



The State Bar *of California*

Title of Report: 2025 Financial Statement and Independent Auditor's Report
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The State Bar of California is submitting its 2025 Financial Statements and Independent Auditor's Report to the Chief Justice of California and the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145. The financial statements are certified under oath by the Chief Financial Officer of the State Bar. This summary is provided pursuant to Government Code section 9795.

The 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.

In the auditor's opinion, the State Bar's financial statements present fairly, in all material respects, the financial position and the changes in financial position as of December 31, 2025, in accordance with accounting principles generally accepted in the United States.

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 understanding the State Bar's financial condition, changes in financial condition, and results of operations.

The full report is available at: <https://www.calbar.ca.gov/About-Us/Our-Mission/Protecting-the-Public/Reports>.

A printed copy of the report may be obtained by calling 415-538-2000.



The State Bar of California

2025 Financial Statements and Independent Auditor's Report

**Years Ended December 31, 2025 and 2024
and Supplementary Information for Year Ended December 31, 2025**

May 20, 2026

THE STATE BAR OF CALIFORNIA
Financial Statements
Years Ended December 31, 2025 and 2024

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Independent Auditor's Report

To the Board of Trustees
The State Bar of California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the State Bar of California (State Bar) as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the State Bar, as of December 31, 2025 and 2024, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State Bar, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of State Bar's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about State Bar's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, the schedule of plan contributions – pension, the schedule of changes in net OPEB liability and related ratios, and the schedule of contributions – OPEB Plan, collectively identified as Required Supplementary Information in the accompanying table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's basic financial statements. The combining schedules of program funds, collectively identified as Supplementary Information in the accompanying table of contents, are presented

for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining schedules of program funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2026 on our consideration of the State Bar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State Bar's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State Bar's internal control over financial reporting and compliance.

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

Walnut Creek, California
May 20, 2026

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THE STATE BAR OF CALIFORNIA
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2025 and 2024

Introduction

Management's Discussion and Analysis (MD&A) is presented as a supplement to the financial statements and is based on currently known facts, decisions, and conditions that existed as of the date of the report of independent auditors. 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 obtain 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. Certain 2023 and 2024 amounts have been reclassified to conform to the 2025 presentation.

The State Bar of California

Created by the state legislature in 1927, the State Bar 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. As of year-end 2025, the State Bar had approximately 299,600 licensees, representing a 1.3% increase from 295,900 licensees in 2024. The number of active licensees paying the full \$598 annual fee increased slightly, from 196,600 in 2024 to 200,400 in 2025, an increase of 1.9%. This modest increase is indicative of an attorney population and a trend in which the number of new admittees is barely ahead of the number of attorneys retiring or otherwise leaving the profession.

Licensing fees for 2025 and 2024 were allocated to the following funds:

	2025		2024	
	Active Fee	Inactive Fee	Active Fee	Inactive Fee
General Fund - Attorney Licensing	\$ 476	\$ 118	\$ 388	\$ 95
General Fund - Discipline Activity	25	25	25	25
Legal Services Trust Fund	45	45	45	45
Elimination of Bias Fund	2	2	2	2
Client Security Fund	40	10	40	10
Lawyers Assistance Program Fund	10	5	10	5
Total	\$ 598	\$ 205	\$ 510	\$ 182

The State Bar's licensing fees are set annually by the State Legislature. The assessment level reflected full support for the State Bar's core discipline functions but not other programs and activities. The 2025 statutorily-approved annual fee increased to \$476 from \$388 in 2024. The inactive fee increased by \$23 in 2025.

Financial Statements Overview

The State Bar's financial report consists of MD&A, the financial statements, the notes to the financial statements, and the required and other supplementary information. The financial statements provide information and understanding of the State Bar's Enterprise. The financial statements and related information are organized in this report as follows:

The Statements of Net Position – present the financial position of the State Bar at the end of the fiscal year. The statements report all assets, deferred outflows of resources, liabilities, deferred inflows of resources,

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and the difference as net position. The net position section is displayed in three components: net investment in capital assets; restricted; and unrestricted. Changes in net position over time are an indicator of whether the financial condition of the organization is improving or declining.

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

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

Notes to the Financial Statements – provide integral information needed to explain the basis for the financial statement presentation and amounts within the basic financial statements.

Required Supplementary Information – presents schedule of changes in net pension liability and related ratios, schedule of plan contributions – pension, schedule of changes in net OPEB liability (asset) and related ratios, and schedule of contributions – OPEB Plan.

Other Supplementary Information – presents financial information by programs.

Financial Highlights

The following is a summary comparison of the State Bar's Statements of Net Position as of December 31, 2025, 2024, and 2023:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Cash, cash equivalents, and investments	\$ 344,695,403	\$ 386,354,411	\$ 313,642,218
Other assets	29,062,118	30,398,754	28,214,015
Capital assets, net	104,829,892	109,506,010	115,863,302
Deferred outflows of resources	<u>38,918,818</u>	<u>45,249,950</u>	<u>42,688,915</u>
Total assets and deferred outflows of resources	<u>517,506,231</u>	<u>571,509,125</u>	<u>500,408,450</u>
Current liabilities	50,043,922	45,394,048	80,322,389
Noncurrent liabilities	57,643,833	59,726,084	70,288,683
Net OPEB liability	5,188,216	7,788,422	5,773,259
Net pension liability	93,539,289	103,236,480	92,286,609
Deferred inflows of resources	<u>33,298,458</u>	<u>25,027,703</u>	<u>24,864,791</u>
Total liabilities and deferred inflows of resources	<u>239,713,718</u>	<u>241,172,737</u>	<u>273,535,731</u>
Net position			
Net investment in capital assets	46,390,670	48,355,739	50,746,966
Restricted for:			
Enabling legislation	290,624,871	343,729,469	218,394,235
Other restrictions	1,355,506	1,318,998	1,281,991
Unrestricted	<u>(60,578,534)</u>	<u>(63,067,818)</u>	<u>(43,550,473)</u>
Total net position	<u>\$ 277,792,513</u>	<u>\$ 330,336,388</u>	<u>\$ 226,872,719</u>

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Fiscal Year 2025 Compared to Fiscal Year 2024

Assets and Deferred Outflows of Resources – As of December 31, 2025, the State Bar's total assets and deferred outflows of resources were \$517.5 million, a decrease of \$54.0 million or 9.4% compared to \$571.5 million in 2024. The decrease is primarily attributed to the \$41.7 million net decrease in cash, cash equivalents and investments, driven by significant distributions of Lawyers' Trust Account (IOLTA) revenues and grants in 2025. Other changes include a \$1.3 million decrease in accounts and other receivables primarily due to lower IOLTA revenues accrued at the end of 2025 as a result of decreased interest yields, a \$4.7 million decrease in capital assets mainly due to depreciations and amortizations, and a \$6.3 million decrease in deferred outflow of resources related to pension and other postemployment benefits (OPEB) based on actuarial valuations.

Deferred outflows of resources consisted of actuarially determined deferred outflows of resources as it relates to both pension reporting under Governmental Accounting Standards Board (GASB) Statement No. 68 (GASB 68) and OPEB reporting under GASB Statement No. 75 (GASB 75). As of December 31, 2025, the deferred outflows of resources were \$38.9 million, which decreased by \$6.3 million compared to \$45.2 million in 2024. See accompanying notes 11 and 12 to the financial statements for additional information.

Liabilities and Deferred Inflows of Resources – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned fees collected in advance, grants payable, loans payable, lease liability, subscription liability, net OPEB liability, net pension liability, employee compensated absences accruals and deferred inflows of resources from GASB 68, GASB 75, GASB Statement No. 87 - *Leases* (GASB 87), and the gain from disposition of capital assets. As of December 31, 2025, the State Bar's total liabilities and deferred inflows of resources were \$239.7 million, decreased by \$1.5 million or 0.6% compared to \$241.2 million in 2024. The decrease is primarily due to a \$9.7 million decrease in net pension liability, a \$2.6 million decrease in net OPEB liability, and a \$2.1 million net decrease in noncurrent liabilities, mainly associated with the decrease in lease liability and loans payable resulting from principal payments made in 2025. The decreases are partially offset by a \$4.6 million net increase in current liabilities resulting from a new California Housing Finance Agency (CalHFA) grant executed with an advance payment received and recorded as unearned revenues in 2025.

The State Bar's total pension liability as of December 31, 2025 was \$560.6 million and the plan fiduciary net position was \$467.1 million resulting in a net pension liability of \$93.5 million, or 16.7% of the total pension liability. Compared to the \$103.2 million net pension liability in 2024, the 2025 net pension liability decreased by \$9.7 million or 9.4% due to the decrease in pension expenses arising from the recognition of the differences between projected and actual earnings on pension plan investments in the most recent actuarial valuation.

Deferred inflows of resources as of December 31, 2025 were \$33.3 million, representing an increase of \$8.3 million compared to \$25.0 million in 2024. This balance consisted of actuarially determined deferred inflows of resources related to pension under GASB 68 and OPEB under GASB 75, and the deferred inflows of resources related to leases under GASB 87. The deferred inflows of resources also include the gain from the San Francisco building sale that will be recognized over the term of the related lease. See accompanying notes 9, 11 and 12 to the financial statements for additional information.

Net Position – The State Bar's total net position as of December 31, 2025 was \$277.8 million, a decrease of \$52.5 million or 15.9% compared to \$330.3 million in 2024. The decrease represented an excess of expenses over revenues from various programs. The components of net position are:

Net Investments in Capital Assets – The component of net position that consists of capital assets, net of accumulated depreciation, amortization, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets decreased by \$2.0 million or 4.1%, from

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\$48.4 million in 2024 to \$46.4 million in 2025. The net decrease is primarily due to asset depreciation and amortization.

Restricted Net Position – The component of net position that is subject to external constraints imposed by grantors, law through constitutional provisions or enabling legislation decreased by \$53.0 million or 15.4% from \$345.0 million in 2024 to \$292.0 million in 2025. The decrease is driven by a \$53.1 million decrease in enabling legislation, primarily due to significant distributions of IOLTA trust account revenues and grants. The net position for other restrictions increased by \$0.1 million slightly or 2.8% from \$1.3 million in 2024 to \$1.4 million in 2025.

Unrestricted Net Position – The component of net position that is used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2025, the unrestricted net position was negative \$60.6 million, an increase of \$2.5 million or 3.9% compared to \$63.1 million negative unrestricted net position in 2024. The change is primarily due to the mandatory licensee fee increase and revenues from late noncompliance or reinstatement fees received in 2025, which helped to slightly reduce the General Fund deficit.

Fiscal Year 2024 Compared to Fiscal Year 2023

Assets and Deferred Outflows of Resources – As of December 31, 2024, the State Bar's total assets and deferred outflows of resources were \$571.5 million, up by \$71.1 million or 14.2% compared to \$500.4 million in 2023. The increase is primarily attributed to the \$72.7 million net increases in cash, cash equivalents and investments, driven by higher trust account revenues and greater return on investments in 2024. Other changes include a \$1.3 million increase in accounts and other receivables due to the recognition of receivables associated with outstanding attorney debt, a \$1.2 million increase in other current assets resulted from higher prepaid expenses, a \$2.6 million increase in deferred outflow of resources related to pension and Other Postemployment Benefits (OPEB) items; partially offset by a \$6.4 million net decrease in capital assets, mainly due to the retirement of capital and leased assets. The State Bar recorded the outstanding attorney debt balance of \$214.2 million in the Statements of Net Position for 2024, with an estimated allowance of \$211.7 million (98.8%) for uncollectible accounts. The net impact was not significant to the financial statements.

Deferred outflows of resources consisted of actuarially determined deferred outflows of resources as it relates to both pension reporting under Governmental Accounting Standards Board (GASB) Statement No. 68 (GASB 68) and OPEB reporting under GASB Statement No. 75 (GASB 75). As of December 31, 2024, the deferred outflows of resources were \$45.2 million, which increased by \$2.5 million compared to \$42.7 million in 2023. See accompanying notes 11 and 12 to the financial statements for additional information.

Liabilities and Deferred Inflows of Resources – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned fees collected in advance, grants payable, loans payable, lease liability, subscription liability, net OPEB liability, net pension liability, employee compensated absences accruals and deferred inflows of resources from GASB 68, GASB 75, GASB 87, and the gain from disposition of capital assets. As of December 31, 2024, the State Bar's total liabilities and deferred inflows of resources were \$241.2 million, decreased by \$32.3 million or 11.8% compared to \$273.5 million in 2023. The decrease is primarily due to a \$44.5 million decrease in unearned revenues, resulting from changing the annual licensing fee billing cycle. The 2024 licensing fees were billed and received from December 2023 to February 2024, while the 2025 licensing fees were billed and received from February 2025 to April 2025. The fees received in December 2023 were recorded as unearned revenues for 2024. Since 2025 fees were only billed and received in 2025, there were no unearned revenues associated with licensee fees recorded in 2024. Additionally, some multiple year passthrough grants with advance grant receipts were disbursed in 2024 and recognized as revenues, further reducing unearned revenues by \$26.7 million. Other significant changes include a \$2.6 million decrease in lease liability from

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lease payments made and a \$1.2 million decrease in deferred inflows of resources related to lease items from rental income received, and partially offset by a \$10.9 million increase in net pension liability from recognizing the effects of differences between expected and actual experiences, a \$2.1 million increase in net OPEB liability, and a \$2.0 million increase in deferred inflows of resources related to OPEB due to the recognition of the differences between actual and expected experience of economic or demographic factors, a \$1.5 million increase in accounts payable and other liabilities due to higher accrued expenses not yet disbursed as of December 31, 2024, and a \$1.5 million increase in compensated absences attributed to higher accrued leave balances and increased pay rates from merit and cost-of-living adjustments (COLA).

The State Bar's total pension liability as of December 31, 2024 was \$528.4 million and the plan fiduciary net position was \$425.2 million resulting in a net pension liability of \$103.2 million, or 19.5% of the total pension liability. Compared to the \$92.3 million net pension liability in 2023, the 2024 net pension liability increased by \$10.9 million or 11.9% due to the significant increase in pension expenses from recognition of the effects of differences between expected and actual experience in the most recent actuarial valuation.

Deferred inflows of resources as of December 31, 2024 were \$25.0 million, representing an increase of \$0.1 million compared to \$24.9 million in 2023. This balance consisted of actuarially determined deferred inflows of resources related to pension under GASB 68 and OPEB under GASB 75, and the deferred inflows of resources related to leases under GASB 87. The deferred inflows of resources also include the gain from the San Francisco building sale that will be recognized over the term of the related lease. See accompanying notes 9, 11 and 12 to the financial statements for additional information.

Net Position – The State Bar's total net position as of December 31, 2024 was \$330.3 million, up by \$103.4 million or 45.6% compared to \$226.9 million in 2023. The increase represented an excess of revenues over expenses from various programs. The components of net position are:

Net Investments in Capital Assets – The component of net position that consists of capital assets, net of accumulated depreciation, amortization, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets decreased by \$2.3 million or 4.7%, from \$50.7 million in 2023 to \$48.4 million in 2024. The net decrease is primarily due to depreciation and amortization.

Restricted Net Position – The component of net position that is subject to internal constraints and external constraints imposed by grantors, law through constitutional provisions or enabling legislation increased by \$125.3 million or 57.1% from \$219.7 million in 2023 to \$345.0 million in 2024. The increase is due to \$125.3 million increase in enabling legislation, attributed to the rise in trust account revenues from higher account balances and interest yields in 2024. The net position for other restrictions remained the same at \$1.3 million for both 2024 and 2023.

Unrestricted Net Position – The component of net position that is used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2024, the unrestricted net position was negative \$63.1 million, a decrease of \$19.5 million or 44.8% compared to \$43.6 million negative unrestricted net position in 2023. The change is substantially due to the State Bar's General Fund operating at a deficit due to increased personnel and pension expenses, resulting in expenses exceeding revenues and causing a continued increase in the negative net position.

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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, 2025, 2024, and 2023:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
OPERATING REVENUES			
Program revenues	\$ 424,299,314	\$ 434,466,102	\$ 428,304,443
Other revenue	10,736,062	7,553,158	4,392,049
Total operating revenues	<u>435,035,376</u>	<u>442,019,260</u>	<u>432,696,492</u>
OPERATING EXPENSES			
Program expenses	489,839,085	341,528,220	312,485,367
General and administration	11,077,107	11,998,637	18,759,066
Total operating expenses	<u>500,916,192</u>	<u>353,526,857</u>	<u>331,244,433</u>
OPERATING INCOME (LOSS)	(65,880,816)	88,492,403	101,452,059
NONOPERATING REVENUES	<u>13,336,941</u>	<u>14,971,266</u>	<u>11,372,580</u>
CHANGE IN NET POSITION	(52,543,875)	103,463,669	112,824,639
NET POSITION—beginning of year	<u>330,336,388</u>	<u>226,872,719</u>	<u>114,048,080</u>
NET POSITION—end of year	<u>\$ 277,792,513</u>	<u>\$ 330,336,388</u>	<u>\$ 226,872,719</u>

Fiscal Year 2025 Compared to Fiscal Year 2024

Operating and Nonoperating Revenues – For the year ended December 31, 2025, the State Bar's total operating and net nonoperating revenues were \$448.4 million, a decrease of \$8.6 million or 1.9% compared to \$457.0 million in 2024. The decrease is due to a reduction in IOLTA revenues driven by lower interest yields in 2025.

Operating Expenses – For the year ended December 31, 2025, the State Bar's total operating expenses were \$500.9 million, an increase of \$147.4 million or 41.7% from \$353.5 million in 2024. The increase is mainly due to higher IOLTA and grant distributions in 2025.

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Operating expenses by natural classification	2025	2024	Increase (Decrease)
Personnel cost	\$ 108,577,325	\$ 106,607,122	\$ 1,970,203
Employer pension contribution	16,118,453	13,468,187	2,650,266
Pension expense	6,059,743	10,573,942	(4,514,199)
Grant expense	327,864,920	179,621,044	148,243,876
Professional and outside services	13,994,504	11,900,554	2,093,950
Examination	6,170,653	6,959,588	(788,935)
CSF disbursement	4,397,419	6,053,353	(1,655,934)
Building operations	3,635,642	3,828,551	(192,909)
Other	14,097,533	14,514,516	(416,983)
Total operating expenses by natural classification	<u>\$ 500,916,192</u>	<u>\$ 353,526,857</u>	<u>\$ 147,389,335</u>

Operating Expenses by natural classification

Personnel costs were \$108.6 million in 2025, which is an increase of \$2.0 million from \$106.6 million in 2024. The increase is mainly attributed to COLA and merit increases, partially offset by the payroll savings from the employees who participated in the State Bar's Voluntary Reduction-in-Force (RIF) program in 2025. Employer pension contributions were \$16.1 million, an increase of \$2.6 million from \$13.5 million, primarily due to higher Unfunded Accrued Liability (UAL) payments in 2025. Pension expenses decreased by \$4.5 million based on the actuarial valuation, mainly from recognizing the effects of differences between projected and actual earnings on pension plan investments. Grant expenses increased by \$148.3 million from \$179.6 million in 2024 to \$327.9 million in 2025, mainly due to significant increase in IOLTA and grant disbursements in 2025. Professional and outside services were \$14.0 million, a \$2.1 million increase from 2024, largely due to costs associated with bar exam question development for the hybrid exam administration format. Examination expenses decreased by \$0.8 million, reflecting the shift to a hybrid remote/in-person administration for the February 2025 Bar exam, an approach not used in prior years. Disbursements from CSF were \$4.4 million in 2025, a decrease of \$1.7 million from \$6.1 million in 2024 due to fewer cases being eligible for payouts in 2025. Building operations were \$3.6 million in 2025, a decrease of \$0.2 million from \$3.8 million in 2024 due to lower utility, security and engineering costs. Other expenses include supplies, travel and training, depreciation of capital assets, amortization of leased and subscription assets and other miscellaneous expenses. Other expenses were \$14.1 million in 2025, a decrease of \$0.4 million from \$14.5 million in 2024 due to lower depreciation and amortization expense in 2025.

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating and Nonoperating Revenues – For the year ended December 31, 2024, the State Bar's total operating and net nonoperating revenues were \$457.0 million, up by \$13.1 million or 2.9% compared to \$444.1 million in 2023. The increase is due to an increase in IOLTA revenues, driven by increased account balances and higher interest yields.

Operating Expenses – For the year ended December 31, 2024, the State Bar's total operating expenses were \$353.5 million, an increase of \$22.3 million or 6.7% from \$331.2 million in 2023. The increase is mainly due to a \$10.9 million increase in grant distributions in 2024, a \$3.7 million increase in pension expense based on actuarial valuation, and a total increase of \$7.7 million in various programs resulted from increased personnel costs.

THE STATE BAR OF CALIFORNIA
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2025 and 2024

Capital Assets and Debt Administration

Capital assets consist of land, work in progress, buildings, building improvements, equipment and software, furniture and fixtures, lease assets and subscription intangible assets. Capital assets are partially owned by the State Bar, and others are leased.

Capital assets, net of depreciation but excluding lease and subscription assets, decreased by \$0.6 million (1.0%) as of December 31, 2025, primarily due to continued depreciation of existing assets. Capitalization of additional asset costs in 2025 were less than depreciation of existing assets. Major capital asset additions of \$2.0 million in 2025 included developments and enhancements of various State Bar software platforms and applications.

Lease assets, net of amortization, decreased by \$3.3 million from \$47.8 million in 2024 to \$44.5 million in 2025 due to the lease payments made in 2025.

Subscription assets, net of amortization, decreased by \$0.8 million from \$2.6 million in 2024 to \$1.8 million in 2025 due to the retirement of expired subscriptions and partially offset by new subscriptions acquired in 2025.

Loans payable by the State Bar are for the purpose of refinancing the costs of purchasing real property of the Los Angeles building. Loans payable decreased by \$0.9 million (8.1%) as of December 31, 2025 due to the loan principal payments made in 2025. See Note 8 for additional information.

The lease liabilities are calculated as the present value of payments the State Bar expects to make during the lease term, including any contract renewal options reasonably certain to be exercised. Lease liabilities decreased by \$1.1 million (2.3%) as of December 31, 2025, due to the lease payments made in 2025. See Note 9 for additional information.

The subscription liabilities are calculated as the present value of payments the State Bar expects to make during the noncancellable subscription term, including any contract renewal options reasonably certain to be exercised and any cancellation reasonably certain not to be exercised. Subscription liabilities decreased by \$0.7 million (36.3%) as of December 31, 2025, mainly due to the subscription payments made in 2025 and partially offset by addition of the new subscriptions. See Note 10 for additional information.

Economic Factors Facing the State Bar

On September 12, 2024, the Governor signed Assembly Bill (AB) 3279, the 2025 licensing fee legislation. The bill recognizes the importance of the State Bar's mission of public protection, furthering access to legal services, and increasing diversity and inclusion in the legal profession. The bill authorized an \$88 per active licensee increase for 2025, raising the total active license fee from \$510 to \$598. However, a significant portion of the \$88 increase is comprised of time-limited components subject to specific sunset dates, creating future financial uncertainty for the General Fund. AB 3279 structured the increase through several discrete fee add-ons:

- \$52 per active licensee fee to fund State Bar employee salaries and benefits, which sunsets January 1, 2028;
- \$15 per active licensee fee for lease costs associated with the State Bar's San Francisco building, which sunsets January 1, 2030; and

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- two separate \$5.50 per active licensee fees, one to fund disciplinary diversion programs and one to fund compliance reviews and audits under the Client Trust Account Protection Program (CTAPP), both of which sunset January 1, 2029.

As these provisions expire, the State Bar faces the prospect of renewed structural shortfalls in the General Fund unless the Legislature acts to extend or replace the expiring fee authority.

On February 21, 2025, the Board of Trustees approved the 2025 Budget. The budget supports the State Bar's five-year Strategic Plan and reflects its commitment to protecting the public, increasing access to legal services, and increasing diversity and inclusion in the legal profession. The State Bar's General Fund supports travel, lodging, and per diem meal expenses for Board of Trustees travel to board meetings as consistent with the guidelines outlined in the travel policy. Any costs incurred by members of the Board of Trustees that exceed those authorized by the policy are not reimbursed and are paid for out-of-pocket by trustees. The budget was amended by the Board of Trustees on September 18, 2025, to adjust for revenue and expenses changes due to the February 2025 bar examination and changes in grant revenue and expenses.

The State Bar's 2025 Final Adopted Amended Budget reflects total projected revenue of \$406.8 million and total expenses of \$500.1 million. The primary driver of the revenue decrease year over year is lower earnings from IOLTA. The General Fund portion of the 2025 budget projected revenue of \$114.8 million against total expenses and indirect cost allocations of \$122.4 million, resulting in a budgeted operating deficit of approximately \$6.1 million. Due to higher-than-expected revenue and lower-than-budgeted expenses, the actual operating deficit in 2025 was eliminated and a surplus of \$8.2 million generated, leading to a year-end fund balance of \$28.1 million. Despite this improvement, the State Bar continues to face future structural deficits due to rising costs and sunset of fee increases contained in AB 3279. The State Bar's yearly deficit is scheduled to increase from \$1.4 million in 2026 to \$7.5 million in 2027 and further increase to \$19.2 million in 2028 due to the sunset of the \$52 fee component for staff salaries and benefits. Without removal of the sunset dates or other fee increases, the State Bar will need to make dramatic cuts in spending to maintain solvency in outer years.

Personnel costs are the largest General Fund expenditure. In 2025, the State Bar implemented a RIF program offering severance, continued healthcare, and CalPERS Golden Handshake benefits. Actual entity-wide RIF costs totaled \$3.5 million, with \$2.9 million charged to the General Fund. Of 37 General Fund positions eliminated, 10 were later backfilled. The program is projected to generate \$5.2 million in ongoing annual savings. Beginning in late 2027, the State Bar will incur Golden Handshake-related UAL costs. Based on an actuarial valuation performed, these are projected at \$0.8 million in 2027, increasing to \$1.6 million annually thereafter until the full \$8.0 million obligation is paid.

The Admissions Fund experienced significant unexpected financial pressure in 2025 due to widespread technical failures during the remotely administered format of the February 2025 bar exam. Severe platform malfunctions by the vendor affected many of the approximately 4,200 examinees, and the State Bar subsequently brought a lawsuit against the vendor for claims for fraud, negligent misrepresentation, and breach of contract. The Board authorized free retakes to eligible affected applicants to use at one of the next three bar exam administrations, with fee waivers approved up to \$4.9 million, eliminating the budgeted 2025 surplus. A return to in-person exam administration for July 2025 added further costs. The year-end 2025 reserve fund balance is at \$3.6 million. In November 2025, the Board approved admissions and exam fee increases effective 2026 to help strengthen the fund's reserve balance. While the fund is projected to stabilize in 2027 and 2028 and reach a modest surplus by 2029, there is still uncertainty around the cost of developing a new bar examination by July 2028, as directed by the California Supreme Court in October 2024. Current planning estimates assume costs of approximately \$2.0 million per year in 2027 and 2028, though actual expenses could be higher.

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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 Office of Finance at finance@calbar.ca.gov.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
ASSETS		
Current assets		
Cash and cash equivalents	\$ 319,890,834	\$ 361,711,970
Investments	24,804,569	24,642,441
Accounts and other receivables, net of allowance for uncollectible accounts of \$193,195,623 in 2025 and \$213,525,542 in 2024	21,585,515	22,517,783
Lease receivable	382,337	373,652
Other current assets	4,092,650	4,123,366
Total current assets	370,755,905	413,369,212
Noncurrent assets		
Lease receivable	3,001,616	3,383,953
Capital assets		
Nondepreciable	18,380,012	18,387,948
Depreciable, net	40,099,121	40,698,904
Lease asset, net	44,502,510	47,823,787
Subscription asset, net	1,848,249	2,595,371
Total noncurrent assets	107,831,508	112,889,963
Total assets	478,587,413	526,259,175
DEFERRED OUTFLOWS OF RESOURCES		
Pension items	27,843,396	32,724,898
Other postemployment benefits items	11,075,422	12,525,052
Total deferred outflows of resources	38,918,818	45,249,950
Total assets and deferred outflows of resources	517,506,231	571,509,125
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities	11,711,043	11,338,753
Compensated absences	7,783,930	8,313,685
Unearned revenues collected in advance	27,529,294	22,522,015
Loans payable	889,000	869,000
Lease liability	1,283,556	1,123,277
Subscription liability	847,099	1,227,318
Total current liabilities	50,043,922	45,394,048
Noncurrent liabilities		
Unearned revenues collected in advance	297,660	-
Loans payable	8,989,000	9,878,000
Lease liability	45,986,768	47,252,854
Subscription liability	443,799	799,822
Compensated absences	1,926,606	1,795,408
Net OPEB liability	5,188,216	7,788,422
Net pension liability	93,539,289	103,236,480
Total noncurrent liabilities	156,371,338	170,750,986
Total liabilities	206,415,260	216,145,034
DEFERRED INFLOWS OF RESOURCES		
Lease items	14,458,020	15,669,204
Pension items	11,052,022	176,590
Other postemployment benefits items	7,788,416	9,181,909
Total deferred inflows of resources	33,298,458	25,027,703
Total liabilities and deferred inflows of resources	239,713,718	241,172,737
NET POSITION		
Net investment in capital assets	46,390,670	48,355,739
Restricted for:		
Enabling legislation	290,624,871	343,729,469
Other restrictions	1,355,506	1,318,998
Unrestricted	(60,578,534)	(63,067,818)
Total net position	\$ 277,792,513	\$ 330,336,388

See accompanying notes to the financial statements

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Licensee fees and donations	\$ 129,560,558	\$ 108,585,741
Examination application fees	22,185,324	25,471,701
Trust account revenue	187,114,357	207,131,688
Seminar/workshop revenue	4,300	4,300
Legal specialization fees	2,265,373	2,132,173
Law corporation registration fees	2,797,365	2,842,865
Continuing legal education fees	5,068,906	4,314,949
Grant revenue	74,803,131	83,482,685
EAF AB145 filing fee revenue	500,000	500,000
Other revenue	10,736,062	7,553,158
	<u>435,035,376</u>	<u>442,019,260</u>
OPERATING EXPENSES		
Chief Trial Counsel	83,057,141	82,735,190
State Bar Court	16,084,985	17,408,823
Professional Competence	4,390,302	4,392,611
Probation	2,329,761	2,301,326
Mandatory Fee Arbitration	1,091,966	1,259,855
Judicial Evaluation	1,024,822	1,067,176
Communications	2,689,831	2,363,452
Lawyer Assistance Program	2,340,215	2,980,355
Client Security Fund	7,092,306	8,692,079
Public Trust Liaison	3,327,959	3,020,777
Regulation	8,354,347	7,097,506
Admissions	30,190,530	28,588,025
Grants	327,864,920	179,621,045
General and administration	11,077,107	11,998,637
	<u>500,916,192</u>	<u>353,526,857</u>
OPERATING INCOME (LOSS)	(65,880,816)	88,492,403
NONOPERATING REVENUES AND EXPENSES		
Interest and investment income	15,792,721	17,765,774
Rental income	453,040	449,843
Interest expenses on loans, leases and subscriptions	(3,725,874)	(3,868,636)
Gain from dispositions of capital assets	817,054	624,285
	<u>13,336,941</u>	<u>14,971,266</u>
CHANGE IN NET POSITION	(52,543,875)	103,463,669
NET POSITION—beginning of year	<u>330,336,388</u>	<u>226,872,719</u>
NET POSITION—end of year	<u>\$ 277,792,513</u>	<u>\$ 330,336,388</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, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from members, applicants, grants, and other professionals	\$ 441,880,509	\$ 396,700,629
Payments to suppliers and service providers	(394,695,077)	(241,161,511)
Payments to employees	(95,990,055)	(91,505,913)
Net cash provided by (used in) operating activities	(48,804,623)	64,033,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	50,000,000	31,466,035
Purchases of investments	(49,125,146)	(29,012,001)
Interest received from investments	14,720,558	16,642,802
Cash received from rental income	450,944	504,748
Net cash provided by investing activities	16,046,356	19,601,584
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,962,147)	(426,736)
Payment of obligations under loan agreement	(869,000)	(849,000)
Interest paid on debt	(239,723)	(259,423)
Lease principal payments	(1,078,259)	(2,633,337)
Lease interest payments	(3,263,677)	(3,505,861)
Subscription principal payments	(1,528,088)	(1,675,815)
Subscription interest payments	(121,975)	(143,555)
Net cash (used in) capital and related financing activities	(9,062,869)	(9,493,727)
CHANGE IN CASH AND CASH EQUIVALENTS	(41,821,136)	74,141,062
CASH AND CASH EQUIVALENTS—Beginning of year	361,711,970	287,570,908
CASH AND CASH EQUIVALENTS—End of year	\$ 319,890,834	\$ 361,711,970

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, 2025 and 2024

	2025	2024
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (65,880,816)	\$ 88,492,403
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,402,564	7,783,346
Changes in assets and liabilities:		
Net pension liability	(9,697,191)	10,949,871
Deferred outflows and inflows of resources related to pension items	15,756,934	(375,929)
Net OPEB liability	(2,600,206)	2,015,163
Deferred outflows and inflows of resources related to OPEB items	56,137	(811,010)
Accounts and other receivables	949,067	(1,313,079)
Other current assets	30,716	(1,222,887)
Accounts payable and other liabilities	(126,767)	3,060,107
Unearned fees collected in advance	5,304,939	(44,544,780)
Net cash provided by operating activities	\$ (48,804,623)	\$ 64,033,205
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents	319,890,834	361,711,970
Total cash and cash equivalents	\$ 319,890,834	\$ 361,711,970
Noncash transaction:		
Acquisition of capital assets through leases and subscriptions	\$ 764,298	\$ 1,192,087

See accompanying notes to the financial statements

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

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. Licensing by 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 licensees for misconduct, administering mandated continuing legal education requirements, administering other regulatory provisions affecting the profession or the practice of law, studying and recommending changes in legislation, cooperating with the Judicial Council, and providing various licensee services.

The State Bar is governed by a 13-member Board of Trustees (Board). Five attorneys are appointed by the California Supreme Court and serve four-year terms. Two attorneys are appointed by the Legislature, one by the Senate Committee on Rules and one by the Speaker of the Assembly. Six “public” or non-attorney members also serve: four appointed by the Governor, one by the Senate Committee on Rules, and one by the Speaker of the Assembly. The Board is charged with the executive functions of the State Bar. Among other things, it has the responsibility for fiscal policy, exercising contractual powers, and administering the affairs of the State Bar through its chosen Executive Director.

2. BASIS OF PRESENTATION

The financial statements, providing information of the State Bar, 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 reports its financial activities as one consolidated enterprise fund. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the related cash flows.

The accounts of the State Bar are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund net position, revenues and expenses. The State Bar’s funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Revenues and expenses are tracked by funding source in 11 sub-funds, as described below:

General Fund – The General Fund accounts for resources that are generally available for State Bar purposes, subject to budget priorities set by the Board.

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

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

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

2. BASIS OF PRESENTATION (Continued)

Client Security Fund – The Client Security Fund maintains funds from which licensees’ clients can be reimbursed for pecuniary losses resulting from dishonest conduct on the part of their attorneys. Such reimbursement is discretionary and currently, is not to exceed \$100,000 per application for reimbursement on any one transaction, as prescribed by the Board of Trustees. Obligations are accrued in the statements of net position based on final approved applications by the Client Security Fund Commission. For 2025 and 2024 bill years, this fund is replenished through annual assessments of \$40 per active member and \$10 per inactive member.

Elimination of Bias Fund – The Elimination of Bias Fund (formerly Elimination of Bias and Bar Relations) supports certain programs and activities to enhance access, fairness, and diversity in the legal profession and elimination of bias in the practice of law. In the 2025 and 2024 bill years, the deduction for the remaining Elimination of Bias program remained at \$2 by the Board of Trustees.

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 (AB 145) 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.

Greg E. Knoll Justice Gap Fund – The Greg E. Knoll Justice Gap Fund is used to help close the justice gap for needy Californians by voluntary donations to legal aid, pursuant to AB 2301. Licensees 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 licensees of the State Bar who are in need of assistance as a result of disability related to substance abuse or mental illness. For 2025 and 2024 bill years, this fund is replenished through annual assessments of \$10 per active licensee and \$5 per inactive licensee.

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 licensees electing to support these activities.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

2. BASIS OF PRESENTATION (Continued)

Legal Services Trust Fund – The Legal Services Trust Fund (LSTF) 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 administrative costs, the remainder is to be distributed as grants. In addition, the Trust Fund is supplemented by an increase in the annual fee mandated by Section 6140.03 of the Business and Professions Code. Section 6140.3 allocated \$45 of the license fee to the Trust Fund. Under the legislation, licensees may elect to reduce their fees by this amount if they choose not to support the activities authorized under this bill.

Bank Settlement Fund – In March 2016, the State Bar’s LSTF Program received a \$44.8 million bank settlement grant award as a result of a settlement between the U.S. Department of Justice and Bank of America. A separate program fund is established to track future grant distribution activities. This fund was exhausted in 2025.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State Bar conform to accounting principles 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 – Cash and cash equivalents includes all cash and liquid investments with initial maturity of three months or less at the date of purchase. Cash equivalents consisted of demand deposit accounts, money market accounts, short-term investments, and deposits in the California Local Agency Investment Fund (LAIF).

Grant Revenues and Donations – The Legal Services Trust Fund Program administers three funds: Interest on Lawyers’ Trust Accounts, the state Equal Access Fund (EAF), and the Greg E. Knoll Justice Gap Fund. These funds are granted to nonprofit organizations that provide free civil legal services to low-income Californians. The Legal Services Trust Fund receives interest on attorney-client trust accounts. Revenue is recognized as income when earned, and grant expense is recognized in the period in which the Legal Services Trust Fund Commission awards the grants. EAF receives grants from the State Judicial Council. Grant revenue and corresponding expense are recognized as income and expense in the year to which the grants apply, based on the grant contracts. The Greg E. Knoll Justice Gap Fund receives contributions from licensees. Revenue is recognized as income when received.

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. 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.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – 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. Capital assets are stated at cost, net of accumulated depreciation, determined using the straight-line method over the estimated useful lives of forty years for buildings, ten years for furniture and fixtures, and four to seven years for equipment and software. Leasehold improvements are amortized over the shorter of the term of the lease or its useful life.

Lease and subscription assets are defined as a contract that conveys control of the right to use another entity’s underlying asset or information technology software, alone or in combination with tangible capital assets, for a specified period. The State Bar has established capitalization thresholds of \$10,000 for leases and \$25,000 for subscription assets. Lease and subscription assets are amortized on a straight-line basis over the contract term.

Unearned Fees Collected in Advance – Unearned fees collected in advance are recognized as income when earned and are presented in the accompanying statements of net position. Accordingly, fees are recorded as revenue in the year to which the fees apply.

Operating Revenues and Expenses – 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 nonoperating. Expenses incurred for purposes for which restricted and unrestricted assets are available are first satisfied with restricted assets, to the extent available.

The State Bar allocates indirect costs to its various programs and projects. Indirect costs are comprised of both operating and capital costs. The reimbursement of indirect costs could cause a negative expense at the program level in the circumstance that the capital component of the indirect cost reimbursement exceeds the operating costs incurred by the fund acquiring the capital additions.

Nonoperating Revenues and Expenses – Nonoperating revenues and expenses consist of investment income, realized and unrealized gains or losses on investments, rental income, and interest expenses on loans, leases, and subscriptions. The gain or loss from the sale or disposition of capital assets is also reported as nonoperating revenue or expense.

Accounts and Other Receivables – Accounts and other receivables consist of rental income receivable, interest receivable for the Legal Services Trust, receivables related to the grant administration cost reimbursements, receivables from licensees, Limited Liability Partnership (LLP) program, and attorney debts, net of uncollectible allowance. The State Bar estimates the debt allowance by analyzing historical collection data to determine a percentage of debt that is unlikely to be collected. Monthly reviews are conducted to assess outstanding attorney debt balances and collections. An evaluation of outstanding attorney debt balances and allowance is performed at year-end to determine the need for potential write-offs, corrections and adjustments. Revenue is recognized as income when earned in the period to which the revenue applies.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – Compensated absences comprise earned but unpaid vacation, sick leave, and other types of leave benefits including but not limited to holiday in lieu earned, parental and bereavement leave that commenced and accrued on or before the end of the year, and certain personal days earned that could be carried over to the following fiscal year. State Bar employees have a vested interest in accrued compensated absences.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension and Other Postemployment Benefits (OPEB) – For purposes of measuring the net pension liability and net OPEB liability, deferred outflows/inflows of resources related to pension and OPEB, and pension and OPEB expenses, information about the fiduciary net position of the State Bar’s pension and OPEB plans and additions to/deductions from the plans’ fiduciary net positions have been determined on the same basis as they are reported by the California Public Employees’ Retirement System (CalPERS) and the California Employer’s Retiree Benefit Trust Fund Program (CERBT), respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. CalPERS plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

Client Security Fund (CSF) Application – CSF application liabilities are determined in accordance with Business and Professions Code section 6140.5. This section authorizes the State Bar to establish the CSF to “relieve or mitigate pecuniary losses caused by the dishonest conduct of those active licensees of the bar.” Payment from CSF is completely discretionary. The State Bar is free to prescribe applicable regulations and conditions for payments and no applicant to the program has any right to payment. In 2012, the State Bar conducted a legal analysis of CSF and the governing rules of the program and determined that when a CSF application is finally approved by the Commission, it will be recognized as an outstanding obligation in the State Bar’s financial statements. Application reimbursements in the CSF were approximately \$4.4 million and \$6.1 million for the years ended December 31, 2025 and 2024, respectively.

Net Investment in Capital Assets – Net investment in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Position – Restricted net position reflects the portion of net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, trust agreements, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Restricted net position was \$292.0 million as of December 31, 2025, of which \$290.6 million was restricted by enabling legislation; and \$345.0 million as of December 31, 2024, of which \$343.7 million was restricted by enabling legislation.

Unrestricted Net Position – Unrestricted net position includes all resources for which management, or the Board of Trustees holds discretion over their use in advancement of the State Bar’s objectives. Unrestricted net position was negative \$60.6 million as of December 31, 2025 and negative \$63.1 million as of December 31, 2024.

Reserve Policy – The State Bar’s Reserve Policy requires it to maintain a working capital (current assets less current liabilities) balance that equates to two months or a level of 17 percent of operating expenses for all non-grant funds. Funds subject to the policy are the General Fund, Legislative Activities Fund, Elimination of Bias Fund, Lawyer Assistance Program Fund, and Admissions Fund. Whenever reserve levels surpass 30 percent, for a consecutive six-month period, a reserve spend-down plan shall occur in accordance with the principles stated in the Reserve Policy.

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 that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Leases and Subscription-Based Information Technology Arrangements (SBITAs) – Leases are defined as contracts that convey control of the right to use other entity’s nonfinancial assets as specified in the contract for a period of time in exchange or exchange-like transactions. SBITAs are defined as contracts that convey control of the right to use another entity’s IT software, alone or in combination with tangible capital assets for a specified period. The State Bar is a lessee and lessor for various leases of buildings and equipment. The State Bar has noncancellable subscription IT arrangements for the right to use various information technology hardware and software SBITAs.

For short-term leases and SBITAs with a maximum possible term of 12 months or less at commencement, the State Bar recognizes lease revenues or expenses based on the payment provisions of the lease agreements or SBITAs.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement of Lease or Subscription Amounts as Lessee or Subscriber

As lessee or subscriber, the State Bar recognizes a lease or subscription liability and an intangible right-to-use asset at the beginning of the lease or subscription. The State Bar's lease and subscription liability is measured as the net present value of future minimum lease or subscription payments expected to be made during the lease term, less any lease incentives received or reasonably expected to be received, as of the date of commencement. The lease or subscription liability is reduced by the principal portion of the lease payments subsequently made. The lease or subscription asset is measured as the initial amount of the lease or subscription liability, less payments made at or before the lease or subscription commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any incentives received at or before the commencement date. For SBITAs, subscription assets also include qualifying software implementation costs. The lease or subscription asset is subsequently amortized on a straight-line basis over the lease or subscription term.

Measurement of Lease Amounts as Lessor

As lessor, the State Bar recognizes a lease receivable based on the net present value of future lease payments expected to be received during the lease term and a deferred inflow of resources based on the net present value plus any payments received at or before the commencement date that relate to future periods. Amortization of the receivable is reported as lease and interest revenues. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease.

Estimates and Judgments

Key estimates and judgments include how the State Bar determines (a) lease and subscription terms, and (b) the discount rate used to calculate the present value of the expected lease and subscription payments.

Lease or Subscription Term

The lease or subscription term includes the noncancellable period of the lease or subscription, plus any additional periods covered by either the State Bar's or the other party's unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised.

Discount Rates

As lessor, the State Bar discounts future lease payments to be received using the interest rate implicit in the lease.

The State Bar was the lessor for the San Francisco building prior to the building sale and is the lessor for the Los Angeles building. The fair market values of both buildings were not determined at the implementation date of the lease accounting standard, as such, the actual loan interest rates from the most recent building financing were used for the lessor interest rates. The State Bar applied 2.76% to the San Francisco building leases and 2.30% to one Los Angeles building lease.

As lessee, the State Bar generally uses its estimated incremental borrowing rate (IBR) as the discount rate for leases and subscriptions unless the rate is implicit in the lease or SBITA.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The IBR is based on the rate of interest the State Bar would need to pay it if it borrowed an amount equal to the lease or subscription payments under similar terms at the commencement or remeasurement date.

IBRs for leases are calculated by taking the 30-day average Secured Overnight Financing Rate (SOFR) on the contract execution date plus 175 basis points. No new leases were executed in 2024. In 2025, only one lease was executed for the lease of postage machine, with a calculated IBR of 6.11% using the same methodology.

For subscription arrangements, an annual IBR is calculated by taking the average of the 90-day average SOFR on the last day of each quarter plus 175 basis points. The 2024 IBR of 6.93% and the 2025 IBR of 6.01% were calculated by applying the same approach.

Presentation in Statements of Net Position

Lease and subscription assets are reported in both current and noncurrent assets. Lease and subscription liabilities are reported with current and noncurrent liabilities in the statements of net position.

Effects of New Pronouncements – During the years ended December 31, 2025 and 2024, the State Bar implemented the following GASB Statements:

GASB Statement No. 99 – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022* to address a variety of topics. The requirements related to leases, public-private partnerships (PPPs), and SBITAs are effective for the State Bar’s year ended December 31, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for the State Bar’s year ending December 31, 2024. The State Bar implemented this statement in 2024, which did not have a significant impact on its financial statements.

GASB Statement No. 100 – In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections. The State Bar implemented this statement in 2024, which did not have a significant impact on its financial statements.

GASB Statement No. 101 – In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences. The State Bar implemented this statement in 2024, which did not have a significant impact on its financial statements.

GASB Statement No. 102 – In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This statement requires governments to assess and disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints. The State Bar implemented this statement in 2025, which did not have a significant impact on its financial statements.

THE STATE BAR OF CALIFORNIA
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 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The State Bar is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 103 – In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This statement introduces revisions to Management’s Discussion and Analysis (MD&A), outlines the treatment of unusual and infrequent items, updates the presentation of proprietary funds, distinguishing between operating and nonoperating revenues and expense, and requires governments to present budget comparison information using a single method of communication-RSI. GASB 103 is effective for the State Bar’s year ending December 31, 2026.

GASB Statement No. 104 – In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This statement requires certain types of capital assets, such as lease assets recognized in accordance with Statement No. 87, *Leases*, intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, subscriptions assets recognized in accordance with Statement No. 96, be disclosed separately by major classes of underlying assets in the capital assets note disclosures. Additionally, this statement also requires additional disclosures for capital assets held for sale. GASB 104 is effective for the State Bar’s year ending December 31, 2026.

GASB Statement No. 105 – In December 2025, the GASB issued Statement No. 105, *Subsequent Events*. This statement clarifies the timeframe and disclosure requirements for transactions or events occurring after the financial statement date but before they are available to be issued. GASB 105 is effective for the State Bar’s year ending December 31, 2027.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments as of December 31, 2025 and 2024 are classified in the financial statements as follows:

	2025	2024
Cash and cash equivalents	\$ 319,890,834	\$ 361,711,970
Investments	24,804,569	24,642,441
Total	\$ 344,695,403	\$ 386,354,411

Cash and Cash Equivalents – Cash and cash equivalents are generally considered short-term, highly liquid investments with maturity of three months or less from the purchase date. As of December 31, 2025, the carrying amount of the State Bar’s unrestricted deposits is \$319,890,834 and the bank balance is \$320,875,671. The unrestricted deposit balance in 2025 comprises \$166,932,266 in U.S. government agency securities classified as cash equivalents. As of December 31, 2024, the carrying amount of the State Bar’s unrestricted deposits is \$361,711,970 and the bank balance is \$363,271,526. The unrestricted deposit balance in 2024 comprises \$198,535,250 in U.S. Treasury securities classified as cash equivalents. The difference between the carrying amount and the bank balance represents outstanding checks and deposits in transit. The State Bar’s deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation and the balance in excess of \$250,000 is fully collateralized per Government Code.

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

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

The State Bar’s pooled cash and cash equivalents as of December 31, 2025 and 2024 are composed of:

	2025	2024
LAIF	\$ 32,179,095	\$ 5,899,695
Other cash and cash equivalents	287,711,739	355,812,275
Total	\$ 319,890,834	\$ 361,711,970

The State Bar is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (LIAB). The LIAB consists of five members as designated by state statute. The fair value of the State Bar’s investment in the LAIF pool is reported in the financial statements at amounts based upon the State Bar’s pro-rata share of the fair value provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the State Bar’s position in the LAIF pool.

LAIF is part of the State’s Pooled Money Investment Account (PMIA) that allows state and local government agencies to place money into the fund. LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than \$5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit but are limited to one withdrawal every 30 days.

As of December 31, 2025, the PMIA balance is \$162.6 billion, of which 96.41% is invested in nonderivative financial products with 3.59% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$24.1 billion, and the State Bar’s investment in LAIF is \$32.2 million. The average maturity of PMIA investments is 244 days as of December 31, 2025. As of December 31, 2024, the PMIA balance is \$155.4 billion, of which 96.31% is invested in nonderivative financial products with 3.69% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$21.0 billion, and the State Bar’s investment in LAIF is \$5.9 million. The average maturity of PMIA investments is 252 days as of December 31, 2024.

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 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.

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.

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

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

Fair Value of Investments – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. The three levels of this hierarchy are:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities that do not have a readily available market price; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market data and that are significant to the fair value of the assets or liabilities.

The fair value measurements of investments as of December 31, 2025 and 2024, are as follows:

Description	12/31/2025	Fair value measurements using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. government agencies*	\$ 166,932,266	\$ -	\$ 166,932,266	\$ -
Commercial paper	24,804,569	24,804,569	-	-
Total investments measured at fair value	<u>\$ 191,736,835</u>	<u>\$ 24,804,569</u>	<u>\$ 166,932,266</u>	<u>\$ -</u>

* Includes \$166,932,266 U.S. government agencies securities with less than 3 months maturity at purchase and classified as cash equivalents.

Description	12/31/2024	Fair value measurements using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. government agencies	\$ 4,981,874	\$ -	\$ 4,981,874	\$ -
U.S. treasury securities*	203,474,571	203,474,571	-	-
Commercial paper	14,721,246	14,721,246	-	-
Total investments measured at fair value	<u>\$ 223,177,691</u>	<u>\$ 218,195,817</u>	<u>\$ 4,981,874</u>	<u>\$ -</u>

* Includes \$198,535,250 U.S. treasury securities with less than 3 months maturity at purchase and classified as cash equivalents.

Common stock, commercial paper, and U.S. treasury securities are classified in Level 1 and valued using prices quoted in active markets for those securities. Government agencies securities are classified in Level 2 and valued using quoted prices for identical securities in markets that are not active. Corporate bonds and municipal bonds are classified in Level 2 and valued using quoted prices for similar securities in active markets.

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

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

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’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 deposit 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 – 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 as of December 31, 2025 and 2024, are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>2025 Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Bank	U.S. government agencies*	\$ 166,932,266	87.1%
MUFG Bank LTD/New York	Commercial paper	\$ 24,804,569	12.9%

* Includes \$166,932,266 U.S. government agency securities with less than 3 months maturity at purchase and classified as cash equivalent.

<u>Issuer</u>	<u>Investment Type</u>	<u>2024 Fair Value</u>	<u>Percentage of Portfolio</u>
MUFG Bank LTD/New York	Commercial paper	\$ 14,721,246	6.6%

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

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

Interest Rate Risk – 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 as of December 31, 2025 and 2024, are as follows:

	<u>Fair value</u>	<u>Fair value as a percentage of fixed income securities</u>	<u>Weighted average maturity (years)</u>
December 31, 2025			
U.S. government agencies*	\$ 166,932,266	87.1%	0.2
Commercial paper	24,804,569	12.9%	0.2
	<u>\$ 191,736,835</u>	<u>100.0%</u>	

* Includes \$166,932,266 U.S. government agencies securities with less than 3 months maturity at purchase and classified as cash equivalent.

	<u>Fair value</u>	<u>Fair value as a percentage of fixed income securities</u>	<u>Weighted average maturity (years)</u>
December 31, 2024			
U.S. government agencies	\$ 4,981,874	2.2%	0.1
U.S. treasury securities*	203,474,571	91.2%	0.2
Commercial paper	14,721,246	6.6%	0.4
	<u>\$ 223,177,691</u>	<u>100.0%</u>	

* Includes \$198,535,250 U.S. treasury securities with less than 3 months maturity at purchase and classified as cash equivalent.

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

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

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

Fixed income securities investments that are subject to credit risk as of December 31, 2025 and 2024, are as follows:

S&P's rating	2025		2024	
	Fair value	Fair value as of a % of fixed income securities	Fair value	Fair value as of a % of fixed income securities
A-1	\$ 24,804,569	12.9%	\$ 14,721,246	6.6%
NR*	166,932,266	87.1%	208,456,445	93.4%
Total fixed income securities	\$ 191,736,835	100.0%	\$ 223,177,691	100.0%

* Includes \$166,932,266 U.S. government agencies securities in 2025 that are exempt from credit risk disclosures and \$198,535,250 U.S. treasury securities in 2024 with less than 3 months maturity at purchase that are classified as cash equivalent.

5. ACCOUNT AND OTHER RECEIVABLES

The State Bar's account and other receivables mainly consist of interest receivables for the Legal Services Trust, receivables related to the grant administration cost reimbursements, and attorney debt receivables net of allowances for doubtful accounts.

Interest receivables for the Legal Services Trust

The cash receipts for monthly Legal Services Trust interest remittances are generally available in the month following the reporting month. Therefore, December interests for the reporting year are usually recognized as trust account revenues and other receivables by the State Bar at year-end. Interest receivables for the Legal Services Trust were \$16.9 million and \$17.6 million at the years ended 2025 and 2024, respectively.

Receivables related to the grant administration cost reimbursements

Based on the provisions of various grant agreements, the State Bar can receive grant administration cost reimbursements from its grantors. For the allowable administration costs incurred but not yet reimbursed by grantors, the State Bar recognizes grant revenues and other receivables. Receivables related to the grant administration costs reimbursements were \$1.5 million and \$1.8 million at the years ended 2025 and 2024, respectively.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

5. ACCOUNT AND OTHER RECEIVABLES (Continued)

Receivables related to attorney debt, net of allowances for doubtful accounts

Attorneys who have been disciplined are required to reimburse the State Bar for the cost of certain aspects of the investigation and adjudication of disciplinary matters and to reimburse the Client Security Fund (CSF) for payments made to victims harmed by their conduct. Attorney debt has accumulated over the years, with only a small fraction of the total debt having been collected.

On September 12, 2024, Governor Newsom signed AB 3279, the State Bar licensing fee bill for 2025. This bill included provisions to allow the State Bar to increase its collection efforts. On September 19, 2024, the State Bar's Board of Trustees approved establishing a one-time Fresh Start Settlement program effective only in 2025. Under this program, approved participants will receive an automatic 50 percent reduction in the debt owed to the State Bar. Debtors may also request a greater reduction, subject to individual review and approval. For 2025 only, the bill allows the CSF reimbursement collected through the Fresh Start Settlement program to be divided equally between the Client Security Fund and the State Bar's General Fund. Additionally, the discipline costs collected in 2025 will be 100 percent allocated to the General Fund. The program resulted in \$2.8 million in debt collected, of which \$2.1 million was allocated to the General Fund, and \$7.4 million in debt was forgiven. A total of 2,633 individuals were invited to participate in the program; however, only 370 reached settlement and completed their settlement payments as of December 31, 2025.

The State Bar included the receivables, net of the allowance for doubtful accounts, related to the attorney debt in 2025 and 2024 with the line item accounts and other receivables in the statement of net position. As of December 31, 2025, the outstanding attorney debt balance was \$194.0 million, of which \$191.3 million or 98.6% was estimated to be uncollectible. As of December 31, 2024, the outstanding attorney debt balance was \$214.2 million, of which \$211.7 million or 98.8% was estimated to be uncollectible.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2025 and 2024, are as follows:

	Balance			Balance
	January 1, 2025	Increases	Decreases	December 31, 2025
Capital assets, not being depreciated:				
Land	\$ 18,325,000	\$ -	\$ -	\$ 18,325,000
Work in progress	62,948	55,012	(62,948)	55,012
Total capital assets, not being depreciated	<u>18,387,948</u>	<u>55,012</u>	<u>(62,948)</u>	<u>18,380,012</u>
Capital assets, being depreciated:				
Buildings and leasehold improvements	52,004,013	-	-	52,004,013
Equipment and software	14,703,687	1,970,085	(839,687)	15,834,085
Furniture and fixtures	4,347,318	-	-	4,347,318
Total capital assets, being depreciated	<u>71,055,018</u>	<u>1,970,085</u>	<u>(839,687)</u>	<u>72,185,416</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(14,237,720)	(1,309,972)	-	(15,547,692)
Equipment and software	(11,778,495)	(1,258,755)	839,687	(12,197,563)
Furniture and fixtures	(4,339,899)	(1,141)	-	(4,341,040)
Total accumulated depreciation	<u>(30,356,114)</u>	<u>(2,569,868)</u>	<u>839,687</u>	<u>(32,086,295)</u>
Total capital assets, being depreciated, net	<u>40,698,904</u>	<u>(599,783)</u>	<u>-</u>	<u>40,099,121</u>
Right-to-use assets, being amortized:				
Right-to-use lease assets (Note 9)	52,013,707	38,247	(607,591)	51,444,363
Less accumulated amortization for lease assets	(4,189,920)	(3,293,729)	541,796	(6,941,853)
Right-to-use subscription assets (Note 10)	4,593,285	791,846	(500,247)	4,884,884
Less accumulated amortization for subscription assets	(1,997,914)	(1,538,968)	500,247	(3,036,635)
Total right-to-use assets, being amortized, net	<u>50,419,158</u>	<u>(4,002,604)</u>	<u>(65,795)</u>	<u>46,350,759</u>
Total capital assets, being depreciated or amortized, net	<u>\$ 109,506,010</u>	<u>\$ (4,547,375)</u>	<u>\$ (128,743)</u>	<u>\$ 104,829,892</u>

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6. CAPITAL ASSETS (Continued)

	Balance			Balance
	January 1, 2024	Increases	Decreases	December 31, 2024
Capital assets, not being depreciated:				
Land	\$ 18,325,000	\$ -	\$ -	\$ 18,325,000
Work in progress	93,271	62,948	(93,271)	62,948
Total capital assets, not being depreciated	<u>18,418,271</u>	<u>62,948</u>	<u>(93,271)</u>	<u>18,387,948</u>
Capital assets, being depreciated:				
Buildings and leasehold improvements	52,004,013	-	-	52,004,013
Equipment and software	15,724,038	355,798	(1,376,149)	14,703,687
Furniture and fixtures	5,673,543	7,990	(1,334,215)	4,347,318
Total capital assets, being depreciated	<u>73,401,594</u>	<u>363,788</u>	<u>(2,710,364)</u>	<u>71,055,018</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(12,927,748)	(1,309,972)	-	(14,237,720)
Equipment and software	(11,558,795)	(1,595,849)	1,376,149	(11,778,495)
Furniture and fixtures	(5,554,992)	(19,624)	1,234,717	(4,339,899)
Total accumulated depreciation	<u>(30,041,535)</u>	<u>(2,925,445)</u>	<u>2,610,866</u>	<u>(30,356,114)</u>
Total capital assets, being depreciated, net	<u>43,360,059</u>	<u>(2,561,657)</u>	<u>(99,498)</u>	<u>40,698,904</u>
Right-to-use assets, being amortized:				
Right-to-use lease assets (Note 9)	53,332,701	-	(1,318,994)	52,013,707
Less accumulated amortization for lease assets	(1,964,523)	(3,544,391)	1,318,994	(4,189,920)
Right-to-use subscription assets (Note 10)	3,921,855	1,192,087	(520,657)	4,593,285
Less accumulated amortization for subscription assets	(1,205,061)	(1,313,510)	520,657	(1,997,914)
Total right-to-use assets, being amortized, net	<u>54,084,972</u>	<u>(3,665,814)</u>	<u>-</u>	<u>50,419,158</u>
Total capital assets, being depreciated or amortized, net	<u>\$ 115,863,302</u>	<u>\$ (6,164,523)</u>	<u>\$ (192,769)</u>	<u>\$ 109,506,010</u>

Depreciation expense for the years ended December 31, 2025 and 2024 was \$2,569,868 and \$2,925,445, respectively. Amortization expense for right-to-use assets for the years ended December 31, 2025 and 2024 was \$4,832,697 and \$4,857,901, respectively.

7. ACCOUNTS PAYABLE, OTHER LIABILITIES AND COMPENSATED ABSENCES

As of December 31, 2025 and 2024, accounts payable and other current liabilities consisted of the following:

	2025	2024
Accounts payable	\$ 5,085,628	\$ 5,412,288
Other liabilities	<u>6,625,415</u>	<u>5,926,465</u>
Total accounts payable and other liabilities	<u>\$ 11,711,043</u>	<u>\$ 11,338,753</u>

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7. ACCOUNTS PAYABLE, OTHER LIABILITIES AND COMPENSATED ABSENCES
(Continued)

Compensated absences

As of December 31, 2025 and 2024, compensated absences were \$9.7 million and \$10.1 million, respectively. Compensated absences include the current portion that is due within one year and the noncurrent portion. The table below provides additional information for these balances:

	<u>Balance</u> <u>January 1, 2025</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2025</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 10,109,093	\$ 7,872,838	\$ (8,271,395)	\$ 9,710,536	\$ 7,783,930

	<u>Balance</u> <u>January 1, 2024</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2024</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 8,565,468	\$ 8,585,138	\$ (7,041,513)	\$ 10,109,093	\$ 8,313,685

Termination benefits

On September 12, 2024, the Governor signed the State Bar fee bill (Assembly Bill 3279) that states the State Bar shall seek to achieve, through employee attrition only, a 15 percent vacancy rate by April 1, 2027. To help achieve this requirement, the State Bar implemented the RIF Program and notified its employees of the opportunity to participate in October 2024. Qualified participants in the RIF program will be eligible for up to 20 weeks of severance payment in a lump sum; continued employment through each specific participant’s date of departure; continued payment of employer contributions and any applicable fees for continued medical, dental, and vision insurance coverage (COBRA) through the severance period; payout of accrued and unused vacation; payout at 25% of accrued and unused sick leave up to 30 days or option to convert the accrued and unused sick hours to CalPERS service credits.

In addition to the cash payout, eligible employees who retire within a designated window also receive two years of additional CalPERS service credit. Impacts to pension and OPEB will be evaluated separately.

In accordance with GASB Statement No. 47, *Accounting for Termination Benefits Accounting for Termination Benefits*, an employer should recognize a liability and expense for voluntary termination benefits when the employee accepts the offer, and the amount can be estimated. Signing the agreement constitutes the employees’ acceptance of their voluntary departure. As of December 31, 2025, 44 State Bar employees participated in the RIF program. The total severance and COBRA benefit costs for these employees were \$2.6 million, of which \$280,883 was accrued in 2024. All termination payments were made in 2025 and there were no accruals of termination benefits at the end of 2025.

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 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

8. LOANS PAYABLE

On April 22, 2016, the State Bar entered into a Real Estate Loan Agreement in the amount of \$10,000,000 with Bank of America, N.A. for the purpose of financing the costs of Tenant Improvements located at 180 Howard Street, San Francisco. On August 12, 2021, the State Bar entered into a new Loan Agreement in the amount of \$20,570,573 with Sterling National Bank for the purpose of paying off the Bank of America Loan and financing capital improvement and IT projects costs located at 180 Howard Street, San Francisco. The Loan Agreement consisted of a taxable loan for \$7,489,773, which was partially used to pay off the Bank of America Loan, due on September 30, 2031, and a tax-exempt loan for \$13,080,800 due on September 30, 2036. The taxable loan bears a rate of 2.76% per year and the tax-exempt loan bears a rate of 2.30% per year. On November 14, 2023, the State Bar’s San Francisco building was sold and both taxable and tax-exempt loans related to the San Francisco building were paid off through escrow with sale proceeds from the building.

On October 1, 2020, the State Bar refinanced its Bank of America Loan Agreement and entered into a new Loan Agreement in the amount of \$14,197,000 with Sterling National Bank for the purpose of refinancing the costs of purchasing real property located at 845 South Figueroa Street, Los Angeles. The loan bears a tax-exempt fixed rate of 2.30% per year and is due on December 30, 2035, with a quarterly payment of approximately \$277,000. As of December 31, 2025 and 2024, the outstanding loan balance was \$9,878,000 and \$10,747,000, respectively.

	<u>Balance</u> <u>January 1, 2025</u>	<u>Repayments</u>	<u>Balance</u> <u>December 31, 2025</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
Los Angeles	\$ 10,747,000	\$ (869,000)	\$ 9,878,000	\$ 889,000

	<u>Balance</u> <u>January 1, 2024</u>	<u>Repayments</u>	<u>Balance</u> <u>December 31, 2024</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
Los Angeles	\$ 11,596,000	\$ (849,000)	\$ 10,747,000	\$ 869,000

THE STATE BAR OF CALIFORNIA
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 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

8. LOANS PAYABLE (Continued)

The annual repayment schedule as of December 31, 2025, is as follows:

Year Ending December 31	<u>Principal</u>	<u>Interest</u>
2026	\$ 889,000	\$ 219,564
2027	909,000	198,944
2028	931,000	177,848
2029	952,000	156,256
2030	975,000	134,159
2031-2035	<u>5,222,000</u>	<u>321,005</u>
Total	<u>\$ 9,878,000</u>	<u>\$ 1,207,776</u>

Loan Covenant, Events of Default, Termination Events and Acceleration Clauses – The State Bar relies on rental revenue and unrestricted revenue to make base rental payments in order to fulfill its debt service obligations. If events of default occur, the bank may do one or more of the following without prior notice: declare that an event of default has occurred, stop making any additional credit available to the State Bar, and require the State Bar to repay its entire debt immediately. If a default or event of default has occurred and is continuing, the bank has no obligation to make advances or extend additional credit under the loan agreement. In addition, if any event of default occurs, the bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with the loan agreement, as well as all rights and remedies available at law or in equity.

THE STATE BAR OF CALIFORNIA
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Years Ended December 31, 2025 and 2024

9. LEASES

State Bar as Lessee

The State has entered into long-term leases for office space, laptops, and office equipment. The terms for these leases range from 3 to 16 years.

A summary of intangible right-to-use lease activities for the years ended December 31, 2025 and 2024, are as follows:

	Balance				Balance
	January 1, 2025	Additions	Remeasurements	Deductions	December 31, 2025
Right-to-use assets:					
Building	\$ 51,708,682	\$ -	\$ (65,795)	\$ (421,111)	\$ 51,221,776
Equipment	305,025	38,247	-	(120,685)	222,587
Total lease assets	<u>52,013,707</u>	<u>38,247</u>	<u>(65,795)</u>	<u>(541,796)</u>	<u>51,444,363</u>
Less accumulated amortization:					
Right-to-use assets:					
Building	(3,994,684)	(3,235,156)	-	421,111	(6,808,729)
Equipment	(195,236)	(58,573)	-	120,685	(133,124)
Total accumulated amortization	<u>(4,189,920)</u>	<u>(3,293,729)</u>	<u>-</u>	<u>541,796</u>	<u>(6,941,853)</u>
Total lease assets, net	<u>\$ 47,823,787</u>	<u>\$ (3,255,482)</u>	<u>\$ (65,795)</u>	<u>\$ -</u>	<u>\$ 44,502,510</u>
	Balance				Balance
	January 1, 2024	Additions	Remeasurements	Deductions	December 31, 2024
Right-to-use assets:					
Building	\$ 51,708,682	\$ -	\$ -	\$ -	\$ 51,708,682
Equipment	1,624,019	-	-	(1,318,994)	305,025
Total lease assets	<u>53,332,701</u>	<u>-</u>	<u>-</u>	<u>(1,318,994)</u>	<u>52,013,707</u>
Less accumulated amortization:					
Right-to-use assets:					
Building	(703,299)	(3,291,385)	-	-	(3,994,684)
Equipment	(1,261,224)	(253,006)	-	1,318,994	(195,236)
Total accumulated amortization	<u>(1,964,523)</u>	<u>(3,544,391)</u>	<u>-</u>	<u>1,318,994</u>	<u>(4,189,920)</u>
Total lease assets, net	<u>\$ 51,368,178</u>	<u>\$ (3,544,391)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,823,787</u>

On November 14, 2023, the State Bar entered into a sale-leaseback transaction for its San Francisco office building. Accordingly, the State Bar removed the carrying values of the building and related capital assets and recorded the lease asset and related liabilities. The difference between the net proceeds from the sale and the carrying value of the capital assets resulted in a gain of \$13.1 million that is reported as a deferred inflow of resources related to lease items to be recognized over the term of the lease. A gain of \$817,054 was recognized in both 2024 and 2025.

THE STATE BAR OF CALIFORNIA
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9. LEASES (Continued)

A summary of changes in the related lease liabilities for the years ended December 31, 2025 and 2024, are as follows:

	<u>Balance</u> <u>January 1, 2025</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2025</u>	<u>Amounts due</u> <u>within one year</u>
Lease Liability	\$ 48,376,131	\$ 38,248	\$ (65,795)	\$ (1,078,260)	\$ 47,270,324	\$ 1,283,556
	<u>Balance</u> <u>January 1, 2024</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2024</u>	<u>Amounts due</u> <u>within one year</u>
Lease Liability	\$ 51,009,468	\$ -	\$ -	\$ (2,633,337)	\$ 48,376,131	\$ 1,123,277

Future annual lease payments as of the year ended December 31, 2025, are as follows:

Year ending December 31:	<u>Principal</u> <u>amount</u>	<u>Interest</u> <u>amount</u>	<u>Total</u>
2026	\$ 1,283,556	\$ 3,304,009	\$ 4,587,565
2027	1,466,862	3,206,304	4,673,166
2028	1,718,597	3,094,566	4,813,163
2029	1,992,905	2,964,302	4,957,207
2030	2,289,259	2,813,863	5,103,122
2031-2035	16,889,430	10,980,308	27,869,738
2036-2039	21,629,715	3,260,692	24,890,407
Total	47,270,324	<u>\$ 29,624,044</u>	<u>\$ 76,894,368</u>
Less: Current Portion	<u>(1,283,556)</u>		
Long-term portion as of December 31, 2025	<u>\$ 45,986,768</u>		

Variable Lease Payments – Variable lease payments based on usage, market rate and not considered fixed in substance are excluded from the measurement of the lease liabilities. They are recognized as lease expenses in the period incurred. The amounts recognized as expenses for variable lease payments and not included in the measurement of the lease liabilities were \$126,900 and \$144,525 during the years ended December 31, 2025 and 2024, respectively.

State Bar as Lessor

The State Bar leases certain space of its Los Angeles building to one tenant as retail space. The term for the Los Angeles lease is 20 years. In 2025, the State Bar only had one lessor lease to report for its Los Angeles building.

Total lease revenue and interest revenue recognized during the years ended December 31, 2025, and December 31, 2024, were \$475,916 and \$484,420, respectively.

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9. LEASES (Continued)

Principal and interest requirements to maturity for the lease receivable for the year ended December 31, 2025, are as follows:

Year ending December 31:	Principal amount	Interest amount	Total
2026	\$ 382,337	\$ 73,817	\$ 456,154
2027	391,224	64,930	456,154
2028	421,427	55,635	477,062
2029	433,163	45,799	478,962
2030	443,232	35,730	478,962
2031-2033	1,312,570	44,490	1,357,060
Total	3,383,953	\$ 320,401	\$ 3,704,354
Less: Current Portion	(382,337)		
Long-term portion as of December 31, 2025	\$ 3,001,616		

10. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

The State Bar has subscription arrangements for the right-to-use various information technology hardware and software. Some of these arrangements cover a period of multiple years and are subject to the provisions of GASB Statement No. 96.

A summary of intangible right-to-use subscription IT assets for the year ended December 31, 2025 and 2024, are as follows:

	Balance January 1, 2025	Additions	Remeasurements	Deductions	Balance December 31, 2025
Subscription assets	\$ 4,593,285	\$ 743,521	\$ 48,325	\$ (500,247)	\$ 4,884,884
Less accumulated amortization	(1,997,914)	(1,538,968)	-	500,247	(3,036,635)
Total subscription assets, net	\$ 2,595,371	\$ (795,447)	\$ 48,325	\$ -	\$ 1,848,249

	Balance January 1, 2024	Additions	Remeasurements	Deductions	Balance December 31, 2024
Subscription assets	\$ 3,921,855	\$ 1,192,087	\$ -	\$ (520,657)	\$ 4,593,285
Less accumulated amortization	(1,205,061)	(1,313,510)	-	520,657	(1,997,914)
Total subscription assets, net	\$ 2,716,794	\$ (121,423)	\$ -	\$ -	\$ 2,595,371

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**10. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)
 (Continued)**

A summary of changes in the related subscription liabilities for the year ended December 31, 2025 and 2024, are as follows:

	Balance January 1, 2025	Additions	Remeasurements	Deductions	Balance December 31, 2025	Amounts due within one year
Subscription liability	\$ 2,027,140	\$ 743,521	\$ 48,325	\$ (1,528,088)	\$ 1,290,898	\$ 847,099

	Balance January 1, 2024	Additions	Remeasurements	Deductions	Balance December 31, 2024	Amounts due within one year
Subscription liability	\$ 2,510,868	\$ 1,192,087	\$ -	\$ (1,675,815)	\$ 2,027,140	\$ 1,227,318

Future annual subscription payments as of the year ended December 31, 2025, are as follows:

	Principal amount	Interest amount	Total
Year ending December 31:			
2026	\$ 847,099	\$ 74,439	\$ 921,538
2027	443,799	20,407	464,206
Total	1,290,898	<u>\$ 94,846</u>	<u>\$ 1,385,744</u>
Less: Current Portion	<u>(847,099)</u>		
Long-term portion as of December 31, 2025	<u>\$ 443,799</u>		

Variable SBITA Payments – Variable SBITA payments based on usage, future performance of a government, number of user seats, or not considered fixed in substance are excluded from the measurement of the subscription liabilities. They are recognized as subscription expenses in the period incurred. The amounts recognized as expenses for variable SBITA payments and not included in the measurement of the subscription liabilities were \$1,217,290 and \$1,229,705 during the years ended December 31, 2025 and 2024, respectively.

11. PENSION PLAN

Plan Description – The State Bar’s defined benefit plan, the Miscellaneous Plan of the State Bar of California (Plan), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of 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. Benefit provisions under the Plan are established by State statute. The State Bar has contracted with CalPERS for employee retirement benefits since the 1950’s. Amendments to the Plan are authorized by resolution of the Board of Trustees. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

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11. PENSION PLAN (Continued)

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members who are hired prior to January 1, 2013, with five years of total service, are eligible to retire at age 50 and members who were hired on or after January 1, 2013, with five years of total service, are eligible to retire at age 52. As of June 30, 2025, the most recent information available, the State Bar’s pension plan included 628 active employees, 511 inactive employees entitled to but not yet receiving benefits, and 674 inactive employees or beneficiaries currently receiving benefits. All members are eligible for non-duty disability benefits after 10 years of service.

The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. The State Bar has the right to modify the pension plan provisions prospectively at its discretion.

The Plan’s provisions and benefits in effect as of December 31, 2025 and 2024, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employer contribution rates – 7/1/2023 to 6/30/2024	17.26%	17.26%
Required employer contribution rates – 7/1/2024 to 6/30/2025	17.18%	17.18%
Required employer contribution rates – 7/1/2025 to 12/31/2025	17.07%	17.07%

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The State Bar of California is required to contribute the difference between the actuarially determined rate and the contribution of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan member contribution requirements are classified as plan member contributions.

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11. PENSION PLAN (Continued)

Net Pension Liability – The net pension liability for the Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. For the year ended December 31, 2025, the total pension liability for the Plan is measured as of June 30, 2025, using an annual actuarial valuation as of June 30, 2024, rolled forward to June 30, 2025, using standard update procedures. For the year ended December 31, 2024, the total pension liability for the Plan is measured as of June 30, 2024, using an annual actuarial valuation as of June 30, 2023, rolled forward to June 30, 2024, using standard procedures.

Actuarial Assumptions – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2025, and 2024, are as follows:

Valuation Date	June 30, 2024	June 30, 2023
Measurement Date	June 30, 2025	June 30, 2024
Actuarial Cost Method	Entry-Age Normal Cost	
Actuarial Assumptions:		
Discount Rate	6.90%	6.90%
Inflation	2.30%	2.30%
Payroll Growth	2.80%	2.80%
Projected Salary Increase	Varies by entry age and service	
Post Retirement Benefit Increase	(1)	
Mortality	Derived using CalPERS’ membership data (2)	

- (1) During the measurement period 2025 and 2024, the lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter.
- (2) The mortality table used was developed based on CalPERS-specific data. As of June 30, 2025, and June 30, 2024, the probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

The actuarial assumptions used in the June 30, 2024, and June 30, 2023, valuations were based on the results of the CalPERS 2021 experience study for the period 2000 to 2019, including changes to the rates of decrement, salary increase rates and economic assumptions. Further details of the experience study can be found on the CalPERS website.

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11. PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability for the Plan as of June 30, 2025, and 2024 was 6.90 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 basis points.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected real rates of return by asset class for the actuarial valuation of June 30, 2025 are as follows:

<u>Asset Class</u>	<u>Assumed asset Allocation ⁽¹⁾</u>	<u>Long-Term Expected Real Rate of Return ^{(1), (2)}</u>
Public Equity	37.0%	4.56%
Private Equity	17.0	5.56
Fixed Income	28.0	2.53
Real Assets	15.0	3.03
Private Debt	8.0	4.93
Leverage	-5.0	1.40
Total	<u>100.0%</u>	

(1) Figures are based on the 2024 Mid-Cycle Asset Liability Management study.

(2) An expected annual rate of price inflation of 2.30% was used for this period.

THE STATE BAR OF CALIFORNIA
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11. PENSION PLAN (Continued)

The expected real rates of return by asset class for the actuarial valuation of June 30, 2024 are as follows:

<u>Asset Class</u>	<u>Assumed asset Allocation</u>	<u>Real return ^{(1),(2)}</u>
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00	3.84
Private Equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed securities	5.00	0.50
Investment Grade Corporates	10.00	1.56
High Yield	5.00	2.27
Emerging Market Debt	5.00	2.48
Private Debt	5.00	3.57
Real Assets	15.00	3.21
Leverage	-5.00	-0.59
Total	<u>100.00%</u>	

(1) An expected inflation of 2.30% used for this period.

(2) Figures are based on the 2021 Asset Liability Management study.

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11. PENSION PLAN (Continued)

Changes in the Net Pension Liability – The changes in the Net Pension Liability for the Plan for the year ended December 31, 2025 and 2024, are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2024	\$ 528,436,899	\$ 425,200,419	\$ 103,236,480
Changes in the year:			
Service cost	12,754,146	-	12,754,146
Interest on the total pension liability	36,731,136	-	36,731,136
Differences between actual and expected experience	12,357,850	-	12,357,850
Contribution - employer	-	14,498,410	(14,498,410)
Contribution - employee	-	5,963,441	(5,963,441)
Net investment income	-	51,382,318	(51,382,318)
Administrative expenses	-	(303,846)	303,846
Benefit payments, including refunds of employee contributions	(29,673,052)	(29,673,052)	-
Net changes	32,170,080	41,867,271	(9,697,191)
Balance at June 30, 2025	\$ 560,606,979	\$ 467,067,690	\$ 93,539,289

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2023	\$ 490,210,983	\$ 397,924,374	\$ 92,286,609
Changes in the year:			
Service cost	11,867,024	-	11,867,024
Interest on the total pension liability	34,608,900	-	34,608,900
Differences between actual and expected experience	19,117,550	-	19,117,550
Contribution - employer	-	12,235,973	(12,235,973)
Contribution - employee	-	5,307,816	(5,307,816)
Net investment income	-	37,423,606	(37,423,606)
Administrative expenses	-	(323,792)	323,792
Benefit payments, including refunds of employee contributions	(27,367,558)	(27,367,558)	-
Net changes	38,225,916	27,276,045	10,949,871
Balance at June 30, 2024	\$ 528,436,899	\$ 425,200,419	\$ 103,236,480

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

11. PENSION PLAN (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – The State Bar recognized pension expense of \$21,788,142 for the year ended December 31, 2025, and pension expense of \$23,968,887 for the year ended December 31, 2024. Deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	2025	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 19,602,808	\$ -
Contributions made after the measurement date: June 30, 2025	8,240,588	-
Net differences between projected and actual earning on plan investments	-	(11,052,022)
Total	\$ 27,843,396	\$ (11,052,022)
	2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 1,059,981	\$ -
Differences between actual and expected experience	17,930,192	(176,590)
Contributions made after the measurement date: June 30, 2024	7,010,599	-
Net differences between projected and actual earning on plan investments	6,724,126	-
Total	\$ 32,724,898	\$ (176,590)

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic manner. As of December 31, 2025 and 2024, the State Bar reported \$8,240,588 and \$7,010,599, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction related to net pension liability in the year ending December 31, 2026 and 2025, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension as of December 31, 2025, will be recognized as pension expense as follows:

<u>Year Ending December 31</u>	
2026	\$ 15,692,386
2027	1,276,463
2028	(3,941,337)
2029	(4,476,726)
Total	\$ 8,550,786

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
 Years Ended December 31, 2025 and 2024

11. PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability – The following present the net pension liability of the State Bar, calculated using the discount rate for each Plan, as well as what the State Bar’s net pension would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage higher than the measurement date discount rate:

<u>As of December 31, 2025</u>	<u>1% Decrease 5.90%</u>	<u>Current Discount Rate 6.90%</u>	<u>1% Increase 7.90%</u>
Plan's net pension liability	\$ 164,056,744	\$ 93,539,289	\$ 35,038,434
<u>As of December 31, 2024</u>	<u>1% Decrease 5.90%</u>	<u>Current Discount Rate 6.90%</u>	<u>1% Increase 7.90%</u>
Plan's net pension liability	\$ 169,976,922	\$ 103,236,480	\$ 47,878,729

12. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The State Bar administers an agent multiple-employer defined benefit Post-Retirement Welfare Benefits Plan for Employees (OPEB Plan). The OPEB Plan provides postretirement health care benefits for its eligible employees.

For executive staff employed as of August 19, 2006, eligibility requires 15 years of service to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires 15 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 120 days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age.

Additional funding for retiree health benefits was included in Senate Bill 176 (SB176), which was requested by the State Bar and signed by the Governor on October 9, 2019. The approval for providing equitable health benefits was based on the recommendation of the State Auditor and the Assembly Judiciary Committee. On July 9, 2019, the Committee passed an amended version of Senate Bill 176 that included an increase to the annual licensing fee for 2020. In the analysis, the Committee recommended that the active fee should be increased by \$17 to support retiree health benefits for the State Bar. The State Bar has the right to modify plan provisions prospectively at its discretion.

On an ongoing basis, the State Bar contributes to the CERBT to pay its Actuarially Determined Contribution as determined by the State Bar’s actuary. CalPERS issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERBT financial report, which may be obtained from CalPERS website at <https://www.calpers.ca.gov/employers/benefit-programs/cerbt>.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2025 and 2024

12. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

On January 27, 2018, the State Bar Board of Trustees approved the extension of postemployment benefits to non-executive staff. The statutory Public Employees' Medical & Hospital Care Act (PEMHCA) retiree minimum is currently set at \$158 per month for 2025 but is adjusted by CalPERS on an annual basis. In 2025, the State Bar contributed \$158 per month toward eligible retirees' purchase of medical insurance coverage. The State Bar may, however, at its sole discretion and as part of its annual budgeting process, adjust upward the amount it contributes towards eligible retirees' purchase of medical insurance coverage beyond the statutory PEMHCA minimum. As of December 31, 2025, the OPEB Plan included 620 active participants and 191 retirees receiving benefits.

Effective January 1, 2020, the State Bar amended the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank-and-file employees. On April 16, 2020, an Amended and Restated Plan was adopted by the Board of Trustees.

The State Bar contracts with CalPERS for health coverage and provides lifetime health coverage for eligible retirees. The portion of medical premiums paid by the State Bar depends on when an employee was hired, whether they were classified as executives, and the number of years of service at retirement.

The State Bar pays the full cost of retiree health coverage for executive employees hired before January 1, 2018. The State Bar pays 80% of the premium cost for the plan and tier in which the retiree enrolls when the executive employee is hired or promoted on or after January 1, 2018.

Non-executive employees retiring with a CalPERS pension would be eligible to enroll in the CalPERS Health Plan. The State Bar would be required to pay the statutory minimum, and the retiree would be required to pay the difference in plan premium.

The State Bar pays monthly vision plan premiums for executives who are eligible for the vision coverage in the amount of \$14.76, \$21.41, and \$38.39 for retiree, couple, and family, respectively.

Net OPEB Liability and Assumptions: The net OPEB liability for the OPEB Plan is measured as the total OPEB liability, less the OPEB plan's fiduciary net position. For the years ended December 31, 2025 and 2024, the total OPEB liability for the OPEB Plan is measured as of June 30, 2025 and 2024, respectively, using an annual actuarial valuation as of January 1, 2024.

THE STATE BAR OF CALIFORNIA
 Business-Type Activity – Enterprise Fund
 Notes to the Financial Statements
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12. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The total OPEB liability in the January 1, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Actuarial Assumptions:	
Discount Rate	6.50%
Inflation	2.30%
Healthcare Trend Rate	Trend assumption based on the "Getzen" model developed by the Society of Actuaries. Assumed the vision cost would increase at an annual rate of 3.00% for January 1, 2024 valuations. Assumed the PEMCHA minimum contribution would grow with general medical inflation. The minimum amount is \$157 per month for calendar year 2024 and \$158 for 2025 and assumed the medical CPI increase at an annual rate of 2.25% in 2025, 3.75% in 2026, 3.50% in 2027 and 3.25% in 2028 and after, for January 1, 2024 valuations.
Mortality	CalPERS Mortality rates projected generationally using 80 percent of Mortality Improvement Scale MP-2020.

For the actuarial valuation as of January 1, 2024, the healthcare trend rate for vision will increase at a rate of 3.00% per year, no change from the prior full valuation. PEMCHA minimum contribution is \$157 per month for calendar year 2024 and \$158 for 2025. It will increase by 2.25% in 2025, 3.75% in 2026, 3.50% in 2027 and 3.25% in 2028 and after.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class for the actuarial valuation of January 1, 2024, are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Expected Arithmetic Real Return (30 yrs)</u>
Global Equity	28.5%	6.09%
U.S. Fixed Income	46.0%	3.62%
Treasury Inflation-Protected Securities	7.0%	1.93%
Real Estate Investment Trusts	15.5%	6.84%
Commodities	3.0%	3.38%
Total	<u>100.0%</u>	

Expected Geometric Return (30 yrs) - 6.47%

THE STATE BAR OF CALIFORNIA
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12. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The discount rate used to measure the total OPEB liability was 6.50 percent. A blended target asset allocation was determined based on the long-term investment strategy of investing approximately 50 percent in the CERBT Fund Strategy 2 and 50 percent in CERBT Fund Strategy 3. The 30-year expected returns for each asset class were determined based on a 2.30 percent long-term inflation assumption. The expected returns for the entire portfolio were derived from the blended allocation rates for each asset class. The projection of cash flows used to determine the discount rate assumed that the State Bar’s contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability: The changes in the net OPEB liability of the OPEB Plan, measured as of June 30, 2025 and 2024, are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2024	\$ 53,202,011	\$ 45,413,589	\$ 7,788,422
Changes in the year:			
Service cost	2,131,237	-	2,131,237
Interest on the total OPEB liability	3,519,426	-	3,519,426
Benefit payments	(2,413,602)	(2,413,602)	-
Contributions from employer	-	3,947,102	(3,947,102)
Net investment income	-	4,319,223	(4,319,223)
Administrative expenses	-	(15,456)	15,456
Net changes	3,237,061	5,837,267	(2,600,206)
Balance at June 30, 2025	\$ 56,439,072	\$ 51,250,856	\$ 5,188,216

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
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12. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2023	\$ 45,894,342	\$ 40,121,083	\$ 5,773,259
Changes in the year:			
Service cost	2,092,148	-	2,092,148
Interest on the total OPEB liability	3,054,489	-	3,054,489
Differences between actual and expected experience with regard to economic or demographic factors	7,654,307	-	7,654,307
Changes in assumptions	(3,473,496)	-	(3,473,496)
Benefit payments	(2,019,779)	(2,019,779)	-
Contributions from employer	-	4,773,779	(4,773,779)
Net investment income	-	2,559,144	(2,559,144)
Administrative expenses	-	(20,638)	20,638
Net changes	<u>7,307,669</u>	<u>5,292,506</u>	<u>2,015,163</u>
Balance at June 30, 2024	<u>\$ 53,202,011</u>	<u>\$ 45,413,589</u>	<u>\$ 7,788,422</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the net OPEB liability of the State Bar, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current discount rate:

	1% Decrease in Discount Rate 5.50%	Current Discount Rate 6.50%	1% Increase in Discount Rate 7.50%
	Net OPEB Liability (NOL) for December 31, 2025	\$ 12,794,375	\$ 5,188,216
	1% Decrease in Discount Rate 5.50%	Current Discount Rate 6.50%	1% Increase in Discount Rate 7.50%
Net OPEB Liability (NOL) for December 31, 2024	\$ 14,879,211	\$ 7,788,422	\$ 1,876,868

THE STATE BAR OF CALIFORNIA
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12. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate: The following presents the net OPEB liability of the State Bar, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rates that is 1-percentage-point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
	5.50%	6.50%	7.50%
Net OPEB Liability (NOL) for December 31, 2025	\$ (2,780,184)	\$ 5,188,216	\$ 15,295,432
	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
	5.50%	6.50%	7.50%
Net OPEB Liability (NOL) for December 31, 2024	\$ 674,366	\$ 7,788,422	\$ 16,650,963

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - Most changes in the net OPEB liability are included in OPEB expense in the year of change, including changes resulting from current-period service cost, interest on the total OPEB liability, changes in benefit terms, and projected earnings on the OPEB plan's investments. Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in the future as OPEB expense. OPEB expenses for the years ended December 31, 2025 and 2024, were \$3,320,777 and \$3,372,116, respectively.

As of the year ended December 31, 2025, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ 7,138,303	\$ (1,886,797)
Changes of assumptions	-	(5,901,619)
Net difference between projected and actual earnings	1,034,467	-
Contributions made subsequent to measurement date	2,902,652	-
Total	\$ 11,075,422	\$ (7,788,416)

THE STATE BAR OF CALIFORNIA
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12. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

As of the year ended December 31, 2024, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 8,193,735	\$ (2,270,292)
Changes of assumptions	-	(6,911,617)
Net difference between projected and actual earnings	3,346,409	-
Contributions made subsequent to measurement date	984,908	-
Total	<u>\$ 12,525,052</u>	<u>\$ (9,181,909)</u>

At December 31, 2025, and 2024, the State Bar reported \$2,902,652 and \$984,908, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to the net OPEB liability during the years ending December 31, 2025, and 2024, respectively. Other amounts reported as deferred inflows of resources related to OPEB as of December 31, 2025, will be recognized as OPEB expense as follows:

<u>Year Ending December 31</u>	<u>Deferred (Inflows) and Outflows of Resources</u>
2026	\$ 1,117,624
2027	(259,001)
2028	(573,083)
2029	(526,637)
2030	(215,195)
Thereafter	840,646
Total	<u>\$ 384,354</u>

13. 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 commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

THE STATE BAR OF CALIFORNIA
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14. 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 these matters will not have a material adverse effect on the financial position and results of operations of the State Bar. The outcome of certain lawsuits and tort claims related to disciplinary actions against licensees, 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, 2025, and 2024.

Major Projects – As of December 31, 2025, the State Bar had contracts and purchase order commitments for major projects of approximately \$1.7 million. Those commitments consist of \$0.7 million for ongoing ERP system support and licensing, \$0.4 million for cloud implementation and infrastructure support, \$0.2 million for cybersecurity audit and assessment, and \$0.4 million for Heating, Ventilation, and Air Conditioning (HVAC) compressors replacement at the Los Angeles office building.

15. SUBSEQUENT EVENT

After December 31, 2025, and before the issuance of financial statements dated May 20, 2026, the State Bar has evaluated subsequent events and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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THE STATE BAR OF CALIFORNIA

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited) Last 10 Years

Measurement Period Ended June 30	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
TOTAL PENSION LIABILITY					
Service Cost	\$ 12,754,146	\$ 11,867,024	\$ 10,687,502	\$ 10,414,335	\$ 9,507,566
Interest on total pension liability	36,731,136	34,608,900	32,099,352	30,276,187	29,737,918
Differences between expected and actual experience	12,357,850	19,117,550	8,648,044	(933,412)	(3,175,437)
Changes in assumptions	-	-	-	5,602,752	-
Changes in benefits	-	-	445,283	-	-
Benefit payments, including refunds of employee contributions	<u>(29,673,052)</u>	<u>(27,367,558)</u>	<u>(24,880,232)</u>	<u>(22,115,270)</u>	<u>(20,880,413)</u>
Net change in total pension liability	32,170,080	38,225,916	26,999,949	23,244,592	15,189,634
Total pension liability - beginning	<u>528,436,899</u>	<u>490,210,983</u>	<u>463,211,034</u>	<u>439,966,442</u>	<u>424,776,808</u>
Total pension liability - ending	<u>\$ 560,606,979</u>	<u>\$ 528,436,899</u>	<u>\$ 490,210,983</u>	<u>\$ 463,211,034</u>	<u>\$ 439,966,442</u>
PLAN FIDUCIARY NET POSITION					
Contributions - employer	\$ 14,498,410	\$ 12,235,973	\$ 13,004,411	\$ 12,140,925	\$ 10,953,471
Contributions - employee	5,963,441	5,307,816	4,860,008	4,655,824	4,372,707
Net investment income	51,382,318	37,423,606	23,359,308	(31,181,663)	77,444,578
Benefit payments, including refunds of employee contributions	(29,673,052)	(27,367,558)	(24,880,232)	(22,115,270)	(20,880,413)
Net Plan to Plan Resource Movement	-	-	-	-	-
Administrative expenses	(303,846)	(323,792)	(280,803)	(260,777)	(346,711)
Other Miscellaneous Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	41,867,271	27,276,045	16,062,692	(36,760,961)	71,543,632
Plan fiduciary net position - beginning	<u>425,200,419</u>	<u>397,924,374</u>	<u>381,861,682</u>	<u>418,622,643</u>	<u>347,079,011</u>
Plan fiduciary net position - ending	<u>\$ 467,067,690</u>	<u>\$ 425,200,419</u>	<u>\$ 397,924,374</u>	<u>\$ 381,861,682</u>	<u>\$ 418,622,643</u>
Net pension liability - ending	<u>\$ 93,539,289</u>	<u>\$ 103,236,480</u>	<u>\$ 92,286,609</u>	<u>\$ 81,349,352</u>	<u>\$ 21,343,799</u>
Plan fiduciary net position as a percentage of the total pension liability	83.3%	80.5%	81.2%	82.4%	95.1%
Covered payroll	\$ 76,878,520	\$ 71,060,025	\$ 63,578,237	\$ 61,659,769	\$ 58,652,475

THE STATE BAR OF CALIFORNIA

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited) Last 10 Years

Measurement Period Ended June 30	2020	2019	2018	2017	2016
TOTAL PENSION LIABILITY					
Service Cost	\$ 8,917,807	\$ 8,457,483	\$ 8,413,051	\$ 8,895,961	\$ 7,565,782
Interest on total pension liability	28,675,153	27,203,790	25,675,376	25,355,446	24,173,396
Differences between expected and actual experience	3,117,562	4,632,331	(3,317,028)	(1,780,377)	6,742,939
Changes in assumptions	-	-	(11,012,926)	21,023,063	-
Changes in benefits	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(18,816,672)	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)
Net change in total pension liability	21,893,850	22,249,276	3,069,704	39,771,961	26,169,361
Total pension liability - beginning	402,882,958	380,633,682	377,563,978	337,792,017	311,622,656
Total pension liability - ending	\$ 424,776,808	\$ 402,882,958	\$ 380,633,682	\$ 377,563,978	\$ 337,792,017
PLAN FIDUCIARY NET POSITION					
Contributions - employer	\$ 9,733,180	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102
Contributions - employee	4,418,214	3,793,577	3,726,557	3,697,300	3,437,015
Net investment income	16,489,470	20,781,606	25,383,692	31,072,914	1,591,381
Benefit payments, including refunds of employee contributions	(18,816,672)	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)
Net Plan to Plan Resource Movement	-	745	(745)	-	-
Administrative expenses	(473,294)	(229,266)	(473,766)	(410,263)	(170,929)
Other Miscellaneous Expense	-	-	(899,690)	-	-
Net change in plan fiduciary net position	11,350,898	14,457,502	17,238,328	26,157,776	(2,591,187)
Plan fiduciary net position - beginning	335,728,113	321,270,611	304,032,283	277,874,507	280,465,694
Plan fiduciary net position - ending	\$ 347,079,011	\$ 335,728,113	\$ 321,270,611	\$ 304,032,283	\$ 277,874,507
Net pension liability - ending	\$ 77,697,797	\$ 67,154,845	\$ 59,363,071	\$ 73,531,695	\$ 59,917,510
Plan fiduciary net position as a percentage of the total pension liability	81.7%	83.3%	84.4%	80.5%	82.3%
Covered payroll	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071	\$ 50,889,313	\$ 48,452,015

Notes to Schedule

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the respective valuations. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes). In 2022, Senate Bill 1168 increased the standard retiree lump sum death benefit from \$500 to \$2,000 for any death occurring on or after July 1, 2023. The impact, if any, is included in the changes of benefit terms.

Changes of Assumptions: During measurement period 2015, the discount rate was increased from 7.50% to 7.65%. There was no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65% to 7.15%. During measurement period 2018, the demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. During measurement period 2022, the discount rate was reduced from 7.15% to 6.90%. Demographic assumptions and inflation rate assumptions were changed in accordance with the 2021 CalPERS experience Study and Review of Actuarial Assumptions. There were no changes in assumptions during measurement periods 2023 through 2025.

Other Miscellaneous Expenses: During Fiscal Year 2017-18, as a result of GASB Statement No. 75, *Accounting and Financial reporting for Postemployment Benefit Plans Other than Pension* (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent (multiple-employer) OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

THE STATE BAR OF CALIFORNIA

Schedule of Plan Contributions - Pension (Unaudited) Last 10 Years

For the Year Ended June 30	2025	2024	2023	2022	2021
Actuarially Determined Contribution	\$ 14,498,410	\$ 12,235,973	\$ 13,004,411	\$ 12,140,925	\$ 10,953,471
Contributions in relation to the actuarially determined contributions	<u>(14,498,410)</u>	<u>(12,235,973)</u>	<u>(13,004,411)</u>	<u>(12,140,925)</u>	<u>(10,953,471)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 76,878,520</u>	<u>\$ 71,060,025</u>	<u>\$ 63,578,237</u>	<u>\$ 61,659,769</u>	<u>\$ 58,652,475</u>
Contributions as a percentage of covered payroll	18.9%	17.2%	20.5%	19.7%	18.7%

For the Year Ended June 30	2020	2019	2018	2017	2016
Actuarially Determined Contribution	\$ 9,733,180	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102
Contributions in relation to the actuarially determined contributions	<u>(9,733,180)</u>	<u>(8,155,168)</u>	<u>(6,191,049)</u>	<u>(5,519,957)</u>	<u>(4,864,102)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 54,145,762</u>	<u>\$ 50,333,174</u>	<u>\$ 49,538,071</u>	<u>\$ 50,889,313</u>	<u>\$ 48,452,015</u>
Contributions as a percentage of covered payroll	18.0%	16.2%	12.5%	10.8%	10.0%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended June 30, 2025 was derived from the June 30, 2021 funding valuation report.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level percent of payroll
Remaining Amortization Period	10 years as of the valuation date
Asset Valuation Method	Fair Value of Assets
Inflation	2.30%
Payroll Growth	2.80 %
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	6.90% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.
Mortality	The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by Society of Actuaries.

THE STATE BAR OF CALIFORNIA

Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios (Unaudited) Last 10 Years*

Measurement Period Ended June 30	2025	2024	2023	2022	2021
Total OPEB Liability					
Service cost	\$ 2,131,237	\$ 2,092,148	\$ 2,113,304	\$ 2,686,342	\$ 2,534,285
Interest on total OPEB liability	3,519,426	3,054,489	2,714,466	2,835,237	2,600,287
Differences between actual and expected experience	-	7,654,307	1,628,896	(3,420,777)	-
Changes of assumptions	-	(3,473,496)	(2,764,054)	(1,896,095)	-
Changes of benefit terms	-	-	-	-	-
Benefits payments, including refunds of employee contributions	(2,413,602)	(2,019,779)	(1,827,741)	(1,464,372)	(1,281,476)
Net change in total OPEB liability	3,237,061	7,307,669	1,864,871	(1,259,665)	3,853,096
Total OPEB liability - beginning	53,202,011	45,894,342	44,029,471	45,289,136	41,436,040
Total OPEB liability - ending	56,439,072	53,202,011	45,894,342	44,029,471	45,289,136
Plan fiduciary net position					
Contributions - employer	3,947,102	4,773,779	4,628,741	4,967,372	4,941,476
Net investment income	4,319,223	2,559,144	702,503	(4,519,803)	4,209,476
Benefits payments, including refunds of employee contributions	(2,413,602)	(2,019,779)	(1,827,741)	(1,464,372)	(1,281,476)
Administrative expense	(15,456)	(20,638)	(18,588)	(19,155)	(16,556)
Net change in plan fiduciary net position	5,837,267	5,292,506	3,484,915	(1,035,958)	7,852,920
Plan fiduciary net position - beginning	45,413,589	40,121,083	36,636,168	37,672,126	29,819,206
Plan fiduciary net position - ending	51,250,856	45,413,589	40,121,083	36,636,168	37,672,126
Plan net OPEB liability (asset) - ending	\$ 5,188,216	\$ 7,788,422	\$ 5,773,259	\$ 7,393,303	\$ 7,617,010
Plan fiduciary net position as a percentage of the total OPEB liability	90.8%	85.4%	87.4%	83.2%	83.2%
Covered payroll	\$ 76,878,520	\$ 71,060,025	\$ 63,578,237	\$ 61,659,769	\$ 58,652,475
Plan net OPEB liability (asset) as a percentage of covered payroll	6.7%	11.0%	9.1%	12.0%	13.0%

THE STATE BAR OF CALIFORNIA

Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios (Unaudited) Last 10 Years*

Measurement Period Ended June 30	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 580,569	\$ 547,707	\$ 489,826
Interest on total OPEB liability	1,071,758	1,043,546	1,611,348
Differences between actual and expected experience	267,916	-	-
Changes of assumptions	(943,036)	-	-
Changes of benefit terms	23,750,838	-	(10,325,826)
Benefits payments, including refunds of employee contributions	<u>(1,133,033)</u>	<u>(1,172,820)</u>	<u>(1,418,516)</u>
Net change in total OPEB liability	23,595,012	418,433	(9,643,168)
Total OPEB liability - beginning	<u>17,841,028</u>	<u>17,422,595</u>	<u>27,065,763</u>
Total OPEB liability - ending	<u>41,436,040</u>	<u>17,841,028</u>	<u>17,422,595</u>
Plan fiduciary net position			
Contributions - employer	1,133,033	1,922,820	2,168,516
Net investment income	1,776,547	1,892,678	1,111,880
Benefits payments, including refunds of employee contributions	(1,133,033)	(1,172,820)	(1,418,516)
Administrative expense	<u>(14,162)</u>	<u>(12,821)</u>	<u>(12,109)</u>
Net change in plan fiduciary net position	1,762,385	2,629,857	1,849,771
Plan fiduciary net position - beginning	<u>28,056,821</u>	<u>25,426,964</u>	<u>23,577,193</u>
Plan fiduciary net position - ending	<u>29,819,206</u>	<u>28,056,821</u>	<u>25,426,964</u>
Plan net OPEB liability (asset) - ending	<u>\$ 11,616,834</u>	<u>\$ (10,215,793)</u>	<u>\$ (8,004,369)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	72.0%	157.3%	145.9%
Covered payroll	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071
Plan net OPEB liability (asset) as a percentage of covered payroll	21.5%	-20.3%	-16.2%

Notes to Schedule

Changes in assumptions – During Measurement Period 2020, the healthcare trend rate for vision and PEMCHA minimum contribution decreased from 3.25% to 3.00%. During Measurement Period 2022, PEMCHA minimum contribution is changed to \$149 per month for calendar year 2022 and \$151 for 2023, \$157 for 2024 and increase by 3.75% in 2025, 3.50% in 2026 and 3.25% in 2027 and after. During Measurement Period 2024, PEMCHA minimum contribution is changed to \$157 for 2024, \$158 for 2025 and increase by 3.75% in 2026, 3.50% in 2027 and 3.25% in 2028 and after.

Changes in benefit terms - During Measurement Period 2018, the State Bar transitioned its health coverage to CalPERS health. Effective January 1, 2020, the State Bar updated the post-employment retiree health benefits for confidential, non-executive represented, judges and executive employees resulting in a \$23.8 million change.

Change in Discount Rate (liabilities) and Long Term Expected Return - The discount rate and long term expected return remained unchanged at 6.50% for both Measurement Period 2025 and 2024.

*Year 2018 was the first-year implementation of GASB Statement No. 75, therefore only eight years of information is shown.

THE STATE BAR OF CALIFORNIA

Schedule of Contributions - OPEB Plan (Unaudited)
Last 10 Years*

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Actuarially determined contribution	\$ 2,836,000	\$ 3,067,000	\$ 2,754,000	\$ 2,915,000	\$ 3,503,000
Contributions	<u>3,798,554</u>	<u>1,700,844</u>	<u>4,234,261</u>	<u>4,158,533</u>	<u>4,623,159</u>
Contribution deficiency (excess)	<u>\$ (962,554)</u>	<u>\$ 1,366,156</u>	<u>\$ (1,480,261)</u>	<u>\$ (1,243,533)</u>	<u>\$ (1,120,159)</u>
Covered payroll					
(measurement period ended June 30)	\$ 76,878,520	\$ 71,060,025	\$ 63,578,237	\$ 61,659,769	\$ 58,652,475
Contribution as a percentage of covered payroll	4.9%	2.4%	6.7%	6.7%	7.9%
	<u>2020</u>	<u>2019</u>	<u>2018</u>		
Actuarially determined contribution	\$ 3,660,000	\$ -	\$ -		
Contributions	<u>4,603,702</u>	<u>1,150,166</u>	<u>2,179,258</u>		
Contribution deficiency (excess)	<u>\$ (943,702)</u>	<u>\$ (1,150,166)</u>	<u>\$ (2,179,258)</u>		
Covered payroll					
(measurement period ended June 30)	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071		
Contribution as a percentage of covered payroll	8.5%	2.3%	4.4%		

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contribution for the year ended December 31, 2025, was derived from the January 1, 2024, actuarial valuation as follows:

Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Asset Valuation Method	Actuarial Investment gains and losses spread over 5-year rolling period
Assumptions:	
Discount Rate	6.50%
Inflation	2.30 %
Healthcare Trend Rate	Trend assumption based on the "Getzen" model developed by the Society of Actuaries. Assumed the vision cost would increase at an annual rate of 3.00% for January 1, 2024 valuations. Assumed the PEMCHA minimum contribution would grow with general medical inflation. The minimum amount is \$157 per month for calendar year 2024 and \$158 for 2025 and assumed the medical CPI increase at an annual rate of 3.75% in 2026, 3.50% in 2027 and 3.25% in 2028 and after, for January 1, 2024 valuation.

* Year 2018 was the first-year implementation of GASB Statement No. 75, therefore only eight years of information is shown.

SUPPLEMENTARY INFORMATION

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THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Net Position
December 31, 2025

	<u>General Fund</u>	<u>Admissions</u>	<u>Grants</u>	<u>Client Security</u>	<u>Elimination of Bias</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 15,961,297	\$ 10,476,920	\$ 7,754,836	\$ 11,459,018	\$ 210,915
Investments	24,804,569	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$193,195,623 in 2025	2,070,541	15,908	1,033,492	1,057,600	-
Lease receivable	382,337	-	-	-	-
Other current assets	4,092,650	-	-	-	-
Total current assets	<u>47,311,394</u>	<u>10,492,828</u>	<u>8,788,328</u>	<u>12,516,618</u>	<u>210,915</u>
Noncurrent assets					
Lease receivable	3,001,616	-	-	-	-
Capital assets					
Nondepreciable	18,380,012	-	-	-	-
Depreciable, net	40,099,121	-	-	-	-
Lease asset, net	44,502,510	-	-	-	-
Subscription asset, net	1,848,249	-	-	-	-
Total noncurrent assets	<u>107,831,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>155,142,902</u>	<u>10,492,828</u>	<u>8,788,328</u>	<u>12,516,618</u>	<u>210,915</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension items	27,843,396	-	-	-	-
Other postemployment benefits items	11,075,422	-	-	-	-
Total deferred outflows of resources	<u>38,918,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>194,061,720</u>	<u>10,492,828</u>	<u>8,788,328</u>	<u>12,516,618</u>	<u>210,915</u>
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	9,111,673	-	903,604	-	-
Compensated absences	6,586,361	744,588	-	100,107	8,159
Unearned revenues collected in advance	458,262	6,156,713	6,432,274	-	-
Loans payable	889,000	-	-	-	-
Lease liability	1,283,556	-	-	-	-
Subscription liability	847,099	-	-	-	-
Total current liabilities	<u>19,175,951</u>	<u>6,901,301</u>	<u>7,335,878</u>	<u>100,107</u>	<u>8,159</u>
Noncurrent liabilities					
Unearned fees collected in advance	-	-	297,660	-	-
Loans payable	8,989,000	-	-	-	-
Lease liability	45,986,768	-	-	-	-
Subscription liability	443,799	-	-	-	-
Compensated absences	1,628,103	185,707	-	25,027	2,040
Net OPEB liability	5,188,216	-	-	-	-
Net pension liability	93,539,289	-	-	-	-
Total noncurrent liabilities	<u>155,775,175</u>	<u>185,707</u>	<u>297,660</u>	<u>25,027</u>	<u>2,040</u>
Total liabilities	<u>174,951,126</u>	<u>7,087,008</u>	<u>7,633,538</u>	<u>125,134</u>	<u>10,199</u>
DEFERRED INFLOWS OF RESOURCES					
Lease items	14,458,020	-	-	-	-
Pension items	11,052,022	-	-	-	-
Other postemployment benefits items	7,788,416	-	-	-	-
Total deferred inflows of resources	<u>33,298,458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>208,249,584</u>	<u>7,087,008</u>	<u>7,633,538</u>	<u>125,134</u>	<u>10,199</u>
NET POSITION					
Net investment in capital assets	46,390,670	-	-	-	-
Restricted for:					
Enabling legislation	-	3,405,820	-	12,391,484	-
Other restrictions	-	-	1,154,790	-	200,716
Unrestricted	(60,578,534)	-	-	-	-
Total net position	<u>\$ (14,187,864)</u>	<u>\$ 3,405,820</u>	<u>\$ 1,154,790</u>	<u>\$ 12,391,484</u>	<u>\$ 200,716</u>

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Net Position
December 31, 2025

	<u>Equal Access</u>	<u>Greg E. Knoll Justice Gap Fund</u>	<u>Lawyers Assistance Program</u>	<u>Legislative Activities</u>	<u>Legal Services Trust</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 17,329,035	\$ 5,590,073	\$ 152,726	\$ 30,919	\$ 250,925,095
Investments	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$193,195,623 in 2025	513,187	-	-	-	16,894,787
Lease receivable	-	-	-	-	-
Other current assets	-	-	-	-	-
Total current assets	<u>17,842,222</u>	<u>5,590,073</u>	<u>152,726</u>	<u>30,919</u>	<u>267,819,882</u>
Noncurrent assets					
Lease receivable	-	-	-	-	-
Capital assets					
Nondepreciable	-	-	-	-	-
Depreciable, net	-	-	-	-	-
Lease asset, net	-	-	-	-	-
Subscription asset, net	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>17,842,222</u>	<u>5,590,073</u>	<u>152,726</u>	<u>30,919</u>	<u>267,819,882</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension items	-	-	-	-	-
Other postemployment benefits items	-	-	-	-	-
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>17,842,222</u>	<u>5,590,073</u>	<u>152,726</u>	<u>30,919</u>	<u>267,819,882</u>
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	1,244,168	-	-	-	451,598
Compensated absences	-	-	35,535	-	309,180
Unearned revenues collected in advance	14,482,045	-	-	-	-
Loans payable	-	-	-	-	-
Lease liability	-	-	-	-	-
Subscription liability	-	-	-	-	-
Total current liabilities	<u>15,726,213</u>	<u>-</u>	<u>35,535</u>	<u>-</u>	<u>760,778</u>
Noncurrent liabilities					
Unearned fees collected in advance	-	-	-	-	-
Loans payable	-	-	-	-	-
Lease liability	-	-	-	-	-
Subscription liability	-	-	-	-	-
Compensated absences	-	-	8,884	-	76,845
Net OPEB liability	-	-	-	-	-
Net pension liability	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>8,884</u>	<u>-</u>	<u>76,845</u>
Total liabilities	<u>15,726,213</u>	<u>-</u>	<u>44,419</u>	<u>-</u>	<u>837,623</u>
DEFERRED INFLOWS OF RESOURCES					
Lease items	-	-	-	-	-
Pension items	-	-	-	-	-
Other postemployment benefits items	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>15,726,213</u>	<u>-</u>	<u>44,419</u>	<u>-</u>	<u>837,623</u>
NET POSITION					
Net investment in capital assets	-	-	-	-	-
Restricted for:					
Enabling legislation	2,116,009	5,590,073	108,307	30,919	266,982,259
Other restrictions	-	-	-	-	-
Unrestricted	-	-	-	-	-
Total net position	<u>\$ 2,116,009</u>	<u>\$ 5,590,073</u>	<u>\$ 108,307</u>	<u>\$ 30,919</u>	<u>\$ 266,982,259</u>

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Net Position
December 31, 2025

	<u>Bank Settlement</u>	<u>Grand Total</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ -	\$ 319,890,834
Investments	-	24,804,569
Accounts and other receivables, net of allowance for uncollectible accounts of \$193,195,623 in 2025	-	21,585,515
Lease receivable	-	382,337
Other current assets	-	4,092,650
Total current assets	<u>-</u>	<u>370,755,905</u>
Noncurrent assets		
Lease receivable	-	3,001,616
Capital assets		
Nondepreciable	-	18,380,012
Depreciable, net	-	40,099,121
Lease asset, net	-	44,502,510
Subscription asset, net	-	1,848,249
Total noncurrent assets	<u>-</u>	<u>107,831,508</u>
Total assets	<u>-</u>	<u>478,587,413</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension items	-	27,843,396
Other postemployment benefits items	-	11,075,422
Total deferred outflows of resources	<u>-</u>	<u>38,918,818</u>
Total assets and deferred outflows of resources	<u>-</u>	<u>517,506,231</u>
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities	-	11,711,043
Compensated absences	-	7,783,930
Unearned revenues collected in advance	-	27,529,294
Loans payable	-	889,000
Lease liability	-	1,283,556
Subscription liability	-	847,099
Total current liabilities	<u>-</u>	<u>50,043,922</u>
Noncurrent liabilities		
Unearned fees collected in advance	-	297,660
Loans payable	-	8,989,000
Lease liability	-	45,986,768
Subscription liability	-	443,799
Compensated absences	-	1,926,606
Net OPEB liability	-	5,188,216
Net pension liability	-	93,539,289
Total noncurrent liabilities	<u>-</u>	<u>156,371,338</u>
Total liabilities	<u>-</u>	<u>206,415,260</u>
DEFERRED INFLOWS OF RESOURCES		
Lease items	-	14,458,020
Pension items	-	11,052,022
Other postemployment benefits items	-	7,788,416
Total deferred inflows of resources	<u>-</u>	<u>33,298,458</u>
Total liabilities and deferred inflows of resources	<u>-</u>	<u>239,713,718</u>
NET POSITION		
Net investment in capital assets	-	46,390,670
Restricted for:		
Enabling legislation	-	290,624,871
Other restrictions	-	1,355,506
Unrestricted	-	(60,578,534)
Total net position	<u>\$ -</u>	<u>\$ 277,792,513</u>

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2025

	<u>General Fund</u>	<u>Admissions</u>	<u>Grants</u>	<u>Client Security</u>	<u>Elimination of Bias</u>
OPERATING REVENUES					
Licensee fees and donations	\$ 106,003,781	\$ 895,766	\$ -	\$ 8,392,088	\$ 302,652
Examination application fees	-	22,185,324	-	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	4,300	-	-	-	-
Legal specialization fees	2,068,280	197,093	-	-	-
Law corporation registration fees	2,797,365	-	-	-	-
Continuing legal education fees	5,068,906	-	-	-	-
Grant revenue	-	-	29,974,409	-	-
EAF AB145 filing fee revenue	-	-	-	-	-
Other revenue	5,108,191	4,286,637	-	1,334,234	-
Total operating revenues	<u>121,050,823</u>	<u>27,564,820</u>	<u>29,974,409</u>	<u>9,726,322</u>	<u>302,652</u>
OPERATING EXPENSES					
Chief Trial Counsel	83,057,141	-	-	-	-
State Bar Court	16,084,985	-	-	-	-
Professional Competence	4,390,302	-	-	-	-
Probation	2,329,761	-	-	-	-
Mandatory Fee Arbitration	1,091,966	-	-	-	-
Judicial Evaluation	1,024,822	-	-	-	-
Communications	2,689,831	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-
Client Security Fund	-	-	-	7,092,306	-
Public Trust Liaison	3,327,959	-	-	-	-
Regulation	8,354,347	-	-	-	-
Admissions	-	30,190,530	-	-	-
Grants	-	-	27,755,501	-	-
General and administration	376,100	1,112,580	2,691,286	-	135,776
Total operating expenses	<u>122,727,214</u>	<u>31,303,110</u>	<u>30,446,787</u>	<u>7,092,306</u>	<u>135,776</u>
OPERATING INCOME (LOSS)	<u>(1,676,391)</u>	<u>(3,738,290)</u>	<u>(472,378)</u>	<u>2,634,016</u>	<u>166,876</u>
NONOPERATING REVENUES AND EXPENSES					
Interest and investment income	3,096,782	526,092	334,165	546,272	7,845
Rental income	453,040	-	-	-	-
Interest expenses on loans, leases and subscriptions	(3,725,874)	-	-	-	-
Gain on dispositions of capital assets	817,054	-	-	-	-
Total nonoperating revenues and expenses	<u>641,002</u>	<u>526,092</u>	<u>334,165</u>	<u>546,272</u>	<u>7,845</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(1,035,389)</u>	<u>(3,212,198)</u>	<u>(138,213)</u>	<u>3,180,288</u>	<u>174,721</u>
Transfer in	2,071,284	438,000	-	5,680	-
Transfer out	(511,680)	(2,204)	-	(2,002,204)	-
CHANGE IN NET POSITION	<u>524,215</u>	<u>(2,776,402)</u>	<u>(138,213)</u>	<u>1,183,764</u>	<u>174,721</u>
NET POSITION—beginning of year	<u>(14,712,079)</u>	<u>6,182,222</u>	<u>1,293,003</u>	<u>11,207,720</u>	<u>25,995</u>
NET POSITION—end of year	<u>\$ (14,187,864)</u>	<u>\$ 3,405,820</u>	<u>\$ 1,154,790</u>	<u>\$ 12,391,484</u>	<u>\$ 200,716</u>

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2025

	Equal Access	Greg E. Knoll Justice Gap Fund	Lawyers Assistance Program	Legislative Activities	Legal Services Trust
OPERATING REVENUES					
Licensee fees and donations	\$ -	\$ 5,444,646	\$ 2,188,091	\$ 30,429	\$ 6,303,105
Examination application fees	-	-	-	-	-
Trust account revenue	-	-	-	-	187,114,357
Seminar/workshop revenue	-	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	-	-	-	-	-
Continuing legal education fees	-	-	-	-	-
Grant revenue	44,828,722	-	-	-	-
EAF AB145 filing fee revenue	500,000	-	-	-	-
Other revenue	-	-	-	-	7,000
Total operating revenues	45,328,722	5,444,646	2,188,091	30,429	193,424,462
OPERATING EXPENSES					
Chief Trial Counsel	-	-	-	-	-
State Bar Court	-	-	-	-	-
Professional Competence	-	-	-	-	-
Probation	-	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-	-
Judicial Evaluation	-	-	-	-	-
Communications	-	-	-	-	-
Lawyer Assistance Program	-	-	2,340,215	-	-
Client Security Fund	-	-	-	-	-
Public Trust Liaison	-	-	-	-	-
Regulation	-	-	-	-	-
Admissions	-	-	-	-	-
Grants	44,548,482	-	-	-	253,436,694
General and administration	1,338,931	5,971	-	15,898	4,826,869
Total operating expenses	45,887,413	5,971	2,340,215	15,898	258,263,563
OPERATING INCOME (LOSS)	(558,691)	5,438,675	(152,124)	14,531	(64,839,101)
NONOPERATING REVENUES AND EXPENSES					
Interest and investment income	851,219	183,511	35,297	1,941	10,185,924
Rental income	-	-	-	-	-
Interest expenses on loans, leases and subscriptions	-	-	-	-	-
Gain on dispositions of capital assets	-	-	-	-	-
Total nonoperating revenues and expenses	851,219	183,511	35,297	1,941	10,185,924
INCOME (LOSS) BEFORE TRANSFERS	292,528	5,622,186	(116,827)	16,472	(54,653,177)
Transfer in	-	-	1,440	-	2,935,000
Transfer out	-	(2,935,000)	-	-	(316)
CHANGE IN NET POSITION	292,528	2,687,186	(115,387)	16,472	(51,718,493)
NET POSITION—beginning of year	1,823,481	2,902,887	223,694	14,447	318,700,752
NET POSITION—end of year	\$ 2,116,009	\$ 5,590,073	\$ 108,307	\$ 30,919	\$ 266,982,259

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2025

	<u>Bank Settlement</u>	<u>Interfunds Eliminations</u>	<u>Grand Total</u>
OPERATING REVENUES			
Licensee fees and donations	\$ -	\$ -	\$ 129,560,558
Examination application fees	-	-	22,185,324
Trust account revenue	-	-	187,114,357
Seminar/workshop revenue	-	-	4,300
Legal specialization fees	-	-	2,265,373
Law corporation registration fees	-	-	2,797,365
Continuing legal education fees	-	-	5,068,906
Grant revenue	-	-	74,803,131
EAF AB145 filing fee revenue	-	-	500,000
Other revenue	-	-	10,736,062
	<hr/>	<hr/>	<hr/>
Total operating revenues	-	-	435,035,376
OPERATING EXPENSES			
Chief Trial Counsel	-	-	83,057,141
State Bar Court	-	-	16,084,985
Professional Competence	-	-	4,390,302
Probation	-	-	2,329,761
Mandatory Fee Arbitration	-	-	1,091,966
Judicial Evaluation	-	-	1,024,822
Communications	-	-	2,689,831
Lawyer Assistance Program	-	-	2,340,215
Client Security Fund	-	-	7,092,306
Public Trust Liaison	-	-	3,327,959
Regulation	-	-	8,354,347
Admissions	-	-	30,190,530
Grants	2,124,243	-	327,864,920
General and administration	573,696	-	11,077,107
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,697,939	-	500,916,192
OPERATING INCOME (LOSS)	(2,697,939)	-	(65,880,816)
NONOPERATING REVENUES AND EXPENSES			
Interest and investment income	23,673	-	15,792,721
Rental income	-	-	453,040
Interest expenses on loans, leases and subscriptions	-	-	(3,725,874)
Gain on dispositions of capital assets	-	-	817,054
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues and expenses	23,673	-	13,336,941
INCOME (LOSS) BEFORE TRANSFERS	(2,674,266)	-	(52,543,875)
Transfer in	-	(5,451,404)	-
Transfer out	-	5,451,404	-
CHANGE IN NET POSITION	(2,674,266)	-	(52,543,875)
NET POSITION—beginning of year	2,674,266	-	330,336,388
NET POSITION—end of year	\$ -	\$ -	\$ 277,792,513



The State Bar of California

Statement of Expenditures of Mandatory Fees and Independent Accountant's Report Year Ended December 31, 2025

May 20, 2026

Independent Accountant's Report

To the Board of Trustees
State Bar of California

We have examined the State Bar of California's (State Bar) compliance with the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar of California cannot use mandatory fees paid by its licensees for political or ideological activities not related to regulation of the legal profession or improvement of quality of legal services in California, for the year ended December 31, 2025. The expenditures of mandatory fees for the year ended December 31, 2025 are included in the accompanying Statement of Expenditures of Mandatory Fees (Statement) and related notes. Management of the State Bar is responsible for the State Bar's compliance with the specified requirements. Our responsibility is to obtain reasonable assurance by evaluating the State Bar's compliance against the specified requirements and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation based on our examination.

Our examination was conducted in accordance with attestation standards for a direct examination engagement established by the American Institute of Certified Public Accountants. Those standards require that we obtain reasonable assurance by evaluating the State Bar's compliance against the specified criteria and performing other procedures to obtain sufficient appropriate evidence to express an opinion that conveys the results of our evaluation of the State Bar's compliance during the year ended December 31, 2025. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the State Bar, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our examination engagement.

Our examination does not provide a legal determination on the State Bar's compliance with specified requirements.

In our opinion, the State Bar complied with the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar of California cannot use mandatory fees paid by its licensees for political or ideological activities not related to regulation of the legal profession or improvement of quality of legal services in California, for the year ended December 31, 2025, in all material respects.



Walnut Creek, California
May 20, 2026

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees
Year Ended December 31, 2025

	Dollar Amount	Percentage of Total Program Expenses
CHARGEABLE EXPENSES AND RELATED		
PROGRAM REVENUES:		
Chief Trial Counsel	\$ 83,057,141	69.1%
State Bar Court	16,084,985	13.4%
Client Security Fund	7,092,306	5.9%
Regulation	8,354,347	6.9%
Professional Competence	4,390,302	3.7%
Lawyer Assistance Program	2,340,215	1.9%
Probation	2,329,761	1.9%
Communications	2,689,831	2.2%
Judicial Evaluation	1,024,822	0.9%
Mandatory Fee Arbitration	1,091,966	0.9%
Public Trust Liaison	3,327,959	2.8%
Program Revenues	<u>(11,515,977)</u>	<u>-9.6%</u>
Total chargeable program expenses	<u><u>\$ 120,267,658</u></u>	<u><u>100.0%</u></u>

See accompanying notes to the statement of expenditures of mandatory fees.

THE STATE BAR OF CALIFORNIA
Notes to Statement of Expenditures of Mandatory Fees
Year Ended December 31, 2025

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Entity – The State Bar of California (“State Bar”) was first formed as a public corporation by the California State Legislature’s passage of the State Bar Act on July 29, 1927. On November 8, 1960, voters amended the California Constitution to add the State Bar as a constitutional agency in the judicial branch of government. A license from the State Bar and payment of annual fees are required as a condition of the practice of law in the State of California.

Basis of Accounting – To ensure observance of limitations and restrictions placed on the use of resources available to the State Bar, the accounts of the State Bar are maintained in accordance with the accrual basis of accounting using principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Accounting principles generally accepted in the United States of America are applied by the State Bar in conformance with pronouncements of the Governmental Accounting Standards Board. Amounts in the Statement of Expenditures of Mandatory Fees (“Statement”) were derived from the State Bar’s audited 2025 financial statements.

Use of Estimates – The preparation of the Statement requires management to make estimates and assumptions related to the amounts of chargeable expenses during year. Actual results could differ from those estimates.

2. BASIS OF PRESENTATION

The accompanying Statement was prepared for the purpose of showing the allocation of certain expenses into chargeable and non-chargeable categories. Although derived from the State Bar’s audited 2025 financial statements, the Statement is not a substitute for the financial statements, nor is it intended to be a complete presentation of the State Bar’s revenues and expenses in conformity with accounting principles generally accepted in the United States of America. Amounts reported in the Statement can be agreed to amounts reported in the State Bar’s financial statements.

The State Bar Act sets the amount of the annual fees that the State Bar may charge lawyers for the license to practice law in California. The amount of the annual fee, however, is subject to certain adjustments. The United States Supreme Court in *Keller v. State Bar of California*, 496 U.S. 1 (1990) (“*Keller*”) held that the State Bar could not require California lawyers to pay, as mandatory fees, the expense of the State Bar’s political or ideological activity that was not necessarily or reasonably related to the State Bar’s purpose of regulating the legal profession or improving the quality of legal services. The Statement provides a basis of determination for the mandatory fees that each licensee must pay in order to practice law in California. It describes and separates programs and activities that are “chargeable” and “non-chargeable” to licensees under the *Keller* standard. In calculating the chargeable and non-chargeable expenses, absolute precision is not expected nor required pursuant to *Keller*, at 16, citing to procedural requirements outlined in *Chicago Teachers v. Hudson*, 475 U.S. 292, 310 (1986). Expenses included in the Statement are derived from expenses included in the General Fund (except for program costs funded by filing fees or other fees), Client Security Fund, and the Lawyers Assistance Program Fund of the State Bar.

THE STATE BAR OF CALIFORNIA
Notes to Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2025

2. BASIS OF PRESENTATION (Continued)

Since January 1, 2000, amendments to the State Bar Act have provided each licensee with the option of deducting \$5 from the annual licensing fee for lobbying and related activities outside of the parameters established in *Keller* (Cal. Bus. & Prof. Code §6140.05). In 2023, the legislature changed this from an optional deduction to an optional addition. In addition, in 2001, the Board of Trustees provided licensees the option of an additional \$2 deduction from annual fees for the Elimination of Bias program. Although some or all of these programs and activities may be chargeable under the criteria in *Keller*, the Board of Trustees has elected to make them optional in their entirety.

Since January 1, 2000, the amount of expenses that the State Bar may incur for legislative activity outside of the parameters of *Keller* was restricted by statute to the total revenue collected from those licensees electing to pay the \$5 under Cal. Bus. & Prof. Code §6140.05. Instead of categorizing its programs as within or outside of *Keller*, the State Bar has elected to restrict the expenses of all of its legislative activity to voluntary funds. Similarly, the State Bar has a \$2 deduction for activities under the Elimination of Bias program and limited its funding to voluntary fees paid by licensees not taking this deduction. Licensees who do not wish to support either the State Bar's Legislative Activities or its Elimination of Bias program may exclude these amounts from their annual fees. As a result, no part of the mandatory annual fees that a lawyer must pay as a condition of practicing law are used to fund non-chargeable expenses. Therefore, for purposes of the Statement, there are no non-chargeable expenses for mandatory licensing fees for the year ended December 31, 2025.

3. DESCRIPTION OF CHARGEABLE PROGRAMS

The following is a listing of the major expenses that the State Bar has categorized as chargeable, including a description of the programs or activities performed by category. The classification of a program expense as chargeable was based on the standards in *Keller* that have been applied to determine whether an expense was necessarily or reasonably incurred for the purpose of regulating the legal profession or improving the quality of legal services available to the people of the State of California. Non-chargeable expenses, as stated above, were funded by voluntary fees paid at the option of licensees. Determining which State Bar programs and activities are chargeable and non-chargeable requires that judgments be made by the State Bar.

a. *Chief Trial Counsel*

The Office of the Chief Trial Counsel receives, reviews, and analyzes incoming communications which relate to disciplinary inquiries and complaints against attorneys. It investigates allegations of unethical and unprofessional conduct against attorneys who may have violated provisions of the State Bar Act, Rules of Professional Conduct, or other standards of professional conduct. It prosecutes attorneys in formal disciplinary hearings in the State Bar Court for violations of the State Bar Act or Rules of Professional Conduct. Activities include, as appropriate, the preparation of formal disciplinary pleadings, conduct of formal and informal discovery, and representation of the State Bar as Trial Examiners in the actual hearings and subsequent review proceedings. (Bus. & Prof. Code §6043, 6044, 6049, 6077, 6078, 6092.5 et seq.)

THE STATE BAR OF CALIFORNIA
Notes to Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2025

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

b. *State Bar Court*

The State Bar Court adjudicates formal disciplinary matters resulting in the final imposition of discipline or, in certain instances involving suspension or disbarment, the recommendation of discipline to the California Supreme Court. (Bus. & Prof. Code §6086.5, 6086.65; Cal. Rules of Court, rules 9.13, 9.16, 9.18)

c. *Client Security Fund*

The Client Security Fund receives, evaluates, and processes applications made by persons who have suffered monetary losses due to dishonest conduct of lawyers, and authorizes recovery to eligible clients out of funds collected for this purpose. (Bus. & Prof. Code §6140.5.)

d. *Regulation*

On behalf of the California Supreme Court, the Regulation Division maintains the official roll of attorneys, manages the registration of law corporations and limited partnerships, is responsible for ensuring the compliance of all licensees with various administrative requirements, and is charged with implementing the State Bar's Client Trust Account Protection Program (CTAPP).

e. *Professional Competence*

The Office of Professional Competence maintains and improves the standards of the legal profession to enhance attorney competence through: (1) promulgating and strengthening professional standards to protect the public; (2) assisting licensees to comply voluntarily with such standards (e.g., Ethics Hotline, California Compendium on Professional Responsibility, Lawyers Personal Assistance Program); and (3) planning and development of programs to enhance attorney competence. (Bus. & Prof. Code §6076, 6077.)

f. *Lawyer Assistance Program*

The Lawyer Assistance Program provides an alternative to the traditional State Bar disciplinary mechanism, with the goal of identifying and rehabilitating attorneys with impairment due to abuse of drugs or alcohol, or due to mental illness. The Office of the Lawyer Assistance Program adopts reasonable rules and regulations as may be necessary or advisable for the purpose of implementing and operating the Lawyer Assistance program. (Bus. & Prof. Code §6231.)

g. *Probation*

The Office of Probation ("OP") monitors disciplined attorneys who have been ordered to comply with probation or reproof conditions pursuant to orders issued by the California Supreme Court and/or the State Bar Court. The OP also monitors cases where conditions have been imposed pursuant to Business and Professions Code, section 6007(h). Once these orders or agreements become effective, the OP establishes its own case files to maintain a record of compliance or non-compliance for each attorney.

THE STATE BAR OF CALIFORNIA
Notes to Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2025

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

OP staff monitor participating attorneys' compliance. The monitoring requires OP staff to contact the attorney being monitored and third parties such as former clients, service providers, and other departments of the State Bar. OP staff provides timely information to the attorney, Office of Chief Trial Counsel, and State Bar Court regarding non-compliance and are available to testify regarding such under oath in court.

h. *Communications*

The State Bar's Office of Communications and Stakeholder Engagement is responsible for ensuring that the general public and the legal community are informed about the State Bar's public protection role and know how to access the Bar's services and resources. The Office is tasked with conveying critical information to Californians about how to protect themselves from attorney misconduct and what to do if that happens, including by filing complaints against attorneys or seeking compensation for harm through the Client Security Fund. A major emphasis is on activities that reach the public in California to ensure they know how to access the resources of the State Bar's attorney discipline system, as well as to help attorneys understand their ethical obligations.

The Office of Communications and Stakeholder Engagement provides important updates for attorneys licensed in California regarding rules and ethics guiding the profession, as well as ongoing education to improve competence. This office provides information about how to find a lawyer and information about access to legal services for low-income Californians.

i. *Judicial Evaluation*

The Commission on Judicial Nominees Evaluation, established pursuant to Government Code section 12011.5, is the State Bar agency which evaluates all candidates who are under consideration for a judicial appointment by the Governor. The mission of the Commission is to assist the Governor in the judicial selection process and thereby to promote a California judiciary of quality and integrity by providing independent, comprehensive, accurate, and fair evaluations of candidates for judicial appointment and nomination.

As stated in *Hoffman v. State Bar of California* (2003) 113 Cal.App.4th 630, 635 (2003), the State Bar has the "constitutional responsibility, along with the Chief Justice of the Supreme Court and the houses of the Legislature, to appoint a specified number of licensees to the Judicial Council. (Cal. Const., art. VI, § 6.) Through the appropriate committee, the association is also required by statute to evaluate potential appointees for judicial office and report its recommendation to the Governor. (Gov. Code, § 12011.5, subds.(a), (c).) No candidate may be appointed until the State Bar has so reported, or the time for reporting has elapsed. (Id. at subd. (k).)" Having a strong judiciary evaluation system promotes public protection by helping ensure a fair legal system.

THE STATE BAR OF CALIFORNIA
Notes to Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2025

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

j. *Mandatory Fee Arbitration*

The Fee Arbitration Program (Business and Prof. Code § 6200 et seq.) provides for resolution of fee disputes between attorneys and clients. It is mandatory for the lawyer if the client requests arbitration. Most complaints come to the program independently of the Office of Trial Counsel's Intake Unit, and the availability of this service almost certainly prevents the filing of additional disciplinary complaints. Maintaining a program that decreases the number of additional complaints assists the disciplinary system in processing those cases that cannot otherwise be handled. Although it may be argued that the arbitration program is not necessarily an indispensable part of an attorney disciplinary process, the California Supreme Court has held it is a valuable and justifiable component of a comprehensive disciplinary system. (*In re Attorney Discipline System*, 19 Cal. 4th 582, 622 (199).)

k. *Public Trust Liaison*

The Public Trust Liaison (PTL) receives inquires and responds to the questions and concerns brought by members of the public that remain unresolved through other channels. The PTL also manages the Contact Center. The PTL has an independent dotted-line relationship to the Board's Audit Committee.

- l. *General Fund Allocated Support Service* – General and administrative expenses are incurred to provide staff and operational support to all programs and activities of the State Bar including, but not limited to: human resources; finance; licensee billing; information technology; procurement; building maintenance; general services; legal counsel; the formulation, implementation, and administration of policies through the Board of Trustees and the Office of the Executive Director. The “Indirect Costs/Overhead Allocation” is the share of the administrative costs that are charged to the restricted fund programs for the support provided, using the methodology of the State of California for apportioning and recouping administrative support cost provided by the State's general fund to its special fund programs.

THE STATE BAR OF CALIFORNIA
Notes to Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2025

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

The 2025 State Bar indirect cost allocation to chargeable programs is summarized below:

General Counsel	\$ 6,927,000
Finance	3,868,000
Member Billing	702,000
Human Resources	3,634,000
General Services - Los Angeles	5,388,000
General Services - San Francisco	8,420,000
Information Technology	16,948,000
Governance	4,382,000
OPEB	<u>2,783,000</u>
Indirect Cost Pool	53,052,000
Less: Overhead Allocation Charged to Other Programs	<u>(10,990,000)</u>
Overhead Allocation to Chargeable Programs	<u><u>\$ 42,062,000</u></u>

The amount of the Overhead Allocation to Chargeable Programs is included in the various Chargeable Program expenses on the Statement of Expenditures of Mandatory Fees.

- m. *Program Revenues* – Program revenues related to chargeable expenses from the General Fund, Building Fund, Client Security Fund, Lawyers Assistance Fund, and the Support and Administration Fund of the State Bar are held to fund the related program expenses. Other revenues include charges by the State Bar to the California Lawyers Association (CLA) for administrative and support services in the annual collection of member dues. Program revenues for 2025 are comprised of:

Law Corporation Registration Fees	\$ 2,797,365
Continuing Legal Education Fees	5,068,906
Seminar/Workshop Revenue	4,300
Legal Specialization Fees	2,068,280
Other	<u>1,577,126</u>
Total	<u><u>\$ 11,515,977</u></u>

THE STATE BAR OF CALIFORNIA
Notes to Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2025

4. OPTIONAL DEDUCTIONS

The State Bar sets an amount that attorneys are not required to pay and may deduct from the annual licensing fees. These deductions were \$47 for active and inactive attorneys. This amount included \$2 for elimination of bias and \$45 set by the court for the Legal Services Voluntary Assistance Option for both active and inactive attorneys.

These deductions are allowed for the following activities:

a. *Elimination of Bias*

Attorneys who do not want to fund programs that address concerns of access and bias in the legal profession and the justice system may deduct \$2. (*Keller v. State Bar of California* (1990) 496 U.S. 1.)

b. *Legal Services Voluntary Assistance Option*

Attorneys who do not want to support nonprofit organizations that provide free legal services to persons of limited means may deduct \$45. (Bus. & Prof. Code §6140.03.)

5. OPTIONAL ADDITION

The State Bar sets an amount that attorneys are not required to pay and may add to the annual licensing fees. This donation for lobbying was \$5 for active and inactive attorneys.

The donation is allowed for the following activity:

a. *Lobbying*

Attorneys who want to fund lobbying and other legislative activity may add \$5. (Bus. & Prof. Code §6140.05.)