



THE STATE BAR OF CALIFORNIA

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Title of Report: 2011 Financial Statement and Independent Auditor's Report of the State Bar of California

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The State Bar of California has submitted its 2011 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/Publications/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, 2011 and 2010

and Supplementary Information
For the Year Ended December 31, 2011

THE STATE BAR OF CALIFORNIA

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
State Bar of California
San Francisco, California

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, 2011 and 2010, which collectively comprise the State Bar's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State Bar's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011, and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's financial statements as a whole. 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. The 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 & Connell LLP

Walnut Creek, California
April 25, 2012

THE STATE BAR OF CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS – Unaudited
YEARS ENDED DECEMBER 31, 2011 AND 2010

Introduction

The following Management’s Discussion and Analysis 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 gain 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 twenty-three member Board of Trustees. Fifteen members are lawyers elected by members of the State Bar. A sixteenth member is elected by the California Young Lawyers Association Board of Directors. Six “public” or non-lawyer members are appointed to the Board of Trustees – four by the governor of California, one by the state Senate Committee on Rules and one by the Speaker of the Assembly. The twenty-third member of the Board of Trustees is the State Bar president, who is elected by the other board members to serve a fourth year as the State Bar’s chief officer.

The State Bar provides for a wide variety of programs and member services that benefit both the public interest and the members of the State Bar. The State Bar’s programs are segregated into twenty-five separate program funds, and 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 2011, the State Bar had approximately 234,000 members, an increase of 1.7% compared to 2010, 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, 2011 AND 2010

Membership fees for 2011 and 2010 were set by the State Legislature at \$410 for active members and \$125 for inactive members. The membership fees are allocated to the following funds:

| | 2011 | | 2010 | |
|--|---------------|---------------|---------------|---------------|
| | Active Fee | Inactive Fee | Active Fee | Inactive Fee |
| General Fund | \$ 295 | \$ 55 | \$ 305 | \$ 65 |
| General Fund-Discipline Activity | 25 | 25 | 25 | 25 |
| Legal Services Trust Fund * | 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> |

* 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 Assets—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 assets. The net assets section is displayed in three components – restricted net assets; invested in capital assets; and unrestricted net assets.

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

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

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, 2011 AND 2010

Financial Highlights

Fiscal Year 2011 Compared to Fiscal Year 2010

Statements of Net Assets

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 | 44,162,858 | 43,257,045 | 905,813 |
| Noncurrent liabilities | <u>14,065,275</u> | <u>8,779,193</u> | <u>5,286,082</u> |
| Total liabilities | <u>58,228,133</u> | <u>52,036,238</u> | <u>6,191,895</u> |
| Net assets | | | |
| Restricted | 33,935,401 | 34,965,359 | (1,029,958) |
| Invested in capital assets | 31,687,408 | 32,067,715 | (380,307) |
| Unrestricted | <u>22,547,430</u> | <u>33,140,205</u> | <u>(10,592,775)</u> |
| Total net assets | <u>\$ 88,170,239</u> | <u>\$ 100,173,279</u> | <u>\$ (12,003,040)</u> |

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 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 mentioned above, 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.

THE STATE BAR OF CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS – Unaudited (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

Liabilities – The State Bar’s total liabilities for the reported year were \$58.2 million, up by \$6.2 million, or 11.9% compared to last year. The increase is due to a \$7.5 million increase in Client Security Fund claim liabilities as a result of the large number of loan modification fraud claims filed in previous years. The increase is partially offset by decreases of \$2.0 million in grants payable.

Net Assets – The State Bar’s net assets as of December 31, 2011, were \$88.2 million, down by \$12.0 million, or 12.0% compared to 2010. The decrease in net assets reflects the result of operating losses in various program funds, such as the General Fund, Annual Meeting Fund, Benefit Reserve Fund, Client Security 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 Client Security Fund, Legal Services Trust Fund, and the Support and Administration program fund have net deficits totaling \$7.6 million. Net deficits in the Client Security Fund as of December 31, 2011, were \$7.2 million. The Client Security Fund is expected to have sufficient cash flow through at least 2014. An in-depth cash flow analysis of the fund will be performed in 2012 to determine the need for and the timing of a possible fee increase in future years.

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 |
|--------------------------------|----------------------|-----------------------|------------------------|
| OPERATING REVENUES | | | |
| 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> |
| OPERATING EXPENSES | | | |
| Program expenses | 130,214,143 | 115,428,511 | 14,785,632 |
| General and administration | 14,751,414 | 14,815,663 | (64,249) |
| Total operating expenses | <u>144,965,557</u> | <u>130,244,174</u> | <u>14,721,383</u> |
| OPERATING LOSS | (13,299,316) | (316,258) | (12,983,058) |
| NONOPERATING REVENUES | <u>1,296,276</u> | <u>1,504,217</u> | <u>(207,941)</u> |
| CHANGE IN NET ASSETS | (12,003,040) | 1,187,959 | (13,190,999) |
| NET ASSETS - beginning of year | <u>100,173,279</u> | <u>98,985,320</u> | <u>1,187,959</u> |
| NET ASSETS - end of year | <u>\$ 88,170,239</u> | <u>\$ 100,173,279</u> | <u>\$ (12,003,040)</u> |

Operating Revenues – For the fiscal year ended December 31, 2011, the State Bar’s total operating and non-operating revenues are p\$133.0 million, and total expenses are \$145.0 million, and the excess of expenditures over revenues for 2011 is \$12.0 million.

Total operating revenues for all programs for 2011 is \$131.7 million, an increase of \$1.7 million or 1.3% compared to last year. The increase is 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.

THE STATE BAR OF CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued) YEARS ENDED DECEMBER 31, 2011 AND 2010

Revenues from membership fees for the General Fund for 2011 were \$58.9 million, slightly down by \$0.5 million compared to \$59.4 million last year. 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 admittees and increases in late payment penalty revenue in 2011, the General Fund is able to maintain its revenue at the same level as in 2010.

Non-operating revenues for 2011 is \$1.3 million, down by \$0.2 million or 13.8% compared to 2010. The decrease is primarily due 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 \$145.0 million, up by \$14.7 million or 11.3% compared to \$130.2 million last year. The increase is due to a combination of (1) a \$9.1 million increase in Client Security Fund claim payout and adjustments to the accrued claims liabilities; (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.

Fiscal Year 2010 Compared to Fiscal Year 2009

Statements of Net Assets

The following is a summary comparison of the State Bar's statements of net assets as of December 31, 2010 and 2009:

| | 2010 | 2009 | Change |
|---|-----------------------|----------------------|---------------------|
| Cash, cash equivalents, and investments | \$ 107,625,606 | \$ 80,502,300 | \$ 27,123,306 |
| Other assets | 12,516,196 | 14,681,967 | (2,165,771) |
| Capital assets, net | <u>32,067,715</u> | <u>33,297,824</u> | <u>(1,230,109)</u> |
| Total assets | <u>152,209,517</u> | <u>128,482,091</u> | <u>23,727,426</u> |
| Current liabilities | 43,257,045 | 23,697,401 | 19,559,644 |
| Noncurrent liabilities | <u>8,779,193</u> | <u>5,799,370</u> | <u>2,979,823</u> |
| Total liabilities | <u>52,036,238</u> | <u>29,496,771</u> | <u>22,539,467</u> |
| Net assets | | | |
| Restricted | 34,965,359 | 36,059,774 | (1,094,415) |
| Invested in capital assets | 32,067,715 | 33,297,824 | (1,230,109) |
| Unrestricted | <u>33,140,205</u> | <u>29,627,722</u> | <u>3,512,483</u> |
| Total net assets | <u>\$ 100,173,279</u> | <u>\$ 98,985,320</u> | <u>\$ 1,187,959</u> |

THE STATE BAR OF CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

Assets—For the fiscal year ended December 31, 2010, the State Bar's total assets were \$152.2 million, liabilities were \$52.0 million and net assets were \$100.2 million. The Bar's total assets increased by \$23.7 million compared to December 31, 2009.

Cash, cash equivalents, 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. The combined balance increased by \$27.1 million, or 33.7% when compared to December 31, 2009. This variance is caused by the timing of the passage of the 2010 and 2011 fee bills. The 2010 fee bill was passed in January 2010, two months behind the regular billing schedule, which reduced the cash flow and resulted in the lower combined cash and investment balances at the year ended December 31, 2009. The 2011 fee bill was passed on schedule, which allowed the State Bar to restore the cash balance to its normal level at the year ended December 31, 2010.

The combined balance in other assets consisted of interest receivable, prepayments, grants receivable, other receivable, and an Other Postemployment Benefits (OPEB) asset. The combined balance decreased by \$2.2 million, or 14.8% when compared to December 31, 2009. The decrease is due primarily to the decline in the OPEB asset of \$1.4 million as a result of current year OPEB expenses of \$2.0 million offset by actual contributions of \$0.6 million.

Capital assets decreased by \$1.2 million from \$33.3 million at the end of 2009 to \$32.1 million at the end of 2010. The 3.7% decrease was primarily attributable to normal depreciation on capital assets of \$1.4 million, partially offset by the addition of office equipment for \$0.2 million.

Liabilities—Total liabilities increased by approximately \$22.5 million, or 76.4%. The increase in liabilities was attributable to a combination of (1) a \$17.8 million increase in unearned fees collected in advance as a result of the late passage of the 2010 fee bill; (2) a \$2.9 million increase in Client Security Fund claims liability as a result of increased claims from loan modification; (3) a \$1.1 million increase in grants payable due to additional grant allocated for the Equal Access Fund program; and (4) a \$0.7 million increase in accounts payable.

Net assets—Net assets increased by \$1.2 million, or 1.2%. The increase in net assets reflects the result of net operating surplus in various program funds, such as the General Fund, Admission Fund, Building Fund, Building Special Assessment Fund, Information Technology Assessment Fund, Justice Gap Fund, and Sections Fund. The increase in net assets in these program funds is partially offset by a \$6.2 million net loss in the Legal Services Trust Fund ("LSTF"). The LSTF trust account revenue remained at a low level due to low interest rates in 2010. Approximately 43% or \$5.1 million of the current year Interest On Lawyer Trust Account ("IOLTA") grant distribution was funded by prior year reserves to cover the shortage of the trust account revenue.

THE STATE BAR OF CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS – Unaudited (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

Statements of Revenues and Expenses

The following table presents the condensed statements of revenues and expenses for the State Bar for the years ended December 31, 2010 and 2009:

| | 2010 | 2009 | Change |
|--------------------------------|-----------------------|----------------------|---------------------|
| OPERATING REVENUES | | | |
| Program revenues | \$ 124,835,212 | \$ 124,418,500 | \$ 416,712 |
| Other | 5,092,704 | 5,860,060 | (767,356) |
| Total operating revenues | <u>129,927,916</u> | <u>130,278,560</u> | <u>(350,644)</u> |
| OPERATING EXPENSES | | | |
| Program expenses | 115,428,511 | 122,988,991 | (7,560,480) |
| General and administration | 14,815,663 | 15,342,164 | (526,501) |
| OPEB benefit expense | - | 568,416 | (568,416) |
| Total operating expenses | <u>130,244,174</u> | <u>138,899,571</u> | <u>(8,655,397)</u> |
| OPERATING INCOME | (316,258) | (8,621,011) | 8,304,753 |
| NONOPERATING REVENUES | <u>1,504,217</u> | <u>2,372,433</u> | <u>(868,216)</u> |
| CHANGE IN NET ASSETS | <u>1,187,959</u> | <u>(6,248,578)</u> | <u>7,436,537</u> |
| NET ASSETS - beginning of year | <u>98,985,320</u> | <u>105,233,898</u> | <u>(6,248,578)</u> |
| NET ASSETS - end of year | <u>\$ 100,173,279</u> | <u>\$ 98,985,320</u> | <u>\$ 1,187,959</u> |

Operating Revenues— For the fiscal year ended December 31, 2010, the State Bar’s total operating and non-operating revenues were \$131.4 million, and total expenses were \$130.2 million, resulting in a net surplus of \$1.2 million.

Total operating revenues for all programs for year ended 2010 is \$129.9 million, an insignificant decrease of \$0.3 million or 0.3% compared to 2009. The decrease is attributable to a combination of (1) a \$0.7 million decline in the Sections seminar workshop revenue and the convention income from the State Bar’s Annual Meeting; (2) a \$0.7 million decline in the CalBar Journal advertising revenue with the transition away from the print version to the electronic version of the CalBar Journal; and (3) partially offset by a \$1.1 million increase of membership fees as a result of additional active members in 2010.

Total non-operating revenues for the fiscal year ended 2010 is \$1.5 million, which represents a decrease of \$0.9 million or 36.6% compared to 2009. The decrease is due to a \$0.3 million decrease in rental income due to termination of one tenant lease, and a \$0.6 million decrease in investment income resulting from the decline in government bond yields in 2010.

Operating Expenses—In response to the 2010 fee bill veto, the State Bar took various steps to reduce operating and program costs. For the fiscal year ended 2010, the State Bar’s total operating expenses for all programs were \$130.2 million, a saving of \$8.7 million or 6.2% compared to \$138.9 million in 2009. The \$8.7 million cost reduction is the result of (1) an organization-wide operating cost reduction, including traveling, catering, printing, mailing and other outside services for approximately \$3.2 million in response to the 2010 fee bill veto; (2) a \$2.3 million decrease in professional fees; (3) a \$1.7 million salary and benefit saving from vacant senior executive positions; (4) a \$1.1 million decrease in Client Security Fund claim liability accrual adjustment; and (5) a \$0.4 million net decrease in grant expenses due to decline in LSTF trust account interest revenue.

THE STATE BAR OF CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

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 2012 dues was approved on October 2, 2011, under Senate Bill 163. This bill established the 2012 dues at the same level as 2011 with several significant changes. Beginning in 2012, \$20 of the membership dues authorized pursuant to Sections 6140 and 6141 of the State Bar Act shall be 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.

SB 163 also allowed for a one-time rebate of \$10 for both active and inactive members for 2012. Furthermore, the legislation requires the State Bar to contribute \$2,000,000 annually from its affinity revenues to the Legal Services Trust Fund for 2012 and 2013.

The anticipated effect of this change to the State Bar's fee structure is a diversion of revenues previously available to fund its general regulatory operations of \$8,000,000 for 2012 and \$6,000,000 for 2013. The State Bar's general fund and affinity fund are able to absorb this revenue loss through the sunset of these diversions in 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 ASSETS
DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|--|----------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 54,784,513 | \$ 71,428,355 |
| Investments | 43,620,214 | 31,200,211 |
| Accounts and other receivables, net of allowance for uncollectible accounts of \$1,925,289 in 2011 and \$1,926,160 in 2010 | 8,003,117 | 8,655,215 |
| Other current assets | <u>1,133,016</u> | <u>1,330,152</u> |
| Total current assets | <u>107,540,860</u> | <u>112,613,933</u> |
| Noncurrent assets | | |
| Investments | - | 4,997,040 |
| OPEB asset | 7,170,104 | 2,530,829 |
| Capital assets | | |
| Nondepreciable | 4,596,490 | 4,596,490 |
| Depreciable, net | <u>27,090,918</u> | <u>27,471,225</u> |
| Total noncurrent assets | <u>38,857,512</u> | <u>39,595,584</u> |
| Total assets | <u>146,398,372</u> | <u>152,209,517</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and other liabilities | 12,757,312 | 9,854,035 |
| Unearned fees collected in advance | 21,383,096 | 21,406,684 |
| Grants payable | <u>10,022,450</u> | <u>11,996,326</u> |
| Total current liabilities | <u>44,162,858</u> | <u>43,257,045</u> |
| Noncurrent liabilities | | |
| Compensated absences | 503,661 | 554,985 |
| Claims payable | <u>13,561,614</u> | <u>8,224,208</u> |
| Total noncurrent liabilities | <u>14,065,275</u> | <u>8,779,193</u> |
| Total liabilities | <u>58,228,133</u> | <u>52,036,238</u> |
| NET ASSETS | | |
| Restricted | 33,935,401 | 34,965,359 |
| Invested in capital assets | 31,687,408 | 32,067,715 |
| Unrestricted | <u>22,547,430</u> | <u>33,140,205</u> |
| Total net assets | <u>\$ 88,170,239</u> | <u>\$ 100,173,279</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 ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|--------------------------------------|----------------------|-----------------------|
| OPERATING REVENUES | | |
| Membership fees and donations | \$ 76,104,672 | \$ 74,564,634 |
| Examination application fees | 17,527,293 | 16,554,627 |
| Trust account revenue | 6,077,611 | 6,793,426 |
| Law practices (sections) fees | 4,820,817 | 4,843,903 |
| Seminar/workshop revenue | 1,084,016 | 903,864 |
| Advertising revenue | 87,932 | 204,991 |
| Convention income | 1,102,331 | 960,831 |
| Legal specialization fees | 1,791,879 | 934,714 |
| Law corporation registration fees | 735,626 | 703,682 |
| Continuing legal education fees | 1,593,599 | 1,346,657 |
| Grants | 10,220,390 | 10,700,450 |
| EAF AB145 filing fees | 5,818,791 | 6,323,433 |
| Other | <u>4,701,284</u> | <u>5,092,704</u> |
| Total operating revenue | <u>131,666,241</u> | <u>129,927,916</u> |
| OPERATING EXPENSES | | |
| Discipline and adjudication | 55,757,792 | 50,193,751 |
| Examination costs and administration | 18,516,019 | 17,587,153 |
| Grants | 28,931,145 | 29,698,268 |
| Law practices (sections) | 4,699,933 | 4,418,152 |
| Claims, net of reimbursements | 14,889,214 | 5,818,783 |
| Communications | 1,170,969 | 1,097,443 |
| Administration of justice | 560,944 | 727,032 |
| Governance | 1,416,941 | 1,608,817 |
| Administration of the profession | 2,688,099 | 2,732,801 |
| Program development | 1,583,087 | 1,546,311 |
| General and administration | <u>14,751,414</u> | <u>14,815,663</u> |
| Total operating expenses | <u>144,965,557</u> | <u>130,244,174</u> |
| OPERATING LOSS | <u>(13,299,316)</u> | <u>(316,258)</u> |
| NONOPERATING REVENUES | | |
| Investment income | 385,982 | 584,617 |
| Rental income | <u>910,294</u> | <u>919,600</u> |
| Total nonoperating revenues | <u>1,296,276</u> | <u>1,504,217</u> |
| CHANGE IN NET ASSETS | (12,003,040) | 1,187,959 |
| NET ASSETS—beginning of year | <u>100,173,279</u> | <u>98,985,320</u> |
| NET ASSETS—end of year | <u>\$ 88,170,239</u> | <u>\$ 100,173,279</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, 2011 AND 2010

| | 2011 | 2010 |
|---|------------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from members, applicants, grants and other professionals | \$ 132,253,023 | \$ 148,456,465 |
| Payments to suppliers | (84,262,561) | (76,414,800) |
| Payments to employees | <u>(57,782,920)</u> | <u>(46,470,704)</u> |
| Net cash provided by/(used in) operating activities | <u>(9,792,458)</u> | <u>25,570,961</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from maturity and sale of investments | 33,077,037 | 42,973,515 |
| Purchases of investments | (40,500,000) | (39,000,000) |
| Interest received from investments | 427,710 | 823,741 |
| Cash received from rental income | <u>910,294</u> | <u>927,481</u> |
| Net cash provided by/(used in) investing activities | <u>(6,084,959)</u> | <u>5,724,737</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of capital assets | <u>(766,425)</u> | <u>(198,877)</u> |
| Net cash used in capital and related financing activities | <u>(766,425)</u> | <u>(198,877)</u> |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (16,643,842) | 31,096,821 |
| CASH AND CASH EQUIVALENTS—Beginning of year | <u>71,428,355</u> | <u>40,331,534</u> |
| CASH AND CASH EQUIVALENTS—End of year | <u><u>\$ 54,784,513</u></u> | <u><u>\$ 71,428,355</u></u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES | | |
| Operating loss | \$ (13,299,316) | \$ (316,258) |
| Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities | | |
| Depreciation and amortization | 1,146,732 | 1,428,986 |
| Changes in assets and liabilities | | |
| Accounts and other receivables | 610,370 | 721,719 |
| OPEB asset | (4,639,275) | 1,448,953 |
| Other current assets | 197,136 | (251,906) |
| Accounts payable and other liabilities | 8,189,359 | 3,592,978 |
| Unearned fees collected in advance | (23,588) | 17,806,830 |
| Grants payable | <u>(1,973,876)</u> | <u>1,139,659</u> |
| Net cash provided by/(used in) operating activities | <u><u>\$ (9,792,458)</u></u> | <u><u>\$ 25,570,961</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 ASSETS
DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|----------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | | |
| Money market funds | \$ 2,861,944 | \$ 5,376,850 |
| Investments | | |
| U.S. government agencies | 11,498,780 | - |
| U.S. Treasury obligations | - | 2,998,770 |
| Interest receivable | <u>11,666</u> | <u>47</u> |
| Total assets | <u>14,372,390</u> | <u>8,375,667</u> |
| NET ASSETS HELD IN TRUST FOR | | |
| POST-RETIREMENT WELFARE BENEFITS | <u>\$ 14,372,390</u> | <u>\$ 8,375,667</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 CHANGES IN PLAN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|--|----------------------|---------------------|
| ADDITIONS | | |
| Employer contributions | \$ 6,681,208 | \$ 612,900 |
| Investment income/(expense) | | |
| Interest income | 14,389 | 6,301 |
| Net depreciation in the fair value of plan investments | <u>(12,185)</u> | <u>(3,523)</u> |
| Total additions | <u>6,683,412</u> | <u>615,678</u> |
| DEDUCTIONS | | |
| Benefits payments | 681,208 | 612,900 |
| Bank processing fees | <u>5,481</u> | <u>4,093</u> |
| Total deductions | <u>686,689</u> | <u>616,993</u> |
| Change in trust net assets | <u>5,996,723</u> | <u>(1,315)</u> |
| NET ASSETS HELD IN TRUST FOR | | |
| POST-RETIREMENT WELFARE BENEFITS | | |
| Beginning of year | <u>8,375,667</u> | <u>8,376,982</u> |
| End of year | <u>\$ 14,372,390</u> | <u>\$ 8,375,667</u> |

See accompanying notes to the financial statements.

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

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.

The State Bar Education Foundation (the “Education Foundation”), a nonprofit public benefit corporation, organizes and administers the educational programs and activities conducted by the State Bar. The Education Foundation is governed by a Board of Directors that consists of 5 management-level staff of the State Bar. The State Bar is financially accountable for and provides administrative services to the Education Foundation. Because its financial and operational relationship with the State Bar is closely integrated, the Education Foundation is included in the State Bar’s financial statements as a blended component unit.

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.

Basis of Accounting—The Enterprise Fund of the State Bar follows all Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions, and Accounting Research Bulletins (“ARB”) issued on or before November 30, 1989, unless pronouncements conflict with or contradict guidance of the GASB. Governments have the option of following subsequent private-sector guidance for their enterprise fund(s), subject to the same limitation. The State Bar has elected not to follow subsequent private-sector guidance. The State Bar’s financial statements are presented on the accrual basis of accounting.

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

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

2. BASIS OF PRESENTATION (Continued)

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.

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, 2011, and 2010, 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 assets.

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 net assets are available are first satisfied with restricted net assets, to the extent available.

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant Revenue, Expense and Grants Payable—The State Bar receives grants from the State of California under the Equal Access Fund and distributes those grant funds to nonprofit legal aid organizations. These grants are contingent on the availability of funding from the State. The State Bar’s policy is to recognize grants revenue from the State and the corresponding grant expenses to the sub-grantees in the period in which grant funds become collectible from the State granting agency.

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.

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 7 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*. See Note 8 for related disclosures.

Restricted Net Assets reflects net assets that are 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 assets were \$33.9 million at December 31, 2011, of which \$29.7 million was restricted by enabling legislation; and \$35.0 million at December 31, 2010, of which \$29.5 million was restricted by enabling legislation.

Reclassifications—Certain financial statement items from the December 31, 2010 financial statements have been reclassified for comparative purposes. Net assets of \$11,494,460 at December 31, 2010 were reclassified from restricted to unrestricted based on the State Bar’s updated internal legal analysis.

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.

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of New Accounting Standards

Intangible Assets—GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* establishes standards for recognition and measurement of intangible assets. This Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated, including computer software. The implementation of GASB Statement No. 51 did not have significant impact on the State Bar for the fiscal years ended December 31, 2011 and 2010.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Enterprise Fund

Cash and cash equivalents—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. Compared to December 31, 2010, the carrying amount of the State Bar’s deposits was \$21,444,480 and the bank balance was \$18,505,832. 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.

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. At December 31, 2010, the PMIA balance was \$74.5 billion, of which 96.2% is invested in non-derivative financial products with 1.7% in structured notes and 2.1% in asset-backed securities. The total amount invested by all public agencies in LAIF was \$23.3 billion, and the State Bar’s investment in LAIF was \$50.0 million. The average maturity of PMIA investments was 215 days as of December 31, 2010.

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.

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

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

Investments by type as of December 31, 2011 and 2010 are as follows:

| | 2011 | 2010 |
|--------------------------|----------------------|----------------------|
| | Fair Value | Fair Value |
| U.S. government agencies | \$ 43,528,670 | \$ 35,064,735 |
| Corporate bonds | - | 1,002,040 |
| Equity securities | 91,544 | 130,476 |
| Total investments | <u>\$ 43,620,214</u> | <u>\$ 36,197,251</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.

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:

| Issuer | Investment Type | 2011 | 2010 |
|--|--------------------------|-------------------|-------------------|
| | | Fair Value | Fair Value |
| Federal Home Loan Bank | U.S. government agencies | \$ 20,005,850 | \$ 19,521,730 |
| Federal Farm Credit Bank | U.S. government agencies | 23,522,820 | 13,533,965 |
| Federal Home Loan Mortgage Corporation | U.S. government agencies | - | 2,009,040 |

THE STATE BAR OF CALIFORNIA

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

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, 2011, and 2010, are as follows:

| | 2011 | Fair Value as a Percentage of | Weighted |
|-------------------------------|----------------------|--|-----------------|
| | Fair Value | Fixed Income | Average |
| | | Securities | Maturity |
| | | | (Years) |
| U.S. government agencies | \$ 43,528,670 | 100.0% | 0.27 |
| Total fixed income securities | <u>\$ 43,528,670</u> | <u>100.0%</u> | |
| | | | |
| | 2010 | Fair Value as | Weighted |
| | Fair Value | a Percentage of | Average |
| | | Fixed Income | Maturity |
| | | Securities | (Years) |
| U.S. government agencies | \$ 35,064,735 | 97.2% | 0.52 |
| Corporate bonds | 1,002,040 | 2.8% | 0.05 |
| Total fixed income securities | <u>\$ 36,066,775</u> | <u>100.0%</u> | |

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 & Poors; 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, 2011, and 2010, are as follows:

| | 2011 | | 2010 | |
|-------------------------------|----------------------|------------------------|----------------------|------------------------|
| | Fair | Fair Value as a | Fair | Fair Value as a |
| | Value | Percentage of | Value | Percentage of |
| | | Fixed Income | | Fixed Income |
| | | Securities | | Securities |
| Moody's Rating: | | | | |
| AAA | \$ 40,528,220 | 93.1% | \$ 35,064,735 | 97.2% |
| A3 | - | 0.0% | 1,002,040 | 2.8% |
| Unrated * | 3,000,450 | 6.9% | - | 0.0% |
| Total fixed income securities | <u>\$ 43,528,670</u> | <u>100.0%</u> | <u>\$ 36,066,775</u> | <u>100.0%</u> |

* This security is rated AA by Standard & Poor's.

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

4. 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, 2011, and 2010, are as follows:

| | 2011 | 2010 |
|---|----------------------|---------------------|
| | Fair Value | Fair Value |
| Cash and cash equivalents | \$ 2,861,944 | \$ 5,376,850 |
| Investments: | | |
| U.S. government agencies | 11,498,780 | - |
| U.S. Treasury obligations | - | 2,998,770 |
| Total cash, cash equivalents, and investments | <u>\$ 14,360,724</u> | <u>\$ 8,375,620</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, 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. At December 31, 2010, the OPEB Trust did not hold investments in any one issuer, excluding U.S. government guaranteed investments that are subject to concentration of credit risk.

Interest Rate Risk. Fixed income security investments subject to interest rate risk at December 31, 2011 and 2010, are as follows:

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

| | 2010 | Fair Value as a | Weighted Average |
|---------------------------|-------------------|--------------------------------|-------------------------|
| | Fair Value | Percentage of | Maturity |
| | | Fixed Income Securities | (Years) |
| U.S. Treasury obligations | \$ 2,998,770 | 100.0% | 0.3 |

Credit Risk. At December 31, 2011, and 2010, the State Bar’s investments in the OPEB Trust were rated AAA by Moody’s Investors Service.

THE STATE BAR OF CALIFORNIA

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 are as follows:

| | Balance January 1, 2011 | Increases | Decreases | Balance December 31, 2011 |
|--|--|-----------------------|------------------|--|
| 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>-</u> | <u>-</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>-</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> |
| | | | | |
| | Balance January 1, 2010 | Increases | Decreases | Balance December 31, 2010 |
| 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 | 3,870,902 | 198,877 | - | 4,069,779 |
| Furniture and fixtures | <u>1,675,389</u> | <u>-</u> | <u>-</u> | <u>1,675,389</u> |
| Total capital assets, being depreciated | <u>44,434,668</u> | <u>198,877</u> | <u>-</u> | <u>44,633,545</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and leasehold improvements | (10,748,892) | (1,109,104) | - | (11,857,996) |
| Equipment and software | (3,368,122) | (271,372) | - | (3,639,494) |
| Furniture and fixtures | <u>(1,616,320)</u> | <u>(48,510)</u> | <u>-</u> | <u>(1,664,830)</u> |
| Total accumulated depreciation | <u>(15,733,334)</u> | <u>(1,428,986)</u> | <u>-</u> | <u>(17,162,320)</u> |
| Total capital assets, being depreciated, net | <u>28,701,334</u> | <u>(1,230,109)</u> | <u>-</u> | <u>27,471,225</u> |
| Capital assets, net | <u>\$ 33,297,824</u> | <u>\$ (1,230,109)</u> | <u>\$ -</u> | <u>\$ 32,067,715</u> |

Depreciation expense for the years ended December 31, 2011, and 2010, was \$1,146,732 and \$1,428,986, respectively.

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

| | 2011 | 2010 |
|----------------------|----------------------|---------------------|
| Accounts payable | \$ 2,489,069 | \$ 2,501,777 |
| Compensated absences | 3,154,772 | 3,344,623 |
| Claims payable | 5,575,489 | 3,396,537 |
| Other liabilities | 1,537,982 | 611,098 |
| | \$ 12,757,312 | \$ 9,854,035 |

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

| | Balance January 1, 2011 | Additions | Retirements | Balance December 31, 2011 | Amount due within one year |
|----------------------|--|----------------------|------------------------|--|---|
| Compensated absences | \$ 3,899,608 | \$ 3,389,543 | \$ (3,630,718) | \$ 3,658,433 | \$ 3,154,772 |
| Claims payable | 11,620,745 | 15,336,213 | (7,819,855) | 19,137,103 | 5,575,489 |
| | \$ 15,520,353 | \$ 18,725,756 | \$ (11,450,573) | \$ 22,795,536 | \$ 8,730,261 |

| | Balance January 1, 2010 | Additions | Retirements | Balance December 31, 2010 | Amount due within one year |
|----------------------|--|----------------------|-----------------------|--|---|
| Compensated absences | \$ 3,823,569 | \$ 4,053,035 | \$ (3,976,996) | \$ 3,899,608 | \$ 3,344,623 |
| Claims payable | 8,712,766 | 6,239,103 | (3,331,124) | 11,620,745 | 3,396,537 |
| | \$ 12,536,335 | \$ 10,292,138 | \$ (7,308,120) | \$ 15,520,353 | \$ 6,741,160 |

THE STATE BAR OF CALIFORNIA

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010**

7. PENSION PLAN

Plan Description—The State Bar’s defined benefit plan, the Miscellaneous Plan of the State Bar of California (the “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 \$2,950,733 in 2011 and \$3,026,649 in 2010 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 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 10.610% for the period of July 1, 2011 to December 31, 2011, 10.270% for the period of July 1, 2010 to June 30, 2011, and 10.271% for the period of July 1, 2009 to June 30, 2010. The State Bar’s annual pension cost for the years ended December 31, 2011, 2010 and 2009 were \$4,399,908, \$4,440,742, and \$4,502,986, 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, 2011, and 2010, were determined as part of the June 30, 2009, 2008, and 2007 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 |
|------------|---------------------------------|-------------------------------------|---------------------------|
| 12/31/2011 | \$ 4,399,908 | 100.0% | \$ — |
| 12/31/2010 | \$ 4,440,742 | 100.0% | \$ — |
| 12/31/2009 | \$ 4,502,986 | 100.0% | \$ — |

THE STATE BAR OF CALIFORNIA

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010**

7. PENSION PLAN (Continued)

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, 2007, June 30, 2008, June 30, 2009, and June 30, 2010 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Average Remaining Period | 19 Years as of June 30, 2006; 18 Years as of June 30, 2007; 19 Years as of June 30, 2008; 20 Years as of June 30, 2009; 11 Years as of June 30, 2010 |
| Asset Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions | |
| Investment Rate of Return | 7.75% (net of administrative expenses) |
| Projected Salary Increases | 3.55% to 14.45% depending on age, service, and type of employment |
| Inflation | 3.00% |
| Payroll Growth | 3.25% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%. |

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 investment losses experienced by CalPERS in fiscal year 2008-2009. The corridor limits for the actuarial value of assets were increased from 80%-120% of market value to 60%-140% of market value on June 30, 2009 and were reduced to 70%-130% of market value on June 30, 2010. In addition, all gains and losses during fiscal years 2009 through 2011 were separately amortized over fixed and declining 30-year periods.

Funded Status and Funding Progress—As of June 30, 2010, the most recent actuarial valuation date, the funded status of the Plan was as follows:

| | |
|---|---------------------|
| Actuarial accrued liability (AAL) | \$ 228,814,011 |
| Actuarial value of plan assets | 225,275,975 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 3,538,036</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 98.5% |
| Annual covered payroll (active plan members) | \$ 43,572,197 |
| UAAL as percentage of annual covered payroll | 8.1% |

The schedules presented as required supplementary information following the notes to the financial statements present multi-year 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.

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

8. 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.

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 the date of hire to expected retirement age. The OPEB Plan included forty-nine and sixty-four active executive staff employees as of December 31, 2011, and 2010, respectively, and seventy-six and sixty-six retirees and beneficiaries received benefits as of December 31, 2011, and 2010, 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.

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 January 1, 2010, the annual required contributions for the years ended December 31, 2011, and 2010, were both \$2,007,139.

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.

| | 2011 | 2010 |
|--|----------------------------|----------------------------|
| Determination of Net OPEB Asset | | |
| Annual required contribution (ARC) | \$ 2,007,139 | \$ 2,007,139 |
| Interest on prior year net OPEB asset | (113,887) | (179,090) |
| Adjustment to ARC | <u>148,681</u> | <u>233,804</u> |
| Annual OPEB cost | 2,041,933 | 2,061,853 |
| State Bar contributions made | <u>6,681,208</u> | <u>612,900</u> |
| Increase/(decrease) in net OPEB asset | 4,639,275 | (1,448,953) |
| Net OPEB asset - January 1 | <u>2,530,829</u> | <u>3,979,782</u> |
| Net OPEB asset - December 31 | <u><u>\$ 7,170,104</u></u> | <u><u>\$ 2,530,829</u></u> |

THE STATE BAR OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

8. 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 |
|------------|---------------------|--|-------------------|
| 12/31/2011 | \$ 2,041,933 | 327.2% | \$ 7,170,104 |
| 12/31/2010 | \$ 2,061,853 | 29.7% | \$ 2,530,829 |
| 12/31/2009 | \$ 2,894,431 | 0.0% | \$ 3,979,782 |

Funded Status and Funding Progress. As of January 1, 2010, the most recent actuarial valuation date, the plan was 31.5% funded. The actuarial accrued liability for the benefits was \$26.6 million, and the actuarial value of assets was \$8.4 million, resulting in an unfunded accrued liability of \$18.2 million.

| | |
|---|----------------------|
| Actuarial accrued liability (AAL) | \$ 26,590,212 |
| Actuarial value of plan assets | 8,376,982 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 18,213,230</u> |
| | |
| Funded ratio (actuarial value of plan assets/AAL) | 31.5% |
| Annual covered payroll (active plan members) | \$ 8,347,423 |
| UAAL as percentage of annual covered payroll | 218.2% |

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 years ended December 31, 2011 and 2010 were based on 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 active employees 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, 2011 AND 2010

8. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (CONTINUED)

The actuarial assumptions included 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.

9. 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 Operations and Office of General Counsel review risks to which the State Bar is exposed and ensure that sufficient insurance coverage is in place.

10. 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, 2011, and 2010.

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 facility in San Francisco, California, to tenants under various lease agreements. As of December 31, 2011, the carrying value of the building was \$38,888,377 less accumulated depreciation of \$12,682,487. Future minimum lease obligations and future minimum revenue under these noncancelable operating leases at December 31, 2011, are as follows:

| Year Ending December 31 | Future Minimum Revenue | Future Minimum Lease Obligations |
|------------------------------------|---------------------------------------|---|
| 2012 | \$ 851,410 | \$ 4,001,678 |
| 2013 | 805,029 | 4,049,665 |
| 2014 | 456,997 | 158,295 |
| 2015 | 46,319 | - |
| Total | \$ 2,159,755 | \$ 8,209,638 |

Expenses under operating leases for the years ended December 31, 2011, and 2010, were \$3,893,600 and \$3,937,993, respectively.

THE STATE BAR OF CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION – Unaudited
YEARS ENDED DECEMBER 31, 2011 AND 2010

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:

| Valuation Date | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a % of Covered Payroll |
|-----------------------|--|----------------------------------|----------------------------|---------------------|-------------------------------|---------------------------------------|
| 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% |
| June 30, 2008 | \$ 202,907,693 | \$ 197,710,693 | \$ 5,197,000 | 97.4% | \$ 43,370,614 | 12.0% |

Schedule of Funding Progress – OPEB Trust

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

| Valuation Date | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a % of Covered Payroll |
|-----------------------|--|----------------------------------|----------------------------|---------------------|-------------------------------|---------------------------------------|
| 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 – OPEB 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.

| Year Ended | Annual Required Contributions | Percentage Contributed |
|-------------------|--------------------------------------|-------------------------------|
| 12/31/2011 | \$2,007,139 | 332.9% |
| 12/31/2010 | \$2,007,139 | 30.5% |
| 12/31/2009 | \$2,799,926 | 0.0% |

THE STATE BAR OF CALIFORNIA

SUPPLEMENTARY INFORMATION YEAR ENDED DECEMBER 31, 2011

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.

Certification Activities Fund—The Certification Activities Fund administers and regulates the programs related to the practice of law: Mandatory Continuing Legal Education, Lawyer Referral Services (Certification and Regulation), Law Corporations, Counsel Pro HAC Vice, Out-of-State Attorney Arbitration Counsel, Foreign Legal Consultants, Limited Liability Partnerships, Practical Training of Law Students, and Special Masters. Funding is provided by fees, penalties, and other payments authorized by statute or court rule.

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. Management of the State Bar has estimated reimbursement related to claims submitted as of December 31, 2011 and 2010 to be \$19,137,103 and \$11,620,745, respectively, which are accrued in the accompanying statements of net assets. 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. At December 31, 2011 and 2010, the net asset balance of the Discipline Fund was \$1,155,596 and \$1,151,967, respectively, representing 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.

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION (Continued)
YEAR ENDED DECEMBER 31, 2011

PROGRAM FUND DESCRIPTIONS (Continued)

Education Foundation Fund—The Education Foundation Fund accounts for the activities of the State Bar Education Foundation, which includes organizing and administering certain educational programs and activities conducted by the State Bar.

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.

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 for 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.

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, 2011

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 2011, \$10 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 \$10 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 2011 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 ASSETS
DECEMBER 31, 2011

| | General Fund | Admissions | Annual Meeting | Benefit Reserve | Building | Building Special Assessment | Certification Activities |
|--|---------------------|---------------------|-------------------|---------------------|----------------------|-----------------------------------|-----------------------------|
| ASSETS | | | | | | | |
| Current Assets | | | | | | | |
| Cash and cash equivalents | \$ 54,003,427 | \$ 50 | \$ - | \$ 781,036 | \$ - | \$ - | \$ - |
| Investments | 43,620,214 | - | - | - | - | - | - |
| Accounts and other receivables, net of allowance for uncollectible accounts of \$1,925,289 | 625,900 | - | - | - | 58,695 | - | - |
| Interfund receivable | - | 8,103,670 | 278,428 | 887,283 | 7,703,389 | 6,501,296 | - |
| Other current assets | 555,255 | 161,954 | - | - | - | - | - |
| Total current assets | 98,804,796 | 8,265,674 | 278,428 | 1,668,319 | 7,762,084 | 6,501,296 | - |
| Noncurrent assets | | | | | | | |
| Investments | - | - | - | - | - | - | - |
| OPEB assets | - | - | - | 7,170,104 | - | - | - |
| Capital assets | | | | | | | |
| Nondepreciable | - | - | - | - | 889,211 | - | - |
| Depreciable, net | - | - | - | - | 12,439,350 | - | - |
| Total noncurrent assets | - | - | - | 7,170,104 | 13,328,561 | - | - |
| Total assets | 98,804,796 | 8,265,674 | 278,428 | 8,838,423 | 21,090,645 | 6,501,296 | - |
| LIABILITIES | | | | | | | |
| Current liabilities | | | | | | | |
| Accounts payable and other liabilities | 5,688,528 | 242,798 | 62,898 | - | 130,223 | - | - |
| Interfund payable | 72,971,799 | - | - | - | - | - | - |
| Unearned fees collected in advance | 11,775,515 | 4,138,270 | - | - | - | 460,460 | - |
| Grants payable | - | - | - | - | - | - | - |
| Total current liabilities | 90,435,842 | 4,381,068 | 62,898 | - | 130,223 | 460,460 | - |
| Noncurrent liabilities | | | | | | | |
| Compensated absences | 299,438 | 38,344 | 2,699 | - | - | - | - |
| Claims payable | - | - | - | - | - | - | - |
| Total noncurrent liabilities | 299,438 | 38,344 | 2,699 | - | - | - | - |
| Total liabilities | 90,735,280 | 4,419,412 | 65,597 | - | 130,223 | 460,460 | - |
| NET ASSETS | | | | | | | |
| Restricted | - | 3,846,262 | 212,831 | - | 7,631,861 | 6,040,836 | - |
| Invested in capital assets | - | - | - | - | 13,328,561 | - | - |
| Unrestricted (deficit) | 8,069,516 | - | - | 8,838,423 | - | - | - |
| Total net assets | \$ 8,069,516 | \$ 3,846,262 | \$ 212,831 | \$ 8,838,423 | \$ 20,960,422 | \$ 6,040,836 | \$ - |

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF NET ASSETS (Continued)
DECEMBER 31, 2011

| Client Security | Discipline | Education Foundation | Elimination of Bias and Bar Relations | Equal Access | Grants | Information Technology Assessment | |
|-----------------------|---------------------|----------------------|---------------------------------------|---------------------|-------------------|-----------------------------------|--|
| | | | | | | | ASSETS |
| | | | | | | | Current Assets |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | Cash and cash equivalents |
| - | - | - | - | - | - | - | Investments |
| - | - | - | - | 6,789,025 | - | - | Accounts and other receivables, net of allowance for uncollectible accounts of \$1,925,289 |
| 13,500,746 | 1,155,596 | - | 1,343,318 | 1,601,434 | 200,946 | 4,453,716 | Interfund receivable |
| - | - | - | - | - | - | - | Other current assets |
| <u>13,500,746</u> | <u>1,155,596</u> | <u>-</u> | <u>1,343,318</u> | <u>8,390,459</u> | <u>200,946</u> | <u>4,453,716</u> | Total current assets |
| | | | | | | | Noncurrent assets |
| - | - | - | - | - | - | - | Investments |
| - | - | - | - | - | - | - | OPEB assets |
| - | - | - | - | - | - | - | Capital assets |
| - | - | - | - | - | - | - | Nondepreciable |
| - | - | - | - | - | - | - | Depreciable, net |
| - | - | - | - | - | - | - | Total noncurrent assets |
| <u>13,500,746</u> | <u>1,155,596</u> | <u>-</u> | <u>1,343,318</u> | <u>8,390,459</u> | <u>200,946</u> | <u>4,453,716</u> | Total assets |
| | | | | | | | LIABILITIES |
| | | | | | | | Current liabilities |
| 5,629,226 | - | - | 32,163 | - | - | - | Accounts payable and other liabilities |
| - | - | - | - | - | - | - | Interfund payable |
| 1,516,763 | - | - | 201,175 | - | - | 352,178 | Unearned fees collected in advance |
| - | - | - | - | 7,289,984 | - | - | Grants payable |
| <u>7,145,989</u> | <u>-</u> | <u>-</u> | <u>233,338</u> | <u>7,289,984</u> | <u>-</u> | <u>352,178</u> | Total current liabilities |
| | | | | | | | Noncurrent liabilities |
| 8,424 | - | - | 5,176 | - | - | - | Compensated absences |
| <u>13,561,614</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | Claims payable |
| <u>13,570,038</u> | <u>-</u> | <u>-</u> | <u>5,176</u> | <u>-</u> | <u>-</u> | <u>-</u> | Total noncurrent liabilities |
| <u>20,716,027</u> | <u>-</u> | <u>-</u> | <u>238,514</u> | <u>7,289,984</u> | <u>-</u> | <u>352,178</u> | Total liabilities |
| | | | | | | | NET ASSETS |
| - | 1,155,596 | - | - | 1,100,475 | 200,946 | 4,101,538 | Restricted |
| - | - | - | - | - | - | - | Invested in capital assets |
| <u>(7,215,281)</u> | <u>-</u> | <u>-</u> | <u>1,104,804</u> | <u>-</u> | <u>-</u> | <u>-</u> | Unrestricted (deficit) |
| <u>\$ (7,215,281)</u> | <u>\$ 1,155,596</u> | <u>\$ -</u> | <u>\$ 1,104,804</u> | <u>\$ 1,100,475</u> | <u>\$ 200,946</u> | <u>\$ 4,101,538</u> | Total net assets |

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF NET ASSETS (Continued)
DECEMBER 31, 2011

| | Justice Gap Fund | Lawyers Assistance Program | Legal Education & Development | Legal Services Trust | Legal Specialization | Legislative Activities |
|--|------------------------|----------------------------------|-------------------------------------|----------------------------|-------------------------|---------------------------|
| ASSETS | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Investments | - | - | - | - | - | - |
| Accounts and other receivables, net of allowance for uncollectible accounts of \$1,925,289 | - | - | - | 529,497 | - | - |
| Interfund receivable | 306,681 | 2,026,230 | 2,217,341 | 2,733,527 | 2,527,651 | 1,980,291 |
| Other current assets | - | - | - | - | - | - |
| Total current assets | <u>306,681</u> | <u>2,026,230</u> | <u>2,217,341</u> | <u>3,263,024</u> | <u>2,527,651</u> | <u>1,980,291</u> |
| Noncurrent assets | | | | | | |
| Investments | - | - | - | - | - | - |
| OPEB assets | - | - | - | - | - | - |
| Capital assets | | | | | | |
| Nondepreciable | - | - | - | - | - | - |
| Depreciable, net | - | - | - | - | - | - |
| Total noncurrent assets | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>306,681</u> | <u>2,026,230</u> | <u>2,217,341</u> | <u>3,263,024</u> | <u>2,527,651</u> | <u>1,980,291</u> |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and other liabilities | - | 38,414 | 1,643 | 60,007 | 17,936 | 29,852 |
| Interfund payable | - | - | - | - | - | - |
| Unearned fees collected in advance | - | 406,330 | - | 818,640 | 467,020 | 198,780 |
| Grants payable | - | - | - | 2,732,466 | - | - |
| Total current liabilities | <u>-</u> | <u>444,744</u> | <u>1,643</u> | <u>3,611,113</u> | <u>484,956</u> | <u>228,632</u> |
| Noncurrent liabilities | | | | | | |
| Compensated absences | - | 5,292 | 265 | 8,514 | 2,874 | 4,772 |
| Claims payable | - | - | - | - | - | - |
| Total noncurrent liabilities | <u>-</u> | <u>5,292</u> | <u>265</u> | <u>8,514</u> | <u>2,874</u> | <u>4,772</u> |
| Total liabilities | <u>-</u> | <u>450,036</u> | <u>1,908</u> | <u>3,619,627</u> | <u>487,830</u> | <u>233,404</u> |
| NET ASSETS | | | | | | |
| Restricted | 306,681 | - | - | - | 2,039,821 | - |
| Invested in capital assets | - | - | - | - | - | - |
| Unrestricted (deficit) | - | 1,576,194 | 2,215,433 | (356,603) | - | 1,746,887 |
| Total net assets | <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> |

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF NET ASSETS (Continued)
DECEMBER 31, 2011

| Public Protection | Sections | Support and Administration | Technology Improvements | Fixed Asset Fund | Interfund Elimination | Total | |
|----------------------|---------------------|-------------------------------|----------------------------|------------------------|--------------------------|----------------------|--|
| | | | | | | | ASSETS |
| | | | | | | | Current Assets |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 54,784,513 | Cash and cash equivalents |
| - | - | - | - | - | - | 43,620,214 | Investments |
| - | - | - | - | - | - | 8,003,117 | Accounts and other receivables, net of allowance for uncollectible accounts of \$1,925,289 |
| 6,469,040 | 8,474,114 | 401,493 | 105,609 | - | (72,971,799) | - | Interfund receivable |
| - | 5,819 | 409,988 | - | - | - | 1,133,016 | Other current assets |
| <u>6,469,040</u> | <u>8,479,933</u> | <u>811,481</u> | <u>105,609</u> | <u>-</u> | <u>(72,971,799)</u> | <u>107,540,860</u> | Total current assets |
| | | | | | | | Noncurrent assets |
| - | - | - | - | - | - | - | Investments |
| - | - | - | - | - | - | 7,170,104 | OPEB assets |
| - | - | - | - | 3,707,279 | - | 4,596,490 | Capital assets Nondepreciable |
| - | - | - | - | 14,651,568 | - | 27,090,918 | Depreciable, net |
| - | - | - | - | 18,358,847 | - | 38,857,512 | Total noncurrent assets |
| <u>6,469,040</u> | <u>8,479,933</u> | <u>811,481</u> | <u>105,609</u> | <u>18,358,847</u> | <u>(72,971,799)</u> | <u>146,398,372</u> | Total assets |
| | | | | | | | LIABILITIES |
| | | | | | | | Current liabilities |
| - | 118,120 | 705,504 | - | - | - | 12,757,312 | Accounts payable and other liabilities |
| - | - | - | - | - | (72,971,799) | - | Interfund payable |
| - | 1,047,965 | - | - | - | - | 21,383,096 | Unearned fees collected in advance |
| - | - | - | - | - | - | 10,022,450 | Grants payable |
| <u>-</u> | <u>1,166,085</u> | <u>705,504</u> | <u>-</u> | <u>-</u> | <u>(72,971,799)</u> | <u>44,162,858</u> | Total current liabilities |
| | | | | | | | Noncurrent liabilities |
| - | 15,294 | 112,569 | - | - | - | 503,661 | Compensated absences |
| - | - | - | - | - | - | 13,561,614 | Claims payable |
| <u>-</u> | <u>15,294</u> | <u>112,569</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,065,275</u> | Total noncurrent liabilities |
| <u>-</u> | <u>1,181,379</u> | <u>818,073</u> | <u>-</u> | <u>-</u> | <u>(72,971,799)</u> | <u>58,228,133</u> | Total liabilities |
| | | | | | | | NET ASSETS |
| - | 7,298,554 | - | - | - | - | 33,935,401 | Restricted |
| - | - | - | - | 18,358,847 | - | 31,687,408 | Invested in capital assets |
| <u>6,469,040</u> | <u>-</u> | <u>(6,592)</u> | <u>105,609</u> | <u>-</u> | <u>-</u> | <u>22,547,430</u> | Unrestricted (deficit) |
| <u>\$ 6,469,040</u> | <u>\$ 7,298,554</u> | <u>\$ (6,592)</u> | <u>\$ 105,609</u> | <u>\$ 18,358,847</u> | <u>\$ -</u> | <u>\$ 88,170,239</u> | Total net assets |

THE STATE BAR OF CALIFORNIA

**SUPPLEMENTARY INFORMATION – PROGRAM FUNDS SCHEDULE OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS (Continued)
YEAR ENDED DECEMBER 31, 2011**

| | General Fund | Admissions | Annual Meeting | Benefit Reserve | Building | Building Special Assessment | Certification Activities |
|--------------------------------------|-------------------------|---------------------|---------------------------|----------------------------|----------------------|--|-------------------------------------|
| OPERATING REVENUES | | | | | | | |
| Membership fees and donations | \$ 58,944,121 | \$ 277,752 | \$ - | \$ - | \$ 3,875 | \$ 2,063,679 | \$ - |
| Examination application fees | - | 17,527,293 | - | - | - | - | - |
| Trust account revenue | - | - | - | - | - | - | - |
| Law practices (sections) fees | - | - | - | - | - | - | - |
| Seminar/workshop revenue | 9,635 | - | - | - | - | - | - |
| Advertising revenue | 58,167 | - | 6,850 | - | - | - | - |
| Convention income | - | - | 638,953 | - | - | - | - |
| Legal specialization fees | - | - | - | - | - | - | - |
| Law corporation registration fees | 735,626 | - | - | - | - | - | - |
| Continuing legal education fees | 1,315,889 | 260,010 | - | - | - | - | - |
| Grants | 14,000 | - | - | - | - | - | - |
| EAF AB145 filing fee revenue | - | - | - | - | - | - | - |
| Other | 521,711 | 599,236 | 89,656 | - | 750 | - | - |
| | <u>61,599,149</u> | <u>18,664,291</u> | <u>735,459</u> | <u>-</u> | <u>4,625</u> | <u>2,063,679</u> | <u>-</u> |
| Total operating revenues | | | | | | | |
| OPERATING EXPENSES | | | | | | | |
| Discipline and adjudication | 55,757,792 | - | - | - | - | - | - |
| Examination costs and administration | - | 18,516,019 | - | - | - | - | - |
| Grants | - | - | - | - | - | - | - |
| Law practices (sections) | - | - | - | - | - | - | - |
| Claims, net of reimbursements | - | - | - | - | - | - | - |
| Communications | 1,170,969 | - | - | - | - | - | - |
| Administration of justice | 560,944 | - | - | - | - | - | - |
| Governance | 1,416,941 | - | - | - | - | - | - |
| Administration of the profession | 2,688,099 | - | - | - | - | - | - |
| Program development | 1,583,087 | - | - | - | - | - | - |
| General and administration | 1,276,473 | - | 974,616 | 41,933 | - | 48,814 | - |
| | <u>64,454,305</u> | <u>18,516,019</u> | <u>974,616</u> | <u>41,933</u> | <u>-</u> | <u>48,814</u> | <u>-</u> |
| Total operating expenses | | | | | | | |
| OPERATING INCOME/(LOSS) | <u>(2,855,156)</u> | <u>148,272</u> | <u>(239,157)</u> | <u>(41,933)</u> | <u>4,625</u> | <u>2,014,865</u> | <u>-</u> |
| NONOPERATING REVENUES | | | | | | | |
| Investment income/(loss) | 131,150 | 29,388 | 5,295 | 2,096 | 15,761 | 18,378 | 3,803 |
| Rental income | - | - | - | - | 910,294 | - | - |
| Total nonoperating revenues | <u>131,150</u> | <u>29,388</u> | <u>5,295</u> | <u>2,096</u> | <u>926,055</u> | <u>18,378</u> | <u>3,803</u> |
| INCOME/(LOSS) BEFORE TRANSFERS | <u>(2,724,006)</u> | <u>177,660</u> | <u>(233,862)</u> | <u>(39,837)</u> | <u>930,680</u> | <u>2,033,243</u> | <u>3,803</u> |
| Transfers in | 1,772,795 | 1,470 | 42,895 | - | 2,790,000 | - | - |
| Transfers out | <u>(2,858,756)</u> | <u>(1,450)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,211,149)</u> |
| Change in Net Assets | <u>(3,809,967)</u> | <u>177,680</u> | <u>(190,967)</u> | <u>(39,837)</u> | <u>3,720,680</u> | <u>2,033,243</u> | <u>(1,207,346)</u> |
| NET ASSETS—beginning of year | <u>11,879,483</u> | <u>3,668,582</u> | <u>403,798</u> | <u>8,878,260</u> | <u>17,239,742</u> | <u>4,007,593</u> | <u>1,207,346</u> |
| NET ASSETS/(DEFICITS)—end of year | <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> | <u>\$ -</u> |

THE STATE BAR OF CALIFORNIA

**SUPPLEMENTARY INFORMATION – PROGRAM FUNDS SCHEDULE OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS (Continued)
YEAR ENDED DECEMBER 31, 2011**

| Client Security | Discipline | Education Foundation | Elimination of Bias and Bar Relations | Equal Access | Grants | Information Technology Assessment | |
|-----------------------|---------------------|----------------------|---------------------------------------|---------------------|-------------------|-----------------------------------|--------------------------------------|
| | | | | | | | OPERATING REVENUES |
| \$ 7,122,097 | \$ - | \$ - | \$ 805,550 | \$ - | \$ - | \$ 1,683,489 | Membership fees and donations |
| - | - | - | - | - | - | - | Examination application fees |
| - | - | - | - | - | - | - | Trust account revenue |
| - | - | - | - | - | - | - | Law practices (sections) fees |
| - | - | 1,071,953 | - | - | - | - | Seminar/workshop revenue |
| - | - | 14,915 | - | - | - | - | Advertising revenue |
| - | - | 462,048 | - | - | - | - | Convention income |
| - | - | - | - | - | - | - | Legal specialization fees |
| - | - | - | - | - | - | - | Law corporation registration fees |
| - | - | - | - | - | - | - | Continuing legal education fees |
| - | - | - | 3,000 | 10,078,437 | 99,953 | - | Grants |
| - | - | - | - | 5,818,791 | - | - | EAF AB145 filing fee revenue |
| <u>24,700</u> | <u>-</u> | <u>175,221</u> | <u>-</u> | <u>528,451</u> | <u>-</u> | <u>-</u> | Other |
| <u>7,146,797</u> | <u>-</u> | <u>1,724,137</u> | <u>808,550</u> | <u>16,425,679</u> | <u>99,953</u> | <u>1,683,489</u> | Total operating revenues |
| | | | | | | | OPERATING EXPENSES |
| - | - | - | - | - | - | - | Discipline and adjudication |
| - | - | - | - | - | - | - | Examination costs and administration |
| - | - | - | - | 18,245,360 | - | - | Grants |
| - | - | - | - | - | - | - | Law practices (sections) |
| 14,889,214 | - | - | - | - | - | - | Claims, net of reimbursements |
| - | - | - | - | - | - | - | Communications |
| - | - | - | - | - | - | - | Administration of justice |
| - | - | - | - | - | - | - | Governance |
| - | - | - | - | - | - | - | Administration of the profession |
| - | - | - | - | - | - | - | Program development |
| <u>1,849,708</u> | <u>-</u> | <u>2,470,761</u> | <u>912,220</u> | <u>506,566</u> | <u>53,930</u> | <u>39,860</u> | General and administration |
| <u>16,738,922</u> | <u>-</u> | <u>2,470,761</u> | <u>912,220</u> | <u>18,751,926</u> | <u>53,930</u> | <u>39,860</u> | Total operating expenses |
| <u>(9,592,125)</u> | <u>-</u> | <u>(746,624)</u> | <u>(103,670)</u> | <u>(2,326,247)</u> | <u>46,023</u> | <u>1,643,629</u> | OPERATING INCOME/(LOSS) |
| | | | | | | | NONOPERATING REVENUES |
| 54,635 | 3,629 | (146) | 5,069 | 3,355 | - | 15,383 | Investment income/(loss) |
| - | - | - | - | - | - | - | Rental income |
| <u>54,635</u> | <u>3,629</u> | <u>(146)</u> | <u>5,069</u> | <u>3,355</u> | <u>-</u> | <u>15,383</u> | Total nonoperating revenues |
| <u>(9,537,490)</u> | <u>3,629</u> | <u>(746,770)</u> | <u>(98,601)</u> | <u>(2,322,892)</u> | <u>46,023</u> | <u>1,659,012</u> | INCOME/(LOSS) BEFORE TRANSFERS |
| 1,170 | - | 746,770 | 105 | - | - | - | Transfers in |
| <u>(1,275)</u> | <u>-</u> | <u>-</u> | <u>(10,759)</u> | <u>-</u> | <u>-</u> | <u>(953,823)</u> | Transfers out |
| <u>(9,537,595)</u> | <u>3,629</u> | <u>-</u> | <u>(109,255)</u> | <u>(2,322,892)</u> | <u>46,023</u> | <u>705,189</u> | Change in Net Assets |
| <u>2,322,314</u> | <u>1,151,967</u> | <u>-</u> | <u>1,214,059</u> | <u>3,423,367</u> | <u>154,923</u> | <u>3,396,349</u> | NET ASSETS—beginning of year |
| <u>\$ (7,215,281)</u> | <u>\$ 1,155,596</u> | <u>\$ -</u> | <u>\$ 1,104,804</u> | <u>\$ 1,100,475</u> | <u>\$ 200,946</u> | <u>\$ 4,101,538</u> | NET ASSETS/(DEFICITS)—end of year |

THE STATE BAR OF CALIFORNIA

**SUPPLEMENTARY INFORMATION – PROGRAM FUNDS SCHEDULE OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS (Continued)
YEAR ENDED DECEMBER 31, 2011**

| | Justice Gap Fund | Lawyers Assistance Program | Legal Education & Development | Legal Services Trust | Legal Specialization | Legislative Activities |
|--|---------------------------------|---|--|-------------------------------------|---------------------------------|-----------------------------------|
| OPERATING REVENUES | | | | | | |
| Membership fees and donations | \$ 868,382 | \$ 1,875,432 | \$ - | \$ 1,670,370 | \$ - | \$ 789,925 |
| Examination application fees | - | - | - | - | - | - |
| Trust account revenue | - | - | - | 6,077,611 | - | - |
| Law practices (sections) fees | - | - | - | - | - | - |
| Seminar/workshop revenue | - | - | - | - | - | - |
| Advertising revenue | 8,000 | - | - | - | - | - |
| Convention income | - | - | - | - | - | - |
| Legal specialization fees | - | - | - | - | 1,791,879 | - |
| Law corporation registration fees | - | - | - | - | - | - |
| Continuing legal education fees | - | - | - | - | 17,700 | - |
| Grants | - | - | - | - | - | - |
| EAF AB145 filing fee revenue | - | - | - | - | - | - |
| Other | - | - | 1,763,843 | 7,353 | 2,683 | - |
| | <u>876,382</u> | <u>1,875,432</u> | <u>1,763,843</u> | <u>7,755,334</u> | <u>1,812,262</u> | <u>789,925</u> |
| Total operating revenues | | | | | | |
| OPERATING EXPENSES | | | | | | |
| Discipline and adjudication | - | - | - | - | - | - |
| Examination costs and administration | - | - | - | - | - | - |
| Grants | - | - | - | 10,685,785 | - | - |
| Law practices (sections) | - | - | - | - | - | - |
| Claims, net of reimbursements | - | - | - | - | - | - |
| Communications | - | - | - | - | - | - |
| Administration of justice | - | - | - | - | - | - |
| Governance | - | - | - | - | - | - |
| Administration of the profession | - | - | - | - | - | - |
| Program development | - | - | - | - | - | - |
| General and administration | - | 1,997,568 | 530,879 | 1,283,316 | 1,332,315 | 441,115 |
| | <u>-</u> | <u>1,997,568</u> | <u>530,879</u> | <u>11,969,101</u> | <u>1,332,315</u> | <u>441,115</u> |
| Total operating expenses | | | | | | |
| OPERATING INCOME/(LOSS) | <u>876,382</u> | <u>(122,136)</u> | <u>1,232,964</u> | <u>(4,213,767)</u> | <u>479,947</u> | <u>348,810</u> |
| NONOPERATING REVENUES | | | | | | |
| Investment income/(loss) | - | 7,886 | 5,611 | 18,128 | 7,466 | 6,085 |
| Rental income | - | - | - | - | - | - |
| | <u>-</u> | <u>7,886</u> | <u>5,611</u> | <u>18,128</u> | <u>7,466</u> | <u>6,085</u> |
| Total nonoperating revenues | | | | | | |
| INCOME/(LOSS) BEFORE TRANSFERS | 876,382 | (114,250) | 1,238,575 | (4,195,639) | 487,413 | 354,895 |
| Transfers in | - | - | - | 1,653,093 | 990 | 390 |
| Transfers out | <u>(1,652,988)</u> | <u>(1,400)</u> | <u>(527,000)</u> | <u>(540)</u> | <u>(1,990)</u> | <u>(10,539)</u> |
| Change in Net Assets | (776,606) | (115,650) | 711,575 | (2,543,086) | 486,413 | 344,746 |
| NET ASSETS—beginning of year | <u>1,083,287</u> | <u>1,691,844</u> | <u>1,503,858</u> | <u>2,186,483</u> | <u>1,553,408</u> | <u>1,402,141</u> |
| NET ASSETS/(DEFICITS)—end of year | <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> |

THE STATE BAR OF CALIFORNIA

**SUPPLEMENTARY INFORMATION – PROGRAM FUNDS SCHEDULE OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS (Continued)
YEAR ENDED DECEMBER 31, 2011**

| | Public Protection | Sections | Support and Administration | Technology Improvements | Fixed Asset Fund | Interfund Elimination | Total | |
|----|----------------------|--------------|-------------------------------|----------------------------|------------------------|--------------------------|---------------|--------------------------------------|
| | | | | | | | | OPERATING REVENUES |
| \$ | - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 76,104,672 | Membership fees and donations |
| | - | - | - | - | - | - | 17,527,293 | Examination application fees |
| | - | - | - | - | - | - | 6,077,611 | Trust account revenue |
| | - | 4,820,817 | - | - | - | - | 4,820,817 | Law practices (sections) fees |
| | - | 2,428 | - | - | - | - | 1,084,016 | Seminar/workshop revenue |
| | - | - | - | - | - | - | 87,932 | Advertising revenue |
| | - | 1,330 | - | - | - | - | 1,102,331 | Convention income |
| | - | - | - | - | - | - | 1,791,879 | Legal specialization fees |
| | - | - | - | - | - | - | 735,626 | Law corporation registration fees |
| | - | - | - | - | - | - | 1,593,599 | Continuing legal education fees |
| | - | 25,000 | - | - | - | - | 10,220,390 | Grants |
| | - | - | - | - | - | - | 5,818,791 | EAF AB145 filing fee revenue |
| | - | 940,750 | 13,994 | 32,936 | - | - | 4,701,284 | Other |
| | - | 5,790,325 | 13,994 | 32,936 | - | - | 131,666,241 | Total operating revenues |
| | | | | | | | | OPERATING EXPENSES |
| | - | - | - | - | - | - | 55,757,792 | Discipline and adjudication |
| | - | - | - | - | - | - | 18,516,019 | Examination costs and administration |
| | - | - | - | - | - | - | 28,931,145 | Grants |
| | - | 4,699,933 | - | - | - | - | 4,699,933 | Law practices (sections) |
| | - | - | - | - | - | - | 14,889,214 | Claims, net of reimbursements |
| | - | - | - | - | - | - | 1,170,969 | Communications |
| | - | - | - | - | - | - | 560,944 | Administration of justice |
| | - | - | - | - | - | - | 1,416,941 | Governance |
| | - | - | - | - | - | - | 2,688,099 | Administration of the profession |
| | - | - | - | - | - | - | 1,583,087 | Program development |
| | - | - | (54,562) | 367,192 | 678,710 | - | 14,751,414 | General and administration |
| | - | 4,699,933 | (54,562) | 367,192 | 678,710 | - | 144,965,557 | Total operating expenses |
| | - | 1,090,392 | 68,556 | (334,256) | (678,710) | - | (13,299,316) | OPERATING INCOME/(LOSS) |
| | | | | | | | | NONOPERATING REVENUES |
| | 20,310 | 31,968 | 2,445 | (1,713) | - | - | 385,982 | Investment income/(loss) |
| | - | - | - | - | - | - | 910,294 | Rental income |
| | 20,310 | 31,968 | 2,445 | (1,713) | - | - | 1,296,276 | Total nonoperating revenues |
| | 20,310 | 1,122,360 | 71,001 | (335,969) | (678,710) | - | (12,003,040) | INCOME/(LOSS) BEFORE TRANSFERS |
| | - | - | 3,900 | 1,010,406 | 766,431 | (8,790,415) | - | Transfers in |
| | - | (786,595) | (97,288) | (674,863) | - | 8,790,415 | - | Transfers out |
| | 20,310 | 335,765 | (22,387) | (426) | 87,721 | - | (12,003,040) | Change in Net Assets |
| | 6,448,730 | 6,962,789 | 15,795 | 106,035 | 18,271,126 | - | 100,173,279 | NET ASSETS—beginning of year |
| \$ | 6,469,040 | \$ 7,298,554 | \$ (6,592) | \$ 105,609 | \$ 18,358,847 | \$ - | \$ 88,170,239 | NET ASSETS/(DEFICITS)—end of year |

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