, 2012 to December 31, 2012, 10.610% for the period of July 1, 2011 to June 30, 2012, and 10.270% for the period of January 1, 2011 to June 30, 2011. The State Bar's annual pension cost for the years ended December 31, 2012, 2011 and 2010 were \$4,164,711, \$4,399,908, and \$4,440,742, respectively. The contribution requirements of the Plan members are established by state statute, and the employer contribution rate is established and may be amended by CalPERS.

*Annual Pension Cost*—CalPERS performs annual actuarial valuations that establish contribution rates for fiscal periods from July 1 to June 30. The State Bar's required contributions for the years ended December 31, 2012, and 2011, were determined as part of the June 30, 2010, 2009, and 2008 actuarial valuations.

The three-year trend information for the Plan is as follows:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2012	\$ 4,164,711	100.0%	\$ —
12/31/2011	\$ 4,399,908	100.0%	\$ —
12/31/2010	\$ 4,440,742	100.0%	\$ —

A summary of principal assumptions and methods used to determine the Annual Required Contribution (ARC) is shown below. The actuarial valuation assumptions are the same for all valuations unless otherwise noted.

Valuation Date	June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
<b>Actuarial Assumptions</b>	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**9. PENSION PLAN (Continued)**

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year.

In June 2009, the CalPERS Board adopted a 3-year temporary change to the asset smoothing method and the amortization of gains and losses in order to phase in the impact of the 24% investment loss experienced by CalPERS in fiscal year 2008-2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80%-120% of market value to 60%-140% of market value on June 30, 2009
- Reduce the corridor limits for the actuarial value
- Return to the 80%-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter
- Isolate and amortize all gains and losses during fiscal year 2008-2009, 2009-2010 and 2010-2011 over fixed and declining 30 year periods (as opposed to the current rolling 30 year amortization)

**Funded Status and Funding Progress**—As of June 30, 2011, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability (AAL)	\$	241,540,887
Actuarial value of plan assets		241,475,651
Unfunded actuarial accrued liability (UAAL)	<u>\$</u>	<u>65,236</u>
Funded ratio (actuarial value of plan assets/AAL)		100.0%
Annual covered payroll (active plan members)	\$	43,001,298
UAAL as percentage of annual covered payroll		0.2%

The schedules presented as required supplementary information following the notes to the financial statements present multiyear trend information. The Schedule of Funding Progress for the Pension Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

For executive staff employed as of August 19, 2006, eligibility requires fifteen years of services to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires fifteen years of service to the State Bar as a regular employee, with at least the last ten years of service preceding retirement as an executive staff employee. The employee must also elect to receive retirement benefits effective within one hundred twenty days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age. The OPEB Plan included fifty-five and forty-nine active executive staff employees as of December 31, 2012, and 2011, respectively, and eighty-two and seventy-six retirees and beneficiaries received benefits as of December 31, 2012, and 2011, respectively. The State Bar has the right to modify plan provisions prospectively at its discretion.

On December 15, 2008, the State Bar created an irrevocable trust for the OPEB Plan (“OPEB Trust”) to set aside assets to fund the cost of retiree health care benefits to eligible executive employees. The OPEB Trust is administered by the State Bar and is presented as a fiduciary fund in the State Bar’s financial statements. Separate financial statements are not prepared for the OPEB Trust. In December 2012, the State Bar began to transfer funds from the OPEB Trust managed by Wells Fargo Bank to a higher-yielding California Employers’ Retiree Benefit Trust (CERBT) managed by the California Public Employees’ Retirement System (CalPERS) and, on an ongoing basis, to make annual transfers to the CERBT to pay the State Bar’s Annual Required Contribution (ARC), as determined by the State Bar’s actuary. The first \$3 million OPEB asset transfer to CalPERS was completed in December 2012. CalPERS issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

**Funding Policy**—Contributions to the OPEB Plan are made by the State Bar at the Committee’s direction. Based on actuarial valuations of the OPEB Plan as of June 30, 2011, the annual required contributions for the years ended December 31, 2012, and 2011, were \$1,328,641 and \$2,007,139, respectively.

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

	2012	2011
<b>Determination of Net OPEB Asset</b>		
Annual required contribution (ARC)	\$ 1,328,641	\$ 2,007,139
Interest on prior year net OPEB asset	(442,919)	(113,887)
Adjustment to ARC	<u>455,166</u>	<u>148,681</u>
Annual OPEB cost	1,340,888	2,041,933
State Bar contributions made	<u>935,378</u>	<u>6,681,208</u>
Increase/(decrease) in net OPEB asset	(405,510)	4,639,275
Net OPEB asset - January 1	<u>7,170,104</u>	<u>2,530,829</u>
Net OPEB asset - December 31	<u><u>\$ 6,764,594</u></u>	<u><u>\$ 7,170,104</u></u>

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
12/31/2012	\$ 1,340,888	65.8%	\$ 6,764,594
12/31/2011	\$ 2,041,933	327.2%	\$ 7,170,104
12/31/2010	\$ 2,061,853	29.7%	\$ 2,530,829

**Funded Status and Funding Progress.** As of June 30, 2011, the most recent actuarial valuation date, the plan was 63.4% funded. The actuarial accrued liability for the benefits was \$22.7 million, and the actuarial value of assets was \$14.4 million, resulting in an unfunded accrued liability of \$8.3 million.

Actuarial accrued liability (AAL)	\$ 22,669,821
Actuarial value of plan assets	14,376,544
Unfunded actuarial accrued liability (UAAL)	<u>\$ 8,293,277</u>
Funded ratio (actuarial value of plan assets/AAL)	63.4%
Annual covered payroll (active plan members)	\$ 6,969,210
UAAL as percentage of annual covered payroll	119.0%

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

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

Annual required contributions for the year ended December 31, 2012, were based on the actuarial valuation as of June 30, 2011, and annual required contributions for the year ended December 31, 2011, was based on the actuarial valuation as of January 1, 2010. The actuarial methods and significant assumptions used in both actuarial valuations are the same unless otherwise specified. The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees. In determining the annual required contribution, the unfunded actuarial accrued liability is amortized on an open basis as a level dollar amount over 30 years.

**THE STATE BAR OF CALIFORNIA**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

The actuarial valuation as of June 30, 2011, assumed a 6.0% rate of return and an annual vision cost trend rate of 4%. Trend rate started at 7.25% in calendar year 2012, graded down by 0.25% per year to an ultimate rate of 4.75% in 2079 and beyond. The actuarial valuation as of January 1, 2010 assumed a 4.5% effective annual rate of return and an annual vision cost trend rate of 4%. The January 1, 2010 actuarial valuation also assumed a medical cost trend rate of 7% in calendar year 2010, graded down by 0.5% per year to an ultimate rate of 5.93% after ten years.

**11. RISK MANAGEMENT**

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

**12. COMMITMENTS AND CONTINGENCIES**

*Litigation*—The State Bar is a defendant in various lawsuits. It is management’s opinion, based on the advice of legal counsel, that the outcome of many of these matters will not have a material adverse effect on the financial position and results of operations of the State Bar. However, the outcome of certain lawsuits and tort claims related to disciplinary actions against members, attorney malpractice, and employee wrongful termination and discrimination, is considered indeterminable and the range of possible loss is uncertain. As such, no provision has been recorded in the financial statements as of December 31, 2012, and 2011.

*Leases*—The State Bar is obligated under various noncancelable operating leases for office space. The lease terms range between two and four years. In addition, the State Bar leases certain office space at its primary facilities in San Francisco and Los Angeles, California, to tenants under various lease agreements. As of December 31, 2012, the carrying value of the San Francisco building was \$38,888,377 less accumulated depreciation of \$13,783,480, and the carrying value of the Los Angeles building was \$47,451,760. Future minimum lease obligations and future minimum revenue under these non-cancelable operating leases at December 31, 2012, are as follows:

Year Ending December 31	Future Minimum Revenue		Minimum Lease Obligations
	San Francisco	Los Angeles	
2013 .....	\$ 823,862	\$ -	\$ 4,048,926
2014 .....	618,750	396,656	158,263
2015 .....	212,337	396,656	-
2016 .....	170,285	396,656	-
2017 and after .....	551,736	7,452,175	-
Total	<u>\$ 2,376,970</u>	<u>\$ 8,642,143</u>	<u>\$ 4,207,189</u>

Expenses under operating leases for the years ended December 31, 2012, and 2011, were \$3,952,136 and \$3,893,600, respectively.

**THE STATE BAR OF CALIFORNIA**  
**REQUIRED SUPPLEMENTARY INFORMATION – Unaudited**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**Schedule of Funding Progress – Pension**

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

The table below presents three-year historical information about the funding status of the pension plan:

<b>Valuation Date</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
June 30, 2011	\$ 241,540,887	\$ 241,475,651	\$ 65,236	100.0%	\$ 43,001,298	0.2%
June 30, 2010	\$ 228,814,011	\$ 225,275,975	\$ 3,538,036	98.5%	\$ 43,572,197	8.1%
June 30, 2009	\$ 219,050,842	\$ 210,971,896	\$ 8,078,946	96.3%	\$ 44,687,549	18.1%

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

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

<b>Valuation Date</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
June 30, 2011	\$ 22,669,821	\$ 14,376,544	\$ 8,293,277	63.4%	\$ 6,969,210	119.0%
January 1, 2010	\$ 26,590,212	\$ 8,376,982	\$ 18,213,230	31.5%	\$ 8,347,423	218.2%
January 1, 2008	\$ 28,677,152	\$ -	\$ 28,677,152	0.0%	\$ 7,379,116	388.6%

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

The following table shows the annual required contributions (ARC) and the percentage of ARC contributed to the OPEB Plan for the last three years.

<b>Year Ended</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
12/31/2012	\$1,328,641	62.4%
12/31/2011	\$2,007,139	332.9%
12/31/2010	\$2,007,139	30.5%

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# THE STATE BAR OF CALIFORNIA

## SUPPLEMENTARY INFORMATION YEAR ENDED DECEMBER 31, 2012

### PROGRAM FUND DESCRIPTIONS

**General Fund**—The General Fund accounts for membership fees and resources of the State Bar not related to other fund activities. The General Fund also accounts for the revenues and expenses of maintaining, operating and supporting the attorney discipline system.

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

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

**Benefit Reserve Fund**—The Benefit Reserve Fund accounts for resources set aside by the State Bar to fund the future costs of post-employment benefits other than pensions. Resources in this fund are provided by other State Bar funds in proportion to their salary expenditures.

**Building Fund**—The Building Fund is used to account for the State Bar's physical facilities, including purchasing, constructing and equipping furnishings, land and buildings. Its primary source of resources is provided through rental income from tenants under various lease agreements.

**Building Special Assessment Fund**—The State Bar fee bill for 2009, AB 3049, was approved in 2008 by the Assembly to add a \$10 building assessment fee to the base fee with other assessments. This additional fee was authorized for five years and will fund the State Bar's facilities in Southern California, either with new rental space or construction or purchase of a new building.

**Client Security Fund**—The Client Security Fund maintains funds from which members' clients can be reimbursed for pecuniary losses resulting from dishonest conduct on the part of their attorneys. Such reimbursement is discretionary and, currently, is not to exceed \$100,000 per application for reimbursement on any one transaction, as prescribed by the Board of Trustees. Obligations are accrued in the statement of net positions based on final approved applications by the Client Security Fund Commission. This fund is replenished through annual assessments of \$40 per active member, and \$10 per inactive member.

**Discipline Fund**—The Discipline Fund was established principally to account for revenues and expenses of maintaining, operating and supporting the attorney discipline system. Resources were largely composed of the special regulatory assessment set by the Supreme Court in its December 3, 1998 order and rule requiring every active member to pay \$173 to maintain minimum funding of the discipline program until the enactment of legislation authorizing the collection of membership fees and regular funding. Given the enactment of legislation in 2000, the activities supporting the attorney discipline system are currently accounted for in the General Fund. Net position at December 31, 2012 represents a carryover of the balance of the revenue from the pre-2000 \$173 special regulatory assessment, which will be used for future discipline-related projects.

**Elimination of Bias and Bar Relations Fund**—The Elimination of Bias and Bar Relations Fund supports certain programs similar to those once undertaken by the Legal Services, Program Development and Bar Relations Offices. This fund is supported by a fee of \$5 and is part of the annual membership fees; however, members have the option to not remit this fee.

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION (Continued)**  
**YEAR ENDED DECEMBER 31, 2012**

**PROGRAM FUND DESCRIPTIONS (Continued)**

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

In 2005, the Uniform Civil Fees and Standard Fee Schedule Act (AB145) was approved by the Legislature and the Governor. The Act established a new distribution of \$4.80 per filing to the Equal Access Fund. These revenues were collected by the trial courts starting in January 2006 to fund grants to nonprofit legal aid organizations for the grant year.

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

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

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

***L.A. Facilities Fund***—Assembly Bill 3049 set an additional \$10 special assessment fee beginning with the 2009 billing cycle and sunseting by December 31, 2013. Fees collected under this provision are used to finance the construction, purchase, or lease of a facility in southern California upon the expiration of the State Bar’s existing lease of a facility in Los Angeles in January 2014. In November 2012, the State Bar purchased a real property located at 845 South Figueroa Street in Los Angeles. This L.A. Facilities Fund was set up to account for all the activities related to this property.

***Lawyers Assistance Program Fund***—The Lawyers Assistance Program Fund was established for the protection of the public, the courts and the legal profession by providing education, remedial and rehabilitative programs to those members of the State Bar who are in need of assistance as a result of disability related to substance abuse or mental illness. This fund is replenished through annual assessments of \$10 per active member, and \$5 per inactive member.

***Legal Education and Development Fund***—The Legal Education and Development Fund uses certain monies traditionally deposited in the Lawyers Education and Development Fund for competency based education programs whose major purpose shall be to reduce the severity and frequency of professional liability claims.

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION (Continued)**  
**YEAR ENDED DECEMBER 31, 2012**

**PROGRAM FUND DESCRIPTIONS (Continued)**

***Legal Services Trust Fund***—The Legal Services Trust Fund is used to expand the availability and improve the quality of existing free legal services in civil matters to indigent persons and to initiate new programs that would provide such services. Under this program, interest earned on certain client trust accounts held by California attorneys is legally required to be forwarded to the State Bar and, after deduction of the State Bar’s administration costs, the remainder is to be distributed as grants.

In 2012, \$20 of the membership dues authorized pursuant to Sections 6140 and 6141 of the State Bar Act is allocated to the Temporary Emergency Legal Services Voluntary Assistance Option. Under the legislation, members may elect to reduce their fees by this amount if they choose not to support the activities authorized under this bill. The funding associated with the \$20 optional fee will be directed to the State Bar’s Legal Services Trust Fund Program for distribution to nonprofit organizations that provide free civil legal services to low-income Californians.

Grants payable at year end represent the unpaid balance of the grants approved by the Board of Trustees for the period July 1 through June 30 of the following year. Additional revenue to fund these grants is received during the period from January 1 through June 30 of the following year.

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

***Legislative Activities Fund***—The Legislative Activities Fund accounts for the consideration of measures that are deemed outside the parameters established in Keller vs. the State Bar, the purview determination and any litigation in support or defense of that lobbying. Such activities are funded by members electing to support these activities. This fee of \$5 is part of the membership fees; however, members have the option to not remit this fee.

***Public Protection Fund***—The Public Protection Fund was established to assure continuity of the State Bar’s disciplinary system and its other essential public protection programs.

***Sections Fund***—The Sections Fund accounts for the activities of sixteen sections in 2012 consisting of specific practice areas or areas of professional interest and provides members with a vehicle for communicating with each other, educating themselves, and commenting on relevant legislation. Resources are provided through assessments of the sections’ membership and revenue from seminars and workshops.

***Support and Administration Fund***—The Support and Administrative Fund was created to account for all indirect costs. Indirect costs are those expenses that benefit multiple programs or that cannot be matched with a single program, such as General Counsel, Finance, Human Resources, Real Property Operations and Information Technology.

***Technology Improvements Fund***—The Technology Improvements Fund was established to fund technology projects that the State Bar had previously funded through the General Fund.

***Fixed Assets Fund***—The Fixed Assets Fund accounts for all completed capital assets, except for buildings which are accounted for in the Building Fund. Capital assets financed by debt or capital leases remain in the fund carrying the related obligations. When the obligations are repaid, the net book value of the related capital assets is transferred to the Fixed Assets Fund.

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF NET POSITION**  
**DECEMBER 31, 2012**

	General Fund	Admissions	Annual Meeting	Benefit Reserve	Building	Building Special Assessment
<b>ASSETS</b>						
Current Assets						
Cash and cash equivalents	\$ 57,580,344	\$ 50	\$ -	\$ 781,036	\$ 13,545	\$ -
Investments	46,623,682	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,861,663	712,572	-	-	-	-	-
Interfund receivable	-	6,993,759	219,094	1,295,042	8,610,961	8,609,806
Other current assets	<u>672,775</u>	<u>233,827</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>105,589,373</u>	<u>7,227,636</u>	<u>219,094</u>	<u>2,076,078</u>	<u>8,624,506</u>	<u>8,609,806</u>
Noncurrent assets						
Other postemployment benefits assets	-	-	-	6,764,594	-	-
Capital assets						
Nondepreciable	-	-	-	-	889,211	-
Depreciable, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,875,553</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,764,594</u>	<u>12,764,764</u>	<u>-</u>
Total assets	<u>105,589,373</u>	<u>7,227,636</u>	<u>219,094</u>	<u>8,840,672</u>	<u>21,389,270</u>	<u>8,609,806</u>
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and other liabilities	8,253,340	238,516	47,397	-	157,539	-
Interfund payable	80,811,733	-	-	-	-	-
Unearned fees collected in advance	12,505,121	4,194,068	-	-	-	472,765
Loans payable	-	-	-	-	-	-
Grants payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>101,570,194</u>	<u>4,432,584</u>	<u>47,397</u>	<u>-</u>	<u>157,539</u>	<u>472,765</u>
Noncurrent liabilities						
Loans payable	-	-	-	-	-	-
Compensated absences	<u>285,360</u>	<u>35,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>285,360</u>	<u>35,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>101,855,554</u>	<u>4,468,501</u>	<u>47,397</u>	<u>-</u>	<u>157,539</u>	<u>472,765</u>
<b>NET POSITION</b>						
Restricted	-	2,759,135	171,697	8,840,672	8,466,967	8,137,041
Invested in capital assets, net of related debt	-	-	-	-	12,764,764	-
Unrestricted	<u>3,733,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 3,733,819</u>	<u>\$ 2,759,135</u>	<u>\$ 171,697</u>	<u>\$ 8,840,672</u>	<u>\$ 21,231,731</u>	<u>\$ 8,137,041</u>

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF NET POSITION (Continued)**  
**DECEMBER 31, 2012**

Client Security	Discipline	Elimination of Bias and Bar Relations	Equal Access	Grants	Information Technology Assessment	
						ASSETS
						Current Assets
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Cash and cash equivalents
-	-	-	-	-	-	Investments
-	-	-	1,427,231	-	-	Accounts and other receivables, net of allowance for uncollectible accounts of \$1,861,663
12,745,686	-	1,350,269	-	252,997	6,170,404	Interfund receivable
-	-	-	-	-	-	Other current assets
<u>12,745,686</u>	<u>-</u>	<u>1,350,269</u>	<u>1,427,231</u>	<u>252,997</u>	<u>6,170,404</u>	Total current assets
						Noncurrent assets
-	-	-	-	-	-	Other postemployment benefits assets
						Capital assets
-	-	-	-	-	-	Nondepreciable
-	-	-	-	-	-	Depreciable, net
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	Total noncurrent assets
<u>12,745,686</u>	<u>-</u>	<u>1,350,269</u>	<u>1,427,231</u>	<u>252,997</u>	<u>6,170,404</u>	Total assets
						LIABILITIES
						Current liabilities
78,369	-	31,189	-	-	-	Accounts payable and other liabilities
-	-	-	678,128	-	-	Interfund payable
1,550,280	-	196,660	-	-	359,433	Unearned fees collected in advance
-	-	-	-	-	-	Loans payable
-	-	-	-	-	-	Grants payable
<u>1,628,649</u>	<u>-</u>	<u>227,849</u>	<u>678,128</u>	<u>-</u>	<u>359,433</u>	Total current liabilities
						Noncurrent liabilities
-	-	-	-	-	-	Loans payable
<u>12,014</u>	<u>-</u>	<u>4,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	Compensated absences
<u>12,014</u>	<u>-</u>	<u>4,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	Total noncurrent liabilities
<u>1,640,663</u>	<u>-</u>	<u>232,530</u>	<u>678,128</u>	<u>-</u>	<u>359,433</u>	Total liabilities
						NET POSITION
11,105,023	-	1,117,739	749,103	252,997	5,810,971	Restricted
-	-	-	-	-	-	Invested in capital assets, net of related debt
-	-	-	-	-	-	Unrestricted
<u>\$ 11,105,023</u>	<u>\$ -</u>	<u>\$ 1,117,739</u>	<u>\$ 749,103</u>	<u>\$ 252,997</u>	<u>\$ 5,810,971</u>	Total net position

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF NET POSITION (Continued)**  
**DECEMBER 31, 2012**

	Justice Gap Fund	Lawyers Assistance Program	Legal Education & Development	Legal Services Trust	Legal Specialization	Legislative Activities	LA Facilities
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,861,663	-	-	-	501,524	-	-	-
Interfund receivable	316,840	1,344,419	2,654,263	3,296,801	3,304,796	2,261,903	9,268,338
Other current assets	-	-	-	-	-	-	-
Total current assets	<u>316,840</u>	<u>1,344,419</u>	<u>2,654,263</u>	<u>3,798,325</u>	<u>3,304,796</u>	<u>2,261,903</u>	<u>9,268,338</u>
<b>Noncurrent assets</b>							
Other postemployment benefits assets	-	-	-	-	-	-	-
<b>Capital assets</b>							
Nondepreciable	-	-	-	-	-	-	47,451,760
Depreciable, net	-	-	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,451,760</u>
Total assets	<u>316,840</u>	<u>1,344,419</u>	<u>2,654,263</u>	<u>3,798,325</u>	<u>3,304,796</u>	<u>2,261,903</u>	<u>56,720,098</u>
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Accounts payable and other liabilities	-	47,738	1,999	59,892	27,018	31,167	121,412
Interfund payable	-	-	-	-	-	-	-
Unearned fees collected in advance	-	416,074	-	804,660	468,250	193,585	-
Loans payable	-	-	-	-	-	-	1,244,649
Grants payable	-	-	-	2,742,085	-	-	-
Total current liabilities	<u>-</u>	<u>463,812</u>	<u>1,999</u>	<u>3,606,637</u>	<u>495,268</u>	<u>224,752</u>	<u>1,366,061</u>
<b>Noncurrent liabilities</b>							
Loans payable	-	-	-	-	-	-	24,132,952
Compensated absences	-	6,599	315	7,811	4,052	4,741	-
Total noncurrent liabilities	<u>-</u>	<u>6,599</u>	<u>315</u>	<u>7,811</u>	<u>4,052</u>	<u>4,741</u>	<u>24,132,952</u>
Total liabilities	<u>-</u>	<u>470,411</u>	<u>2,314</u>	<u>3,614,448</u>	<u>499,320</u>	<u>229,493</u>	<u>25,499,013</u>
<b>NET POSITION</b>							
Restricted	316,840	-	-	-	2,805,476	2,032,410	9,146,926
Invested in capital assets, net of related debt	-	-	-	-	-	-	22,074,159
Unrestricted	-	874,008	2,651,949	183,877	-	-	-
Total net position	<u>\$ 316,840</u>	<u>\$ 874,008</u>	<u>\$ 2,651,949</u>	<u>\$ 183,877</u>	<u>\$ 2,805,476</u>	<u>\$ 2,032,410</u>	<u>\$ 31,221,085</u>

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF NET POSITION (Continued)**  
**DECEMBER 31, 2012**

Public Protection	Sections	Support and Administration	Technology Improvements	Fixed Asset Fund	Interfund Elimination	Total	
							ASSETS
							Current Assets
\$ 4,610,000	\$ -	\$ 37,982	\$ -	\$ -	\$ -	\$ 63,022,957	Cash and cash equivalents
-	-	-	-	-	-	46,623,682	Investments
-	-	6,289	-	-	-	2,647,616	Accounts and other receivables, net of allowance for uncollectible accounts of \$1,861,663
1,875,433	8,346,857	713,967	1,858,226	-	(81,489,861)	-	Interfund receivable
-	819	455,538	-	-	-	1,362,959	Other current assets
<u>6,485,433</u>	<u>8,347,676</u>	<u>1,213,776</u>	<u>1,858,226</u>	<u>-</u>	<u>(81,489,861)</u>	<u>113,657,214</u>	Total current assets
							Noncurrent assets
-	-	-	-	-	-	6,764,594	Other postemployment benefits assets
							Capital assets
-	-	-	-	323,404	-	48,664,375	Nondepreciable
-	-	-	-	15,201,250	-	27,076,803	Depreciable, net
-	-	-	-	15,524,654	-	82,505,772	Total noncurrent assets
<u>6,485,433</u>	<u>8,347,676</u>	<u>1,213,776</u>	<u>1,858,226</u>	<u>15,524,654</u>	<u>(81,489,861)</u>	<u>196,162,986</u>	Total assets
							LIABILITIES
							Current liabilities
-	179,817	1,103,077	-	-	-	10,378,470	Accounts payable and other liabilities
-	-	-	-	-	(81,489,861)	-	Interfund payable
-	1,052,790	-	-	-	-	22,213,686	Unearned fees collected in advance
-	-	-	-	-	-	1,244,649	Loans payable
-	-	-	-	-	-	2,742,085	Grants payable
-	<u>1,232,607</u>	<u>1,103,077</u>	<u>-</u>	<u>-</u>	<u>(81,489,861)</u>	<u>36,578,890</u>	Total current liabilities
							Noncurrent liabilities
-	-	-	-	-	-	24,132,952	Loans payable
-	16,886	110,699	-	-	-	489,075	Compensated absences
-	<u>16,886</u>	<u>110,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,622,027</u>	Total noncurrent liabilities
-	<u>1,249,493</u>	<u>1,213,776</u>	<u>-</u>	<u>-</u>	<u>(81,489,861)</u>	<u>61,200,917</u>	Total liabilities
							NET POSITION
4,610,000	7,098,183	-	-	-	-	73,421,180	Restricted
-	-	-	-	15,524,654	-	50,363,577	Invested in capital assets, net of related debt
1,875,433	-	-	1,858,226	-	-	11,177,312	Unrestricted
<u>\$ 6,485,433</u>	<u>\$ 7,098,183</u>	<u>\$ -</u>	<u>\$ 1,858,226</u>	<u>\$ 15,524,654</u>	<u>\$ -</u>	<u>\$ 134,962,069</u>	Total net position

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**DECEMBER 31, 2012**

	General Fund	Admissions	Annual Meeting	Benefit Reserve	Building	Building Special Assessment
<b>OPERATING REVENUES</b>						
Membership fees and donations	\$ 56,427,526	\$ 113,108	\$ -	\$ -	\$ 2,760	\$ 2,114,315
Examination application fees	-	18,553,395	-	-	-	-
Trust account revenue	-	-	-	-	-	-
Law practices (sections) fees	-	-	-	-	-	-
Seminar/workshop revenue	8,390	-	-	-	-	-
Advertising revenue	126,308	-	6,000	-	-	-
Convention income	4,406	-	647,153	-	-	-
Legal specialization fees	8,400	-	-	-	-	-
Law corporation registration fees	772,107	-	-	-	-	-
Continuing legal education fees	1,319,622	238,200	-	-	-	-
Grants	27,000	-	-	-	-	-
EAF AB145 filing fee revenue	-	-	-	-	-	-
Other	609,647	595,310	99,752	-	75	-
Total operating revenues	<u>59,303,406</u>	<u>19,500,013</u>	<u>752,905</u>	<u>-</u>	<u>2,835</u>	<u>2,114,315</u>
<b>OPERATING EXPENSES</b>						
Discipline and adjudication	36,376,838	-	-	-	-	-
Examination costs and administration	-	18,069,136	-	-	-	-
Grants	-	-	-	-	-	-
Law practices (sections)	-	-	-	-	-	-
CSF application payments	-	-	-	-	-	-
Communications	683,334	-	-	-	-	-
Administration of justice	575,228	-	-	-	-	-
Governance	1,693,648	-	-	-	-	-
Administration of the profession	2,081,127	-	-	-	-	-
Program development	1,190,801	-	-	-	-	-
General and administration	17,977,757	-	826,519	-	563,798	38,161
Total operating expenses	<u>60,578,733</u>	<u>18,069,136</u>	<u>826,519</u>	<u>-</u>	<u>563,798</u>	<u>38,161</u>
OPERATING INCOME/(LOSS)	<u>(1,275,327)</u>	<u>1,430,877</u>	<u>(73,614)</u>	<u>-</u>	<u>(560,963)</u>	<u>2,076,154</u>
<b>NONOPERATING REVENUES</b>						
Investment income/(loss)	95,914	28,273	1,206	2,249	20,602	19,021
Gain on disposal of capital assets	-	-	-	-	-	-
Rental income	-	-	-	-	811,670	-
Interest expense on loan	-	-	-	-	-	-
Total nonoperating revenues	<u>95,914</u>	<u>28,273</u>	<u>1,206</u>	<u>2,249</u>	<u>832,272</u>	<u>19,021</u>
INCOME/(LOSS) BEFORE TRANSFERS	<u>(1,179,413)</u>	<u>1,459,150</u>	<u>(72,408)</u>	<u>2,249</u>	<u>271,309</u>	<u>2,095,175</u>
Transfers in	68,557	-	31,904	-	-	1,030
Transfers out	<u>(3,224,841)</u>	<u>(2,546,277)</u>	<u>(630)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>(4,335,697)</u>	<u>(1,087,127)</u>	<u>(41,134)</u>	<u>2,249</u>	<u>271,309</u>	<u>2,096,205</u>
NET POSITION—beginning of year (restated)	<u>8,069,516</u>	<u>3,846,262</u>	<u>212,831</u>	<u>8,838,423</u>	<u>20,960,422</u>	<u>6,040,836</u>
NET POSITION—end of year	<u>\$ 3,733,819</u>	<u>\$ 2,759,135</u>	<u>\$ 171,697</u>	<u>\$ 8,840,672</u>	<u>\$ 21,231,731</u>	<u>\$ 8,137,041</u>

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (Continued)**  
**DECEMBER 31, 2012**

Client Security	Discipline	Elimination of Bias and Bar Relations	Equal Access	Grants	Information Technology Assessment	
\$ 7,298,953	\$ -	\$ 803,340	\$ -	\$ -	\$ 1,726,313	OPERATING REVENUES
-	-	-	-	-	-	Membership fees and donations
-	-	-	-	-	-	Examination application fees
-	-	-	-	-	-	Trust account revenue
-	-	-	-	-	-	Law practices (sections) fees
-	-	-	-	2,816	-	Seminar/workshop revenue
-	-	-	-	-	-	Advertising revenue
-	-	380	-	-	-	Convention income
-	-	-	-	-	-	Legal specialization fees
-	-	-	-	-	-	Law corporation registration fees
-	-	-	-	-	-	Continuing legal education fees
-	-	3,500	10,059,785	68,380	-	Grants
-	-	-	5,706,445	-	-	EAF AB145 filing fee revenue
15,949	-	-	527,199	-	-	Other
<u>7,314,902</u>	<u>-</u>	<u>807,220</u>	<u>16,293,429</u>	<u>71,196</u>	<u>1,726,313</u>	Total operating revenues
-	-	-	-	-	-	OPERATING EXPENSES
-	-	-	-	-	-	Discipline and adjudication
-	-	-	-	-	-	Examination costs and administration
-	-	10,000	16,142,680	-	-	Grants
-	-	-	-	-	-	Law practices (sections)
6,384,848	-	-	-	-	-	CSF application payments
-	-	-	-	-	-	Communications
-	-	-	-	-	-	Administration of justice
-	-	-	-	-	-	Governance
-	-	-	-	-	-	Administration of the profession
-	-	-	-	-	-	Program development
1,784,243	-	785,205	500,607	19,145	31,189	General and administration
<u>8,169,091</u>	<u>-</u>	<u>795,205</u>	<u>16,643,287</u>	<u>19,145</u>	<u>31,189</u>	Total operating expenses
(854,189)	-	12,015	(349,858)	52,051	1,695,124	OPERATING INCOME/(LOSS)
34,415	2,928	3,218	(1,514)	-	13,389	NONOPERATING REVENUES
-	-	-	-	-	-	Investment income/(loss)
-	-	-	-	-	-	Gain on disposal of capital assets
-	-	-	-	-	-	Rental income
-	-	-	-	-	-	Interest expense on loan
<u>34,415</u>	<u>2,928</u>	<u>3,218</u>	<u>(1,514)</u>	<u>-</u>	<u>13,389</u>	Total nonoperating revenues
(819,774)	2,928	15,233	(351,372)	52,051	1,708,513	INCOME/(LOSS) BEFORE TRANSFERS
3,790	-	-	-	-	920	Transfers in
(815)	(1,158,524)	(2,298)	-	-	-	Transfers out
(816,799)	(1,155,596)	12,935	(351,372)	52,051	1,709,433	Change in Net Position
<u>11,921,822</u>	<u>1,155,596</u>	<u>1,104,804</u>	<u>1,100,475</u>	<u>200,946</u>	<u>4,101,538</u>	NET POSITION—beginning of year (restated)
<u>\$ 11,105,023</u>	<u>\$ -</u>	<u>\$ 1,117,739</u>	<u>\$ 749,103</u>	<u>\$ 252,997</u>	<u>\$ 5,810,971</u>	NET POSITION—end of year

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (Continued)**  
**DECEMBER 31, 2012**

	Justice Gap Fund	Lawyers Assistance Program	Legal Education & Development	Legal Services Trust	Legal Specialization	Legislative Activities	LA Facilities
<b>OPERATING REVENUES</b>							
Membership fees and donations	\$ 2,214,528	\$ 1,922,210	\$ -	\$ 3,304,600	\$ -	\$ 784,350	\$ -
Examination application fees	-	-	-	-	-	-	-
Trust account revenue	-	-	-	5,007,709	-	-	-
Law practices (sections) fees	-	-	-	-	-	-	-
Seminar/workshop revenue	-	-	-	-	-	-	-
Advertising revenue	-	-	-	-	-	-	-
Convention income	-	-	-	-	-	-	-
Legal specialization fees	-	-	-	-	1,991,341	-	-
Law corporation registration fees	-	-	-	-	-	-	-
Continuing legal education fees	-	-	-	-	31,950	-	-
Grants	-	-	-	5,867	-	-	-
EAF AB145 filing fee revenue	-	-	-	-	-	-	-
Other	-	99	1,802,141	-	1,570	-	-
Total operating revenues	<u>2,214,528</u>	<u>1,922,309</u>	<u>1,802,141</u>	<u>8,318,176</u>	<u>2,024,861</u>	<u>784,350</u>	<u>-</u>
<b>OPERATING EXPENSES</b>							
Discipline and adjudication	-	-	-	-	-	-	-
Examination costs and administration	-	-	-	-	-	-	-
Grants	-	-	-	10,685,783	-	-	-
Law practices (sections)	-	-	-	-	-	-	-
CSF application payments	-	-	-	-	-	-	-
Communications	-	-	-	-	-	-	-
Administration of justice	-	-	-	-	-	-	-
Governance	-	-	-	-	-	-	-
Administration of the profession	-	-	-	-	-	-	-
Program development	-	-	-	-	-	-	-
General and administration	-	1,377,592	614,228	1,310,819	1,266,558	503,569	264,308
Total operating expenses	<u>-</u>	<u>1,377,592</u>	<u>614,228</u>	<u>11,996,602</u>	<u>1,266,558</u>	<u>503,569</u>	<u>264,308</u>
OPERATING INCOME/(LOSS)	<u>2,214,528</u>	<u>544,717</u>	<u>1,187,913</u>	<u>(3,678,426)</u>	<u>758,303</u>	<u>280,781</u>	<u>(264,308)</u>
<b>NONOPERATING REVENUES</b>							
Investment income/(loss)	3,821	3,572	4,403	10,421	7,372	5,208	(29)
Gain on disposal of capital assets	-	-	-	-	-	-	24,561,040
Rental income	-	-	-	-	-	-	-
Interest expense on loan	-	-	-	-	-	-	(159,493)
Total nonoperating revenues	<u>3,821</u>	<u>3,572</u>	<u>4,403</u>	<u>10,421</u>	<u>7,372</u>	<u>5,208</u>	<u>24,401,518</u>
INCOME/(LOSS) BEFORE TRANSFERS	2,218,349	548,289	1,192,316	(3,668,005)	765,675	285,989	24,137,210
Transfers in	630	975	1,250,000	4,208,820	1,800	-	7,083,875
Transfers out	<u>(2,208,820)</u>	<u>(1,251,450)</u>	<u>(2,005,800)</u>	<u>(335)</u>	<u>(1,820)</u>	<u>(466)</u>	<u>-</u>
Change in Net Position	10,159	(702,186)	436,516	540,480	765,655	285,523	31,221,085
NET POSITION—beginning of year (restated)	<u>306,681</u>	<u>1,576,194</u>	<u>2,215,433</u>	<u>(356,603)</u>	<u>2,039,821</u>	<u>1,746,887</u>	<u>-</u>
NET POSITION—end of year	<u>\$ 316,840</u>	<u>\$ 874,008</u>	<u>\$ 2,651,949</u>	<u>\$ 183,877</u>	<u>\$ 2,805,476</u>	<u>\$ 2,032,410</u>	<u>\$ 31,221,085</u>

**THE STATE BAR OF CALIFORNIA**  
**SUPPLEMENTARY INFORMATION**  
**PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (Continued)**  
**DECEMBER 31, 2012**

Public Protection	Sections	Support and Administration	Technology Improvements	Fixed Asset Fund	Interfund Elimination	Total	
							OPERATING REVENUES
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 76,712,003	Membership fees and donations
-	-	-	-	-	-	18,553,395	Examination application fees
-	-	-	-	-	-	5,007,709	Trust account revenue
-	4,875,667	-	-	-	-	4,875,667	Law practices (sections) fees
-	1,001,220	-	-	-	-	1,012,426	Seminar/workshop revenue
-	11,300	-	-	-	-	143,608	Advertising revenue
-	428,950	-	-	-	-	1,080,889	Convention income
-	-	-	-	-	-	1,999,741	Legal specialization fees
-	-	-	-	-	-	772,107	Law corporation registration fees
-	-	-	-	-	-	1,589,772	Continuing legal education fees
-	5,000	-	-	-	-	10,169,532	Grants
-	-	-	-	-	-	5,706,445	EAF AB145 filing fee revenue
-	1,125,079	9,637	-	-	-	4,786,458	Other
-	7,447,216	9,637	-	-	-	132,409,752	Total operating revenues
							OPERATING EXPENSES
-	-	-	-	-	-	36,376,838	Discipline and adjudication
-	-	-	-	-	-	18,069,136	Examination costs and administration
-	-	-	-	-	-	26,838,463	Grants
-	7,661,473	-	-	-	-	7,661,473	Law practices (sections)
-	-	-	-	-	-	6,384,848	CSF application payments
-	-	-	-	-	-	683,334	Communications
-	-	-	-	-	-	575,228	Administration of justice
-	-	-	-	-	-	1,693,648	Governance
-	-	-	-	-	-	2,081,127	Administration of the profession
-	-	-	-	-	-	1,190,801	Program development
-	-	(390,635)	334,877	901,482	-	28,709,422	General and administration
-	7,661,473	(390,635)	334,877	901,482	-	130,264,318	Total operating expenses
-	(214,257)	400,272	(334,877)	(901,482)	-	2,145,434	OPERATING INCOME/(LOSS)
							NONOPERATING REVENUES
16,393	22,536	1,071	(493)	-	-	293,976	Investment income/(loss)
-	-	2,100	-	-	-	24,563,140	Gain on disposal of capital assets
-	-	-	-	-	-	811,670	Rental income
-	-	-	-	-	-	(159,493)	Interest expense on loan
16,393	22,536	3,171	(493)	-	-	25,509,293	Total nonoperating revenues
16,393	(191,721)	403,443	(335,370)	(901,482)	-	27,654,727	INCOME/(LOSS) BEFORE TRANSFERS
-	-	-	3,102,524	-	(15,754,825)	-	Transfers in
-	(8,650)	(396,851)	(1,014,537)	(1,932,711)	15,754,825	-	Transfers out
16,393	(200,371)	6,592	1,752,617	(2,834,193)	-	27,654,727	Change in Net Position
6,469,040	7,298,554	(6,592)	105,609	18,358,847	-	107,307,342	NET POSITION—beginning of year (restated)
\$ 6,485,433	\$ 7,098,183	\$ -	\$ 1,858,226	\$ 15,524,654	\$ -	\$ 134,962,069	NET POSITION—end of year

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