



# The State Bar *of California*

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**Title of Report:** 2021 Financial Statement and Independent Auditor's Report  
**Statutory Citation:** Business and Professions Code section 6145  
**Date of Report:** April 29, 2022

The State Bar of California is submitting its 2021 Financial Statement and Independent Auditor's Report to the Chief Justice of the California Supreme Court, and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145. This financial statement is certified under oath by the Chief Financial Officer of the State Bar.

This report consists of an independent auditor's report, management's discussion and analysis, the basic financial statements, the notes to the basic financial statements, and the required supplementary information. The basic financial statements provide information and understanding of the State Bar's Enterprise Fund.

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

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

The full report is available at: <http://www.calbar.ca.gov/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

## **2021 Financial Statements and Independent Auditor's Report**

**Years Ended December 31, 2021 and 2020 and Supplementary  
Information Year Ended December 31, 2021**

**April 29, 2022**

**THE STATE BAR OF CALIFORNIA**  
Financial Statements  
Year Ended December 31, 2021

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## Independent Auditor's Report

To the Board of Trustees  
The State Bar of California

We have audited the accompanying financial statements of the State Bar of California ("State Bar") as of and for the years ended December 31, 2021 and 2020, 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.

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

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

### *Auditor's Responsibility*

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the State Bar as of December 31, 2021 and 2020, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other 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 program funds schedule of net position and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The program funds schedule of net position and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.



San Francisco, California  
April 29, 2022

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
Years Ended December 31, 2021 and 2020

## 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 2020 and 2019 amounts have been reclassified to conform to the 2021 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. The State Bar's programs are financed primarily by fees paid by attorneys and applicants to practice law. At the end of 2021, the State Bar had approximately 282,400 licensees, an increase of 2.2% compared to 276,300 licensees in 2020.

Licensing fees for 2021 and 2020 were allocated to the following funds:

	2021		2020	
	<u>Active Fee</u>	<u>Inactive Fee</u>	<u>Active Fee</u>	<u>Inactive Fee</u>
General Fund - Attorney Licensing	\$ 388	\$ 90	\$ 398	\$ 91
General Fund - Discipline Activity	25	25	25	25
Legal Services Trust Fund	45	45	40	40
Legislative Activity Fund	5	5	5	5
Elimination of Bias Fund	2	2	2	2
Client Security Fund	40	10	80	20
Lawyers Assistance Program Fund	10	5	1	-
Total	<u>\$ 515</u>	<u>\$ 182</u>	<u>\$ 551</u>	<u>\$ 183</u>

The State Bar's 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 2021 statutorily approved annual fee decreased to \$388 from \$398 in 2020.

## Financial Statement 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 Statement of Net Position – presents the financial position of the State Bar at the end of the fiscal year. The statement reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
Years Ended December 31, 2021 and 2020

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

The Statement of Cash Flows – reflects 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 – provides integral information needed to explain the basis for the financial statement presentation and numbers used with 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, 2021, 2020, and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash, cash equivalents, and investments	\$ 144,069,219	\$ 117,634,753	\$ 147,292,106
Restricted cash, cash equivalents, and investments	15,172,463	2,501,761	7,105,000
Other assets	5,839,090	6,765,605	19,587,034
Capital assets, net	102,290,824	106,060,821	107,594,614
Deferred outflows of resources	12,163,713	14,705,033	9,507,406
Total assets and deferred outflows of resources	<u>279,535,309</u>	<u>247,667,973</u>	<u>291,086,160</u>
Current liabilities	66,523,791	41,491,016	49,479,126
Noncurrent liabilities	35,054,209	21,709,494	22,208,269
Net OPEB liability	7,617,010	11,616,834	-
Net pension liability	21,343,799	77,697,797	67,154,845
Deferred inflows of resources	42,930,022	2,676,079	7,703,641
Total liabilities and deferred inflows of resources	<u>173,468,831</u>	<u>155,191,220</u>	<u>146,545,881</u>
Net position			
Net investments in capital assets	83,735,714	85,958,927	85,292,229
Restricted for:			
Enabling legislation	66,032,612	60,962,604	95,756,919
Other restrictions	593,340	3,083,970	7,551,299
Unrestricted	<u>(44,295,188)</u>	<u>(57,528,748)</u>	<u>(44,060,168)</u>
Total net position	<u>\$ 106,066,478</u>	<u>\$ 92,476,753</u>	<u>\$ 144,540,279</u>

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
Years Ended December 31, 2021 and 2020

**Fiscal Year 2021 Compared to Fiscal Year 2020**

***Assets and Deferred Outflows of Resources*** – As of December 31, 2021, the State Bar's total assets and deferred outflows of resources were \$279.5 million, up by \$31.8 million or 12.9% compared to \$247.7 million last year. The increase is primarily due to a \$38.3 million increase in cash and cash equivalents associated with the unearned revenues and grants received in advance and lower operating expenses in 2021. Other changes include an increase of \$12.7 million in Restricted cash and investments due to the new loan proceeds received in 2021 which are restricted for specific capital projects; offset by a decrease of \$11.9 million in unrestricted investments, a decrease of \$2.5 million in deferred outflows of resources from pension and other postemployment benefits (OPEB) items, a decrease of \$0.5 million in accounts and other receivables, a decrease of \$0.4 million in other current assets and a decrease of \$3.8 million in capital assets.

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 68 (GASB 68) and other postemployment benefits reporting under GASB Statement 75 (GASB 75). As of December 31, 2021, the deferred outflows of resources were \$12.2 million, decreased by \$2.5 million compared to \$14.7 million last year. See accompanying notes 8 and 9 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 revenues collected in advance, grants payable, loans payable, net OPEB liability, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 and GASB 75 items. As of December 31, 2021, State Bar's total liabilities and deferred inflows of resources were \$173.5 million, increased by \$18.3 million or 11.8% compared to \$155.2 million last year. The increase is primarily due to a \$40.3 million increase in deferred inflows of resources from pension and OPEB items, a \$22.0 million increase in unearned revenues collected in advance, a \$13.6 million increase in loans payables, a \$2.3 million increase in accounts payable and other liabilities, and \$0.5 million increase in noncurrent portion of compensated absences; partially offset by a \$56.4 million decrease in net pension liability and \$4.0 million in net OPEB liability.

The State Bar's total pension liability as of December 31, 2021 was \$439.9 million and the plan fiduciary net position was \$418.6 million resulting in a net pension liability of \$21.3 million, or 4.9% of the total pension liability. Compared to the \$77.7 million net pension liability in 2020, the 2021 net pension liability decreased by \$56.4 million or 72.5%.

Deferred inflows of resources as of December 31, 2021 were \$42.9 million, representing an increase of \$40.2 million compared to \$2.7 million last year. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension under GASB 68 and other postemployment benefits under GASB 75. See accompanying notes 8 and 9 to the financial statements for additional information.



**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
Years Ended December 31, 2021 and 2020

**Net Position** – The State Bar's total net position as of December 31, 2021 is \$106.1 million, up by \$13.6 million or 14.7% compared to \$92.5 million in 2020. The increase represented the excess of revenues over expenses from various programs. The components of net position are:

**Restricted Net Position** – The part of net position that is subject to internal constraints and external constraints imposed by grantors, law through constitutional provisions or enabling legislation increased by \$2.6 million or 4.0% from \$64.0 million in 2020 to \$66.6 million in 2021. The increase is primary due to a \$5.1 million increase in enabling legislation and offset by a \$2.5 million decrease in other restrictions.

**Net Investments in Capital Assets** – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets decreased by \$2.2 million or 2.6% from \$86.0 million in 2020 to \$83.7 million in 2021. The net decrease is primarily due to loan repayments and depreciation of capital assets.

**Unrestricted Net Position** – The part of net position that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2021, the unrestricted net position was negative \$44.3 million, an increase of \$13.2 million or 23.0% compared to \$57.5 million negative unrestricted net position in 2020. The change is substantially due to the unallocated pension gain and the decrease in OPEB expenses.

**Fiscal Year 2020 Compared to Fiscal Year 2019**

**Assets and Deferred Outflows of Resources** – As of December 31, 2020, the State Bar's total assets and deferred outflows of resources were \$247.7 million, down by \$43.4 million or 14.9% compared to \$291.1 million last year. The decrease is primarily due to a \$29.7 million decrease in investments, which resulted from decreases in trust fund revenues and the planned spend down of investments. Other changes include a \$1.5 million decrease in the capital assets, a \$12.8 million decrease in other assets due to benefit changes which led to a change in OPEB to a liability balance in 2020 compared to an asset balance in 2019; offset by \$5.2 million increase in deferred outflows of resources from pension and other postemployment benefits items.

The State Bar records deferred outflows of resources in its financial statements for consumption of net pension assets that is applicable to future reporting periods. This balance consisted of actuarially determined deferred outflows of resources as it relates to both pension reporting under Governmental Accounting Standards Board (GASB) Statement 68 (GASB 68) and other postemployment benefits reporting under GASB Statement 75 (GASB 75). As of December 31, 2020, the deferred outflows of resources were \$14.7 million, increased by \$5.2 million compared to \$9.5 million last year. See accompanying notes 8 and 9 to the financial statements for additional information.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
Years Ended December 31, 2021 and 2020

***Liabilities and Deferred Inflows of Resources*** – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned revenues collected in advance, grants payable, loans payable, net OPEB liability, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 and GASB 75 items. As of December 31, 2020, State Bar's total liabilities and deferred inflows of resources were \$155.2 million, increased by \$8.7 million or 5.9% compared to \$146.5 million last year. The increase is due primarily to a \$11.6 million increase in net OPEB liability and a \$10.5 million increase in net pension liability; partially offset by a \$5.0 million decrease in deferred inflows of resources from GASB 68 and GASB 75 items. In current liabilities, the change of \$7.9 million is primarily due to a \$5.9 million decrease in unearned revenues collected in advance and a \$1.4 million decrease in account payable and other liabilities.

The State Bar's total pension liability as of December 31, 2020 was \$424.8 million and the plan fiduciary net position was \$347.1 million resulting in a net pension liability of \$77.7 million, or 18.3% of the total pension liability. Compared to the \$67.2 million net pension liability in 2019, the 2020 net pension liability increased by \$10.5 million or 15.7%.

Deferred inflows of resources as of December 31, 2020 are \$2.7 million, representing an decrease of \$5.0 million compared to \$7.7 million last year. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension under GASB 68 and other postemployment benefits under GASB 75. See accompanying notes 8 and 9 to the financial statements for additional information.

***Net Position*** – The State Bar's total net position as of December 31, 2020 is \$92.5 million, down by \$52.0 million or 36.0% compared to \$144.5 million in 2019. The decrease represents the excess of expenses over revenues from various programs. The components of net position are:

***Restricted Net Position*** – The part of net position that is subject to internal constraints and external constraints imposed by grantors, or law through constitutional provisions or enabling legislation decreased by \$39.3 million or 38.0% from \$103.3 million in 2019 to \$64.0 million in 2020. The decrease is due largely to a \$34.8 million decrease in enabling legislation and a \$4.5 million decrease in other restrictions.

***Net Investments in Capital Assets*** – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets increased by \$0.7 million or 0.8% from \$85.3 million in 2019 to \$86.0 million in 2020. The net increase is primarily due to capitalization of new software and tenant and leasehold improvements, and loan repayments and partially offset by normal depreciation of capital assets.

***Unrestricted Net Position*** – The part of net position that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2020, the unrestricted net position was negative \$57.5 million, a decrease of \$13.5 million or 30.6% compared to \$44.1 million negative unrestricted net position in 2019. The change is substantially due to the fiscal impact of the benefit change for OPEB of \$23.8 million.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
Years Ended December 31, 2021 and 2020

**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, 2021, 2020, and 2019:

	2021	2020	2019
OPERATING REVENUES			
Program revenues	\$ 184,414,210	\$ 181,058,075	\$ 197,994,963
Other revenue	1,494,224	2,927,488	5,200,331
Unallocated Pension gain	15,379,467	-	-
Total operating revenues	<u>201,287,901</u>	<u>183,985,563</u>	<u>203,195,294</u>
OPERATING EXPENSES			
Program expenses	177,610,508	217,230,472	187,165,226
Unallocated Pension expense	-	3,338,775	8,956,392
General and administration	12,530,864	21,452,203	3,175,817
Total operating expenses	<u>190,141,372</u>	<u>242,021,450</u>	<u>199,297,435</u>
OPERATING INCOME (LOSS)	11,146,529	(58,035,887)	3,897,859
NONOPERATING REVENUES	2,443,196	5,972,361	6,891,043
CHANGE IN NET POSITION	13,589,725	(52,063,526)	10,788,902
NET POSITION—beginning of year	92,476,753	144,540,279	133,751,377
NET POSITION—end of year	<u>\$ 106,066,478</u>	<u>\$ 92,476,753</u>	<u>\$ 144,540,279</u>

**Fiscal Year 2021 Compared to Fiscal Year 2020**

**Operating and NonOperating Revenues** – For the year ended December 31, 2021, the State Bar's total operating and non-operating revenues were \$203.7 million, up by \$13.7 million or 7.3% compared to \$190.0 million in 2020. The increase is due largely to a \$13.9 million increase in grant revenue; a \$15.4 million unallocated pension gain, offset by a \$6.3 million decrease in licensing fees due to the temporary fee increase in 2020; \$3.8 million decrease in trust account revenue because of falling rates; a \$2.9 million decrease in exam application fees due to a drop-in applicants; and a \$2.6 million decrease in investment income because of falling rates and investment fair value adjustments.

**Operating Expenses** – For fiscal year 2021, the State Bar's total operating expenses were \$190.1 million, a decrease of \$51.9 million or 21.4% from \$242.0 million last year. The decrease is due largely to an \$8.9 million decrease in general and administration expense due to the State Bar amending the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank and file employees effective January 1, 2020 (see note 9); a decrease of \$3.3 million in unallocated pension expense resulted from the investment earnings in the pension plan and a \$39.7 million decrease in program expenses primarily attributed to a \$30.9 million decrease in grants expense due to less grant revenues distributed in 2021 and a \$7.4 million decrease in Client Security Fund (the "CSF") due to a reduction in payouts in 2021.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
Years Ended December 31, 2021 and 2020

<b>Operating Expenses by Natural Classification</b>	<b>2021</b>	<b>2020</b>	<b>Increase (Decrease)</b>
Personnel cost	\$ 83,504,579	\$ 101,961,973	\$ (18,457,394)
Employer pension contribution	11,554,237	9,537,101	2,017,136
Unallocated Pension (Gain) Expense	(15,379,467)	3,338,775	(18,718,242)
Grant expense	61,133,150	91,412,469	(30,279,319)
Professional Services and outside services	9,898,358	7,869,683	2,028,675
Examination	3,812,807	5,856,101	(2,043,294)
CSF Disbursement	5,626,406	11,746,722	(6,120,316)
Building operations	5,532,153	4,905,731	626,422
Other	9,079,682	5,392,895	3,686,787
Total expenses by natural classification	174,761,905	242,021,450	(67,259,545)
Add: Unallocated Pension Gain	15,379,467	-	15,379,467
Total Operating Expenses	<u>\$ 190,141,372</u>	<u>\$ 242,021,450</u>	<u>\$ (51,880,078)</u>

***Operating Expenses by natural classification***

The personnel costs were \$83.5 million in 2021, a decrease of \$18.5 million from \$102.0 million last year resulted from lower OPEB expenses due to the State Bar amending the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank and file employees effective January 1, 2020 (see note 9). The employer pension contributions were \$11.6 million, increased \$2.0 million from \$9.5 million due to a higher unfunded actuarial liability. The change of \$18.7 million in unallocated pension gain in 2021 versus unallocated pension expenses in 2020 is due to the significant investment earnings in the pension plan. Other expenses include supplies, travel and training, depreciation and other miscellaneous expenses. They increased by \$3.7 million from \$5.4 million last year primarily due to higher depreciation expenses and software maintenance costs.

**Fiscal Year 2020 Compared to Fiscal Year 2019**

***Operating and NonOperating Revenues*** – For the year ended December 31, 2020, the State Bar's total operating and non-operating revenues were \$190.0 million, down by \$20.1 million or 9.6% compared to \$210.1 million in 2019. The decrease is due largely to a \$20.2 million decrease in trust account revenue because of falling rates; a \$19.1 million decrease in grant revenue; and a \$2.3 million decrease in other revenue; offset by a \$23.6 million increase in licensee fees.

***Operating Expenses*** – For fiscal year 2020, the State Bar's total operating expenses were \$242.0 million, an increase of \$42.7 million or 21.4% from \$199.3 million last year. The increase is due largely to an \$18.2 million increase in general and administration expense due to the State Bar amending the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank and file employees effective January 1, 2020 (see note 9); a decrease of \$5.6 million in unallocated pension expense; a \$30.0 million increase in program expenses attributed to a \$19.9 million increase in grants expense; a \$7.7 million increase in Chief Trial Counsel; and a \$5.2 million increase in Client Security Fund (the "CSF") due to an increase in payouts in 2020; offset by a \$2.2 million decrease in admissions.

**THE STATE BAR OF CALIFORNIA**  
Management's Discussion and Analysis (Unaudited) (Continued)  
Years Ended December 31, 2021 and 2020

**Economic Factors Facing the State Bar**

On September 30, 2020, the Governor signed Assembly Bill 3362, the 2021 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. For 2021, the licensing fee decreased from 2020. There was a 1 percent decrease in the General Fund fee that supports the discipline system and a 50 percent decrease in Client Security Fee, which is used to pay restitution to victims of attorney theft or other losses due to attorney misconduct. The State Bar also received additional funding to support technology investments and capital maintenance.

On January 22, 2021, the Board of Trustees approved the 2021 Budget. The budget reflects the impact of transformative changes to the State Bar and significant progress towards major goals of the Strategic Plan. The 2021 Final Budget has total revenue of \$206.9 million with expenses of \$194.7 million. The surplus budget did not require any use of reserves, as in prior year, for planned spend downs in the Bank Settlement Fund, Equal Access Fund, Legal Services Trust Fund, and Lawyers Assistance Program. The 2021 General Fund budget projects \$91.1 million in revenue with total expenses and indirect charges of \$92.3 million. General Fund expenses will exceed revenues by approximately \$1.0 million, bringing operating reserves to \$17.4 million.

**Capital Assets and Debt Administration**

Capital assets consist of land, buildings, building improvements, equipment and software, and furniture and fixtures. Capital assets, net of depreciation, decreased by \$3.8 million (3.6%) as of December 31, 2021, primarily due to the continued depreciation of existing assets. Capitalization of capital improvement costs were less than depreciation of existing assets.

Loans payable held by the State Bar are for the purpose of financing the costs of tenant improvements of the San Francisco building and refinancing the costs of purchasing real property of the Los Angeles building. Loans payable increased by \$13.6 million (67.8%) as of December 31, 2021. The increase was due to new loans entered in 2021 to finance capital improvement costs. See Note 7 for additional information.

**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](mailto:finance@calbar.ca.gov).

**THE STATE BAR OF CALIFORNIA**  
**Business-Type Activity – Enterprise Fund**  
**Statements of Net Position**  
**As of December 31, 2021 and 2020**

	2021	2020
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 123,458,148	\$ 85,128,603
Investments	20,611,071	32,506,150
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,867,889 in 2021 and 2020	3,224,497	3,764,139
Other current assets	2,614,593	3,001,466
Total current assets	<u>149,908,309</u>	<u>124,400,358</u>
Noncurrent assets		
Restricted cash	3,172,743	2,501,761
Restricted investments	11,999,720	-
Capital assets		
Nondepreciable	19,778,580	19,537,615
Depreciable, net	82,512,244	86,523,206
Total noncurrent assets	<u>117,463,287</u>	<u>108,562,582</u>
Total assets	<u>267,371,596</u>	<u>232,962,940</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension items	7,881,618	10,324,431
Other postemployment benefits items	4,282,095	4,380,602
Total deferred outflows of resources	<u>12,163,713</u>	<u>14,705,033</u>
Total assets and deferred outflows of resources	<u>279,535,309</u>	<u>247,667,973</u>
 <b>LIABILITIES</b>		
Current liabilities		
Accounts payable and other liabilities	12,831,991	10,553,616
Unearned revenues collected in advance	50,973,216	28,978,619
Loans payable	2,718,584	1,958,781
Total current liabilities	<u>66,523,791</u>	<u>41,491,016</u>
Noncurrent liabilities		
Loans payable	31,008,989	18,143,113
Compensated absences	4,045,220	3,566,381
Net OPEB liability	7,617,010	11,616,834
Net pension liability	21,343,799	77,697,797
Total noncurrent liabilities	<u>64,015,018</u>	<u>111,024,125</u>
Total liabilities	<u>130,538,809</u>	<u>152,515,141</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension items	40,217,597	1,685,878
Other postemployment benefits items	2,712,425	990,201
Total deferred inflows of resources	<u>42,930,022</u>	<u>2,676,079</u>
Total liabilities and deferred inflows of resources	<u>173,468,831</u>	<u>155,191,220</u>
 <b>NET POSITION</b>		
Net investments in capital assets	83,735,714	85,958,927
Restricted for:		
Enabling legislation	66,032,612	60,962,604
Other restrictions	593,340	3,083,970
Unrestricted	(44,295,188)	(57,528,748)
Total net position	<u>\$ 106,066,478</u>	<u>\$ 92,476,753</u>

**THE STATE BAR OF CALIFORNIA**  
**Business-Type Activity – Enterprise Fund**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b>OPERATING REVENUES</b>		
Licensee fees and donations	\$ 104,070,688	\$ 110,370,126
Examination application fees	17,262,838	20,135,282
Trust account revenue	22,526,029	26,276,804
Seminar/workshop revenue	3,375	3,320
Legal specialization fees	2,264,062	2,163,811
Law corporation registration fees	1,808,170	1,843,213
Continuing legal education fees	681,344	736,993
Grant revenue	30,315,704	16,390,081
EAF AB145 filing fee revenue	5,482,000	3,138,445
Other revenue	1,494,224	2,927,488
Unallocated Pension gain	15,379,467	-
Total operating revenues	<u>201,287,901</u>	<u>183,985,563</u>
<b>OPERATING EXPENSES</b>		
Chief Trial Counsel	59,124,212	60,998,440
State Bar Court	13,739,100	13,670,988
Attorney Regulation and Consumer Resources	5,968,145	5,411,806
Professional Competence	3,292,881	2,707,582
Probation	1,762,906	1,968,949
Mandatory Fee Arbitration	44,409	12,317
Judicial Evaluation	250,065	380,425
Center on Access to Justice	1,020,819	856,445
Communications	976,725	997,826
Governance	3,437,857	3,608,942
Lawyer Assistance Program	2,286,347	2,199,397
Client Security Fund	6,407,813	13,827,903
Admissions	18,782,655	19,176,983
Grants	60,516,574	91,412,469
Unallocated Pension expense	-	3,338,775
General and administration	12,530,864	21,452,203
Total operating expenses	<u>190,141,372</u>	<u>242,021,450</u>
<b>OPERATING INCOME (LOSS)</b>	11,146,529	(58,035,887)
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Investment (loss) income	(7,648)	2,591,296
Rental income	3,133,009	4,220,797
Interest expense on loan	(682,165)	(839,732)
Total nonoperating revenues and expenses	<u>2,443,196</u>	<u>5,972,361</u>
<b>CHANGE IN NET POSITION</b>	13,589,725	(52,063,526)
<b>NET POSITION—beginning of year</b>	<u>92,476,753</u>	<u>144,540,279</u>
<b>NET POSITION—end of year</b>	<u><u>\$ 106,066,478</u></u>	<u><u>\$ 92,476,753</u></u>

**THE STATE BAR OF CALIFORNIA**  
**Business-Type Activity – Enterprise Fund**  
**Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from members, applicants, grants, and other professionals	\$ 208,442,674	\$ 180,778,055
Payments to suppliers and service providers	(111,087,754)	(145,974,210)
Payments to employees	(71,407,028)	(69,598,975)
Net cash provided by (used in) operating activities	<u>25,947,892</u>	<u>(34,795,130)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of investments	111,343,536	53,802,091
Purchases of investments	(111,965,296)	(19,865,705)
Interest received from investments	509,471	2,373,730
Cash received from rental incomes	3,133,009	4,220,797
Net cash provided by investing activities	<u>3,020,720</u>	<u>40,530,913</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(2,911,599)	(3,237,332)
Payment of obligations under loan agreement	(1,693,321)	(2,200,491)
Proceeds from loan agreement	15,319,000	-
Interest paid on debt	(682,165)	(839,732)
Net cash provided by (used in) capital and related financing activities	<u>10,031,915</u>	<u>(6,277,555)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	39,000,527	(541,772)
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	87,630,364	88,172,136
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u><u>\$ 126,630,891</u></u>	<u><u>\$ 87,630,364</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (loss)	\$ 11,146,529	\$ (58,035,887)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,681,596	4,771,125
Changes in assets and liabilities:		
Net pension liability	(56,353,998)	10,542,952
Deferred outflows and inflows of resources related to pension items	40,974,532	(7,204,178)
Net OPEB liability	(3,999,824)	21,832,627
Deferred outflows and inflows of resources related to OPEB items	1,820,731	(3,021,011)
Accounts and other receivables	539,642	2,732,172
Other current assets	386,873	(126,536)
Accounts payable and other liabilities	2,757,214	(346,714)
Unearned revenues collected in advance	21,994,597	(5,939,680)
Net cash provided by operating activities	<u><u>\$ 25,947,892</u></u>	<u><u>\$ (34,795,130)</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>		
Cash and cash equivalents	123,458,148	85,128,603
Restricted cash	3,172,743	2,501,761
Total cash and cash equivalents	<u><u>\$ 126,630,891</u></u>	<u><u>\$ 87,630,364</u></u>
<b>Noncash transaction:</b>		
Loan refunding	\$ 5,251,573	\$ -



**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements  
Years Ended December 31, 2021 and 2020

**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. 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 nonattorney members also serve. Four appointed by the Governor, and 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 14 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.

***S.F. Tenant Improvement Fund*** – The Tenant Improvement Fund was established to support the tenant improvement work at the State Bar’s 180 Howard Street location.

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

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**2. BASIS OF PRESENTATION (Continued)**

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

***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 statement of net position based on final approved applications by the Client Security Fund Commission. For 2021 bill year, 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 similar to those once undertaken by Access & Inclusion, Program Development, and Bar Relations Offices. In the 2021 and 2020 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.

***Information Technology Special Assessment Fund*** – The Information Technology Special Assessment Fund is used to upgrade the information technology system, including purchasing and maintenance costs of both computer hardware and software. This fund is supported by a special assessment fee from active licensees.

***Justice Gap Fund*** – The Justice Gap Fund is used to help close the justice gap for needy Californians by voluntary donations to legal aid, pursuant to AB 2301. 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. This fund is replenished through annual assessments of \$10 per active licensee and \$5 per inactive licensee. There was a fee holiday to spend down reserves.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**2. BASIS OF PRESENTATION (Continued)**

***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.

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

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

***Bank Settlement Fund*** – In March 2016, the State Bar’s Legal Services Trust Fund (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.

**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, 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 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 Justice Gap Fund receives contributions from licensees. Revenue is recognized as income when received.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

***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.

***Restricted Cash and Investments*** – The State Bar’s loan proceeds from the loan agreement with Sterling National Bank are to be used for specified capital projects. The proceeds, which are currently invested in cash equivalents and investments, have been classified as restricted cash and restricted investments.

***Capital Assets*** – 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 and equipment acquired under capital leases are amortized over the shorter of the term of the lease or its useful life. 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.

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

***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. The 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 expense on loan.

***Accounts and Other Receivables*** – Accounts and other receivables consist of rental income receivable and State Bar Journal display advertising income receivable. 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 (Continued)  
Years Ended December 31, 2021 and 2020

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

***Compensated Absences*** – Compensated absences reports earned but unused vacation and sick leave benefits. 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 position 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 position 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 (asset), 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 Committee, it will be recognized as an outstanding obligation in the State Bar’s financial statement. There are 1,327 applications pending for processing as of December 31, 2021, in the amount of \$43.3 million, and for December 31, 2020, there were 1,610 pending applications in the amount of \$35.7 million. As of December 31, 2021 and 2020, estimated application payout amounts were \$5.7 million and \$11.7 million, respectively, based on a rolling average of 24 months’ historical applications payout ratio of 36.2% in 2021 and 40.8% in 2020. Cash and investments available for application reimbursement in the CSF were approximately \$5.9 million and \$2.5 million as of December 31, 2021 and 2020, respectively.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

***Restricted Net Position*** – Restricted net position reflects the 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 \$66.6 million as of December 31, 2021, of which \$ 66.0 million was restricted by enabling legislation; and \$64.0 million as of December 31, 2020, of which \$61.0 million was restricted by enabling legislation.

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

***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 \$44.3 million as of December 31, 2021, and negative \$57.5 million as of December 31, 2020.

***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, Legal Specialization Fund, Client Security 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. For purposes of the Minimum Reserve Target, operating expenses of the Client Security Fund shall exclude application payouts.

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

***Effects of New Pronouncements*** – During the year ended December 31, 2021, the State Bar implemented the following GASB Statement:

***GASB Statement No. 89*** – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expenditure/expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

historical cost of a capital asset. The State Bar implemented this statement in 2021, which did not have a significant impact on its financial statements.

***GASB Statement No. 91*** – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The State Bar implemented this statement in 2021, which did not have a significant impact on its financial statements.

***GASB Statement No. 98*** – In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR and eliminates the prior name and acronym. The State Bar implemented this statement in 2021, which did not have a significant impact on its financial statements.

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. 87*** – In June 2017, GASB issued Statement No. 87 – *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 is effective for the State Bar’s year ending December 31, 2022.

***GASB Statement No. 92*** – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. This statement will enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 92 is effective for the State Bar’s year ending December 31, 2022.

***GASB Statement No. 93*** – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement will provide guidance to some governments that have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) - most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. GASB 93 is effective for the State Bar’s year ending December 31, 2022, except for paragraph 11b that is effective for the State Bar’s year ending December 31, 2023.

***GASB Statement No. 94*** – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement will improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). GASB 94 is effective for the State Bar’s year ending December 31, 2023.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

**GASB Statement No. 96** – In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement establishes standards of accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by a government. GASB 96 is effective for the State Bar’s year ending December 31, 2023.

**GASB Statement No. 97** – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – and amended of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 and enhances the accounting and financial reporting of IRS Code section 457 plans that meet the definition of a pension plan. GASB 97 is effective for the State Bar’s year ending December 31, 2022.

**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash, cash equivalents, and investments as of December 31, 2021 and 2020, are classified in the financial statements as follows:

	2021	2020
Cash and cash equivalents	\$ 123,458,148	\$ 85,128,603
Investments	20,611,071	32,506,150
Restricted cash	3,172,743	2,501,761
Restricted investments	11,999,720	-
Totals	<u>\$ 159,241,682</u>	<u>\$ 120,136,514</u>

**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, 2021, the carrying amount of the State Bar’s unrestricted deposits is \$123,458,148 and the bank balance is \$125,248,611. As of December 31, 2020, the carrying amount of the State Bar’s unrestricted deposits is \$85,128,603 and the bank balance is \$86,753,037. At December 31, 2021 and 2020, the State Bar had restricted deposits held by the bank in the amount of \$3,172,743 and \$2,501,761, respectively. 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.

As of December 31, 2021, the PMIA balance is \$181.4 billion, of which 98.37% is invested in nonderivative financial products with 1.63% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$36.3 billion, and the State Bar’s investment in LAIF is \$74.8 million. The average maturity of PMIA investments is 340 days as of December 31, 2021. As of December 31, 2020, the PMIA balance is \$107.4 billion, of which 96.72% is invested in nonderivative financial products with 3.28% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$34.0 billion, and the State Bar’s investment in LAIF is \$75.3 million. The average maturity of PMIA investments is 165 days as of December 31, 2020.



**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

The State Bar’s pooled cash and cash equivalents at December 31, 2021 and 2020, is composed of:

	2021	2020
LAIF	\$ 74,845,293	\$ 75,261,861
Other Cash	48,612,855	9,866,742
Restricted cash	3,172,743	2,501,761
Totals	<u>126,630,891</u>	<u>87,630,364</u>

**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.

**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 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; quoted prices in active markets that are not active; 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 actively and that are significant to the fair value of the assets or liabilities.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

The fair value measurements of investments for December 31, 2021 and 2020, are as follows:

Description	12/31/2021	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Government agencies	\$ 9,664,215	\$ -	\$ 9,664,215	\$ -
Municipal bond	4,328,853	-	4,328,853	-
Corporate bonds	6,420,754	-	6,420,754	-
Commercial paper	11,999,720	11,999,720	-	-
Common stock	197,249	197,249	-	-
Total investments measured at fair value	<u>\$ 32,610,791</u>	<u>\$ 12,196,969</u>	<u>\$ 20,413,822</u>	<u>\$ -</u>

  

Description	12/31/2020	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Government agencies	\$ 11,957,360	\$ -	\$ 11,957,360	\$ -
Municipal bond	4,407,184	-	4,407,184	-
Corporate bonds	15,994,131	-	15,994,131	-
Common stock	147,475	147,475	-	-
Total investments measured at fair value	<u>\$ 32,506,150</u>	<u>\$ 147,475</u>	<u>\$ 32,358,675</u>	<u>\$ -</u>

Common stock and commercial paper 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.

**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 deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state laws (unless so waived by the governmental unit).

The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

**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 at December 31, 2021 and 2020, are as follows:

<b>Issuer</b>	<b>Investment Type</b>	<b>2021 Fair Value</b>	<b>Percentage of Portfolio</b>
Federal Home Loan Bank	U.S government agencies	\$ 6,626,295	20.3%
Federal Home Loan Mortgage Corp	U.S government agencies	3,037,920	9.3%
State of California	Municipal Bonds	3,051,541	9.4%
Apple Inc	Corporate Bonds	3,242,456	9.9%
Toyota Motor Credit Corp	Corporate Bonds	3,178,298	9.7%
Toyota Credit de Puerto Rico Corporation	Commercial Paper	11,999,720	36.8%

<b>Issuer</b>	<b>Investment Type</b>	<b>2020 Fair Value</b>	<b>Percentage of Portfolio</b>
Federal Home Loan Bank	U.S government agencies	\$ 6,826,950	21.0%
Federal Home Loan Mortgage Corp	U.S government agencies	3,108,030	9.6%
Federal Farm Credit Bank	U.S government agencies	2,022,380	6.2%
State of California	Municipal Bonds	3,111,421	9.6%
Apple Inc	Corporate Bonds	6,457,305	19.9%
Toyota Motor Credit Corp	Corporate Bonds	3,248,295	10.0%
Microsoft Corp	Corporate Bonds	3,146,500	9.7%
Chevron Corp	Corporate Bonds	3,142,031	9.7%

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**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 at December 31, 2021 and 2020, are as follows:

	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>	<u>Weighted Average Maturity (Years)</u>
<b>December 31, 2021</b>			
U.S. Government agencies	\$ 9,664,215	29.8%	0.7
Municipal Bonds	4,328,853	13.4%	0.8
Corporate Bonds	6,420,754	19.8%	0.6
Commerical Paper	11,999,720	37.0%	0.0
	<u>\$ 32,413,542</u>	<u>100.0%</u>	
	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>	<u>Weighted Average Maturity (Years)</u>
<b>December 31, 2020</b>			
U.S. Government agencies	\$ 11,957,360	37.0%	1.4
Municipal Bonds	4,407,184	13.6%	2.2
Corporate Bonds	15,994,131	49.4%	1.0
	<u>\$ 32,358,675</u>	<u>100.0%</u>	

**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 (Continued)  
Years Ended December 31, 2021 and 2020

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

Fixed income securities investments that are subject to credit risk at December 31, 2021 and 2020, are as follows:

S&P's Rating	2021		2020	
	Fair Value	Fair Value As of a % of Fixed Income Securities	Fair Value	Fair Value As of a % of Fixed Income Securities
AAA	\$ -	0.0%	\$ 3,146,500	9.7%
AA+	12,906,671	39.8%	18,414,665	56.9%
AA	-	0.0%	3,142,031	9.7%
AA-	4,328,853	13.4%	4,407,184	13.6%
A+	3,178,298	9.8%	3,248,295	10.0%
N/A	11,999,720	37.0%	-	0.0%
<b>Total fixed income securities</b>	<b>\$ 32,413,542</b>	<b>100.0%</b>	<b>\$ 32,358,675</b>	<b>100.0%</b>

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**5. CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2021 and 2020, are as follows:

	<b>Balance</b> <b>January 1, 2021</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b> <b>December 31, 2021</b>
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Work in progress	-	240,965	-	240,965
Total capital assets, not being depreciated	<u>19,537,615</u>	<u>240,965</u>	<u>-</u>	<u>19,778,580</u>
Capital assets, being depreciated:				
Buildings and leasehold improvements	93,135,751	2,670,634	-	95,806,385
180 Howard Tenant Improvements	15,330,940	-	-	15,330,940
Equipment and software	20,214,658	-	-	20,214,658
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	<u>134,193,448</u>	<u>2,670,634</u>	<u>-</u>	<u>136,864,082</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(28,413,286)	(3,622,928)	-	(32,036,214)
180 Howard Tenant Improvements	(4,215,115)	(12,092)	-	(4,227,207)
Equipment and software	(10,680,755)	(2,662,905)	-	(13,343,660)
Furniture and fixtures	(4,361,086)	(383,671)	-	(4,744,757)
Total accumulated depreciation	<u>(47,670,242)</u>	<u>(6,681,596)</u>	<u>-</u>	<u>(54,351,838)</u>
Total capital assets, being depreciated, net	<u>86,523,206</u>	<u>(4,010,962)</u>	<u>-</u>	<u>82,512,244</u>
Capital assets, net	<u>\$ 106,060,821</u>	<u>\$ (3,769,997)</u>	<u>\$ -</u>	<u>\$ 102,290,824</u>

  

	<b>Balance</b> <b>January 1, 2020</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b> <b>December 31, 2020</b>
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	92,064,703	1,071,048	-	93,135,751
180 Howard Tenant Improvements	15,169,707	161,233	-	15,330,940
Equipment and software	18,209,607	2,005,051	-	20,214,658
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	<u>130,956,116</u>	<u>3,237,332</u>	<u>-</u>	<u>134,193,448</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(27,191,100)	(1,222,186)	-	(28,413,286)
180 Howard Tenant Improvements	(2,588,432)	(1,626,683)	-	(4,215,115)
Equipment and software	(9,142,167)	(1,538,588)	-	(10,680,755)
Furniture and fixtures	(3,977,418)	(383,668)	-	(4,361,086)
Total accumulated depreciation	<u>(42,899,117)</u>	<u>(4,771,125)</u>	<u>-</u>	<u>(47,670,242)</u>
Total capital assets, being depreciated, net	<u>88,056,999</u>	<u>(1,533,793)</u>	<u>-</u>	<u>86,523,206</u>
Capital assets, net	<u>\$ 107,594,614</u>	<u>\$ (1,533,793)</u>	<u>\$ -</u>	<u>\$ 106,060,821</u>

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**5. CAPITAL ASSETS (Continued)**

Depreciation expense for the years ended December 31, 2021 and 2020, was \$6,681,596 and \$4,771,125, respectively.

The State Bar leases certain office space at its facilities in San Francisco and Los Angeles, California, to tenants under various lease agreements. The carrying amounts of the leased portions of the San Francisco and Los Angeles buildings have not been determined. Future minimum lease revenue under these noncancelable operating leases at December 31, 2021, are as follows:

Year Ending December 31	Future Minimum Revenue	
	San Francisco	Los Angeles
2022	\$ 2,851,682	\$ 396,656
2023	2,261,743	406,572
2024	1,717,838	456,154
2025	1,455,621	456,154
2026	1,442,738	456,154
Thereafter	4,723,090	2,831,959
	<u>\$ 14,452,711</u>	<u>\$ 5,003,650</u>

**6. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

At December 31, 2021 and 2020, accounts payable and other current liabilities consisted of the following:

	2021	2020
Accounts Payable	\$ 7,090,416	\$ 5,562,996
Compensated absences, current portion	2,696,814	2,377,586
Other liabilities	3,044,761	2,613,034
Total accounts payable and other liabilities	<u>\$ 12,831,991</u>	<u>\$ 10,553,616</u>

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

	Balance January 1, 2021	Additions	Reductions	Balance December 31, 2021	Amount Due Within One Year
Compensated absences	\$ 5,943,967	\$ 5,652,168	\$ (4,854,101)	\$ 6,742,034	\$ 2,696,814

  

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020	Amount Due Within One Year
Compensated absences	\$ 4,226,417	\$ 5,064,021	\$ (3,346,471)	\$ 5,943,967	\$ 2,377,586

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**7. 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 Improvement 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 \$13,080,000 due on September 30, 2036. The taxable loan bears a rate of 2.3% per year with semi-annual payments of approximately \$520,000. The tax-exempt loan bears a rate of 2.76% per year with semi-annual payments of approximately \$300,000.

The prior Loan Agreement with Bank of America bore a tax-exempt fixed rate of 4.26% per year and was due on April 1, 2026, with a monthly payment of \$104,218. The loan agreement contained certain covenants including the maintenance of a \$2.5 million deposit with Bank of America as debt service reserve fund, which was reported as restricted cash on the accompanying Statement of Net Position. The outstanding loan balance of \$5,251,573 with Bank of America was fully paid off in August 2021 as a result of the financing with Sterling National Bank.

As of December 31, 2021 and 2020, the outstanding loan balance of the San Francisco loan was \$20,490,573 and \$5,904,894, respectively.

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 2.3% per year and is due on December 30, 2035, with a quarterly payment of approximately \$277,000. The loan balance of \$14,193,280 with Bank of America was fully paid off in October 2020 as a result of the refinancing with Sterling National Bank. As of December 31, 2021 and 2020, the outstanding loan balance was \$13,237,000 and \$14,197,000, respectively.

	<u>San Francisco</u>	<u>Los Angeles</u>	<u>Total</u>
Term loan as of December 31, 2020	\$ 5,904,894	\$ 14,197,000	\$ 20,101,894
Additions	20,570,573	-	20,570,573
Repayments	(5,984,894)	(960,000)	(6,944,894)
Balance as of December 31, 2021	<u>\$ 20,490,573</u>	<u>\$ 13,237,000</u>	<u>\$ 33,727,573</u>
Current loan payable	1,907,584	811,000	2,718,584
Noncurrent loan payable	18,582,989	12,426,000	31,008,989
Balance as of December 31, 2021	<u>\$ 20,490,573</u>	<u>\$ 13,237,000</u>	<u>\$ 33,727,573</u>
Term loan as of December 31, 2019	\$ 6,858,666	\$ 15,443,719	\$ 22,302,385
Additions	-	14,197,000	14,197,000
Repayments	(953,772)	(15,443,719)	(16,397,491)
Balance as of December 31, 2020	<u>\$ 5,904,894</u>	<u>\$ 14,197,000</u>	<u>\$ 20,101,894</u>
Current loan payable	998,781	960,000	1,958,781
Noncurrent loan payable	4,906,113	13,237,000	18,143,113
Balance as of December 31, 2020	<u>\$ 5,904,894</u>	<u>\$ 14,197,000</u>	<u>\$ 20,101,894</u>



**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**7. LOANS PAYABLE (Continued)**

The annual repayment schedule as of December 31, 2021, is as follows:

Year Ending December 31,	Principal	Interest
2022	\$ 2,718,584	\$ 789,699
2023	2,789,745	718,712
2024	2,858,885	649,328
2025	2,160,057	585,287
2026	2,212,246	532,940
2027-2031	11,892,106	1,833,754
2032-2036	9,095,950	522,672
Total	<u>\$ 33,727,573</u>	<u>\$ 5,632,392</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 Borrower, and require the Borrower 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.

**8. 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 fulltime 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.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**8. 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, 2020, the most recent information available, the State Bar’s pension plan included 563 active employees, 459 inactive employees entitled to but not yet receiving benefits, and 569 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 at December 31, 2021 and 2020, 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 employee contribution rates	7.0%	7.25%
Required employer contribution rates - 7/1/2019 to 6/30/2020	17.720%	17.720%
Required employer contribution rates - 7/1/2020 to 6/30/2021	19.176%	19.176%
Required employer contribution rates - 7/1/2021 to 12/31/2021	20.300%	20.300%

**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.

**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, 2021, the total pension liability for the Plan is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021, using standard procedures. For the year ended December 31, 2020, the total pension liability for the Plan is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, using standard procedures.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**8. PENSION PLAN (Continued)**

**Actuarial assumptions** – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2021 and 2020 are as follows:

Valuation Date	June 30, 2020	June 30, 2019
Measurement Date	June 30, 2021	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost	
Actuarial Assumptions:		
Discount Rate	7.15%	
Inflation	2.50%	
Payroll Growth	2.75%	
Projected Salary Increase	Varies by entry age and service	
Post Retirement Benefit Increase	(1)	
Mortality	Derived using CalPERS' membership data for all Funds (2)	

(1) The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter.

(2) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre- retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 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 December 2017 that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2020 and 2019, valuation were based on the results of the CalPERS 2017 experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the experience study can be found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability as of June 30, 2021 and 2020, was 7.15 percent for the Plan. 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.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**8. PENSION PLAN (Continued)**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The long-term expected real rates of return by asset class and the target allocation adopted by the CalPERS Board for the actuarial valuation of June 30, 2020 and 2019 are as follows:

<b>Asset Class (a)</b>	<b>Current Strategic Allocation</b>	<b>Real Return Years 1 - 10 (b)</b>	<b>Real Return Years 11+ (c)</b>
Public Equity	50.00%	4.80%	5.98%
Global fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.00% used for this period.

(c) An expected inflation of 2.92% used for this period.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**8. 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, 2021 and 2020, are as follows:

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
<b>Balance at June 30, 2020</b>	<b>\$ 424,776,808</b>	<b>\$ 347,079,011</b>	<b>\$ 77,697,797</b>
<b>Changes in the year:</b>			
Service cost	9,507,566	-	9,507,566
Interest on the total pension liability	29,737,918	-	29,737,918
Differences between actual and expected experience	(3,175,437)	-	(3,175,437)
Contribution - employer	-	10,953,471	(10,953,471)
Contribution - employee	-	4,372,707	(4,372,707)
Net investment income	-	77,444,578	(77,444,578)
Administrative expenses	-	(346,711)	346,711
Benefit payments, including refunds of employee contributions	(20,880,413)	(20,880,413)	-
<b>Net changes</b>	<b>15,189,634</b>	<b>71,543,632</b>	<b>(56,353,998)</b>
<b>Balance at June 30, 2021</b>	<b>\$ 439,966,442</b>	<b>\$ 418,622,643</b>	<b>\$ 21,343,799</b>

  

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
<b>Balance at June 30, 2019</b>	<b>\$ 402,882,958</b>	<b>\$ 335,728,113</b>	<b>\$ 67,154,845</b>
<b>Changes in the year:</b>			
Service cost	8,917,807	-	8,917,807
Interest on the total pension liability	28,675,153	-	28,675,153
Differences between actual and expected experience	3,117,562	-	3,117,562
Contribution - employer	-	9,733,180	(9,733,180)
Contribution - employee	-	4,418,214	(4,418,214)
Net investment income	-	16,489,470	(16,489,470)
Administrative expenses	-	(473,294)	473,294
Benefit payments, including refunds of employee contributions	(18,816,672)	(18,816,672)	-
<b>Net changes</b>	<b>21,893,850</b>	<b>11,350,898</b>	<b>10,542,952</b>
<b>Balance at June 30, 2020</b>	<b>\$ 424,776,808</b>	<b>\$ 347,079,011</b>	<b>\$ 77,697,797</b>

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**8. PENSION PLAN (Continued)**

***Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*** – The State Bar recognized pension income of \$1,506,111 for the year ended December 31, 2021, and pension expenses of \$13,434,787 for the year ended December 31, 2020. Deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	<b>2021</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between actual and expected experience	\$ 1,945,464	\$ (2,268,169)
Contributions made after the measurement date: June 30, 2021	5,936,154	-
Net differences between projected and actual earning on plan investments	-	(37,949,428)
<b>Total</b>	<b>\$ 7,881,618</b>	<b>\$ (40,217,597)</b>

  

	<b>2020</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ -	\$ (1,295,638)
Differences between actual and expected experience	4,185,917	(390,240)
Contributions made after the measurement date: June 30, 2020	3,016,270	-
Net differences between projected and actual earning on plan investments	3,122,244	-
<b>Total</b>	<b>\$ 10,324,431</b>	<b>\$ (1,685,878)</b>

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, 2021 and 2020, the State Bar reported \$5,936,154 and \$3,016,270, 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, 2022 and 2021, respectively.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**8. PENSION PLAN (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension as of December 31, 2021, will be recognized as pension expense as follows:

Year Ending December 31	
2022	\$ (8,853,311)
2023	(9,272,657)
2024	(9,570,649)
2025	(10,575,516)
	<u>\$ (38,272,133)</u>

**Sensitivity of the Net Pension Liability (Asset)** – The following present the net pension liability (asset) of the State Bar, calculated using the discount rate of 7.15 percent, as well as what the net pension liability (asset) 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:

1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
<u>\$ 77,112,979</u>	<u>\$ 21,343,799</u>	<u>\$ (25,076,884)</u>
1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
\$ 131,832,413	\$ 77,697,797	\$ 32,622,469

**9. 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. Under the provisions of the OPEB Plan, a committee (“Committee”) was established to operate and administer the OPEB Plan in accordance with the terms of the OPEB Plan. The Committee is composed of the Chair of the Board of Trustees and the Executive Director, or their designees.

For executive staff employed as of August 19, 2006, eligibility requires 15 years of services 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.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

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 makes annual transfers 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.

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 \$139 per month for 2021, but is adjusted by CalPERS on an annual basis. As of 2021, the State Bar contributes \$139 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, 2021, the OPEB Plan included 537 active participants and 118 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. The fiscal impact of the plan change was \$23,750,838 and is reported within General and Administration in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 cost of the premium 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 \$15.40, \$22.34, and \$40.06 for retiree, couple, and family, respectively.



**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

**Net OPEB Liability (Asset) and assumptions:** The net OPEB liability (asset) for the OPEB Plan is measured as the total OPEB liability, less the OPEB plan’s fiduciary net position. For the year ended December 31, 2021 and 2020, the total OPEB liability for the OPEB Plan is measured as of June 30, 2021 and 2020, respectively, using an annual actuarial valuation as of January 1, 2020, rolled forward to June 30, 2021 and, 2020, respectively, using standard procedures.

The total OPEB liability in the January 1, 2020, actuarial valuations 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	6.00%
Inflation	2.50%
Healthcare Trend Rate	Trend assumption based on the "Getsen" model developed by the Society of Actuaries. Assumed the vision cost would increase at an annual rate of 3.00% and 3.25%, respectively, for January 1, 2020 valuation. Assumed the PEMCHA minimum contribution would grow with general medical inflation, and assumed the medical CPI increase at an annual rate of 3.00% and 3.25%, respectively, for January 1, 2020 valuation.
Mortality	CalPERS Mortality rates which include 15 years of projected on - going improvement using 90 percent of scale MP-16.

For the actuarial valuation as of January 1, 2020, the healthcare trend rate for vision and PEMCHA minimum contribution decreased from 3.25% to 3.00%.

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 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return</b>
Global Equity	22%	7.86%
U.S. Fixed Income	49%	6.24%
Treasury Inflation-Protected	16%	3.51%
Real Estate Investment Trusts	8%	7.55%
Commodities	5%	5.26%
Total	100%	

Expected Geometric Return (5.0 yrs) - 5.98%

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

The discount rate used to measure the total OPEB liability was 6.00 percent. 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 (Asset): The changes in the net OPEB liability (asset) of the OPEB Plan, measured as of June 30, 2021 and 2020, are as follows:

	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability (Asset)</b>
<b>Balance at June 30, 2020</b>	<u>\$ 41,436,040</u>	<u>\$ 29,819,206</u>	<u>\$ 11,616,834</u>
<b>Changes in the year:</b>			
Service cost	2,534,285	-	2,534,285
Interest on the total OPEB liability	2,600,287	-	2,600,287
Benefit payments	(1,281,476)	(1,281,476)	-
Contributions from employer	-	4,941,476	(4,941,476)
Net investment income	-	4,209,476	(4,209,476)
Administrative expenses	-	(16,556)	16,556
<b>Net changes</b>	<u>3,853,096</u>	<u>7,852,920</u>	<u>(3,999,824)</u>
<b>Balance at June 30, 2021</b>	<u><u>\$ 45,289,136</u></u>	<u><u>\$ 37,672,126</u></u>	<u><u>\$ 7,617,010</u></u>

	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability (Asset)</b>
<b>Balance at June 30, 2019</b>	<u>\$ 17,841,028</u>	<u>\$ 28,056,821</u>	<u>\$ (10,215,793)</u>
<b>Changes in the year:</b>			
Service cost	580,569	-	580,569
Interest on the total OPEB liability	1,071,758	-	1,071,758
Changes in benefit terms or plan	23,750,838	-	23,750,838
Differences between actual and experience	267,916	-	267,916
Changes in assumptions	(943,036)	-	(943,036)
Benefit payments	(1,133,033)	(1,133,033)	-
Contributions from employer	-	1,133,033	(1,133,033)
Net investment income	-	1,776,547	(1,776,547)
Administrative expenses	-	(14,162)	14,162
<b>Net changes</b>	<u>23,595,012</u>	<u>1,762,385</u>	<u>21,832,627</u>
<b>Balance at June 30, 2020</b>	<u><u>\$ 41,436,040</u></u>	<u><u>\$ 29,819,206</u></u>	<u><u>\$ 11,616,834</u></u>

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

***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 (5.00 percent) or 1-percentage-point higher (7.00 percent) than the current discount rate:

	<b>1% Decrease in Discount Rate 5.00%</b>	<b>Current Discount Rate 6.00%</b>	<b>1% Increase in Discount Rate 7.00%</b>
Net OPEB Liability (NOL) for December 31, 2021	\$ 13,886,948	\$ 7,617,010	\$ 2,408,547
Net OPEB Liability (NOL) for December 31, 2020	\$ 17,424,747	\$ 11,616,834	\$ 6,796,298

***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:

	<b>1% Decrease in Healthcare Cost Trend Rate 5.00%</b>	<b>Current in Healthcare Cost Trend Rate 6.00%</b>	<b>1% Increase in Healthcare Cost Trend Rate 7.00%</b>
Net OPEB Liability (NOL) for December 31, 2021	\$ 948,385	\$ 7,617,010	\$ 15,952,041
Net OPEB Liability (NOL) for December 31, 2020	\$ 5,777,068	\$ 11,616,834	\$ 18,886,135

***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 expense for the years ended December 31, 2021 and 2020, was \$2,693,711 and \$23,636,305, respectively.

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

As of fiscal year ended December 31, 2021, 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	\$ 208,426	\$ -
Changes of assumptions	-	(733,006)
Net difference between projected and actual earnings	-	(1,979,419)
Contributions made subsequent to measurement date	4,073,849	-
Total	<u>\$ 4,282,275</u>	<u>\$ (2,712,425)</u>

As of fiscal year ended December 31, 2020, 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	\$ 238,081	\$ -
Changes of assumptions	-	(838,021)
Net difference between projected and actual earnings	-	(152,180)
Contributions made subsequent to measurement date	4,142,521	-
Total	<u>\$ 4,380,602</u>	<u>\$ (990,201)</u>

At December 31, 2021 and 2020, the State Bar reported \$4,073,849 and \$4,142,521, 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 fiscal year ending December 31, 2022 and 2021, respectively. Other amounts reported as deferred inflows of resources related to OPEB as of December 31, 2021, will be recognized as OPEB expense as follows:

<u>Year Ending December 31,</u>	<u>Deferred (Inflows) and Outflows of Resources</u>
2022	\$ (560,553)
2023	(625,468)
2024	(556,414)
2024	(537,704)
2025	(75,180)
Thereafter	(148,860)
	<u>\$ (2,504,179)</u>

**10. RISK MANAGEMENT**

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

**THE STATE BAR OF CALIFORNIA**  
Business-Type Activity – Enterprise Fund  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

**11. 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, 2021 and 2020.

***Major Projects*** – As of December 31, 2021, the State Bar had contracts and purchase order commitments for major projects of approximately \$6.5 million. Those commitments consist of \$3.1 million for the Elevator Modernization project, \$0.5 million for the Emergency Generator project, \$0.3 million for the Chiller project, \$1.2 million for ongoing ERP system support, and \$1.4 million for several maintenance/support projects for Information Technology, Case Management and Admissions.

**12. SUBSEQUENT EVENT**

After December 31, 2021, and before the issuance of financial statements dated April 29, 2022, 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**  
**Schedules of Changes in Net Pension Liability and Related Ratios (Unaudited)**  
**As of December 31, 2021**  
**Last 10 Years\***

Measurement Period Ended June 30	2021	2020	2019	2018	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>								
Service Cost	\$ 9,507,566	\$ 8,917,807	\$ 8,457,483	\$ 8,413,051	\$ 8,895,961	\$ 7,565,782	\$ 7,286,606	\$ 7,138,657
Interest on total pension liability	29,737,918	28,675,153	27,203,790	25,675,376	25,355,446	24,173,396	22,279,424	20,821,887
Differences between expected and actual experience	(3,175,437)	3,117,562	4,632,331	(3,317,028)	(1,780,377)	6,742,939	1,619,738	-
Changes in assumptions	-	-	-	(11,012,926)	21,023,063	-	(5,466,470)	-
Changes in benefits	-	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(20,880,413)	(18,816,672)	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net change in total pension liability	15,189,634	21,893,850	22,249,276	3,069,704	39,771,961	26,169,361	14,650,568	17,871,937
Total pension liability - beginning	424,776,808	402,882,958	380,633,682	377,563,978	337,792,017	311,622,656	296,972,088	279,100,151
Total pension liability - ending	<u>\$ 439,966,442</u>	<u>\$ 424,776,808</u>	<u>\$ 402,882,958</u>	<u>\$ 380,633,682</u>	<u>\$ 377,563,978</u>	<u>\$ 337,792,017</u>	<u>\$ 311,622,656</u>	<u>\$ 296,972,088</u>
<b>PLAN FIDUCIARY NET POSITION</b>								
Contributions - employer	\$ 10,953,471	\$ 9,733,180	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102	\$ 4,167,567	\$ 4,166,043
Contributions - employee	4,372,707	4,418,214	3,793,577	3,726,557	3,697,300	3,437,015	3,387,652	3,262,781
Net investment income	77,444,578	16,489,470	20,781,606	25,383,692	31,072,914	1,591,381	6,203,991	41,450,031
Benefit payments, including refunds of employee contributions	(20,880,413)	(18,816,672)	(18,044,328)	(16,688,769)	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net Plan to Plan Resource Movement	-	-	745	(745)	-	-	-	-
Administrative expenses	(346,711)	(473,294)	(229,266)	(473,766)	(410,263)	(170,929)	(316,734)	-
Other Miscellaneous Income/(Expense)	-	-	-	(899,690)	-	-	-	-
Net change in plan fiduciary net position	71,543,632	11,350,898	14,457,502	17,238,328	26,157,776	(2,591,187)	2,373,746	38,790,248
Plan fiduciary net position - beginning	347,079,011	335,728,113	321,270,611	304,032,283	277,874,507	280,465,694	278,091,948	239,301,700
Plan fiduciary net position - ending	<u>\$ 418,622,643</u>	<u>\$ 347,079,011</u>	<u>\$ 335,728,113</u>	<u>\$ 321,270,611</u>	<u>\$ 304,032,283</u>	<u>\$ 277,874,507</u>	<u>\$ 280,465,694</u>	<u>\$ 278,091,948</u>
Net pension liability - ending	<u>\$ 21,343,799</u>	<u>\$ 77,697,797</u>	<u>\$ 67,154,845</u>	<u>\$ 59,363,071</u>	<u>\$ 73,531,695</u>	<u>\$ 59,917,510</u>	<u>\$ 31,156,962</u>	<u>\$ 18,880,140</u>
Plan fiduciary net position as a percentage of the total pension liability	95.15%	81.71%	83.33%	84.40%	80.52%	82.26%	90.00%	93.64%
Covered - employee payroll	\$ 58,652,475	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071	\$ 50,889,313	\$ 48,452,015	\$ 47,369,513	\$ 43,282,954

**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 June 30, 2020 valuation date. This applies for voluntary benefit changes as well as any offers of two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes of Assumptions:** During measurement period 2014, the discount rate was 7.50%. 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 to the CalPERS Experience Study and Review of Actuarial. Assumptions December 2017. There was no change in assumptions during measurement period 2019, 2020, and 2021.

**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 relate to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

\*Year 2014 was the first year of implementation of GASB Statement No. 68, therefore only eight years of information is shown.



**THE STATE BAR OF CALIFORNIA**  
**Schedule of Plan Contributions - Pension (Unaudited)**  
**As of December 31, 2021**  
**Last 10 Years\***

For the Year Ended June 30	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 10,953,471	\$ 9,733,180	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102	\$ 4,167,567	\$ 4,166,043
Contributions in relation to the actuarially determined contributions	<u>(10,953,471)</u>	<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>	<u>(4,167,567)</u>	<u>(4,166,043)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 58,652,475</u>	<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>	<u>\$ 46,082,759</u>	<u>\$ 43,282,954</u>
Contributions as a percentage of covered-employee payroll	18.68%	17.98%	16.20%	12.50%	10.85%	10.04%	9.04%	9.63%

**Notes to Schedule**

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended June 30, 2021 was derived from the June 30, 2018 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of payroll
Asset Valuation Method	15 year smooth market
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.00% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

**THE STATE BAR OF CALIFORNIA**  
**Schedules of Changes in Net OPEB Liability (Asset) and Related Ratios (Unaudited)**  
**As of December 31, 2021**  
**Last 10 Years\***

Measurement Period Ended June 30	2021	2020	2019	2018
<b>Total OPEB Liability</b>				
Service cost	\$ 2,534,285	\$ 580,569	\$ 547,707	\$ 489,826
Interest on total OPEB liability	2,600,287	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	(1,281,476)	(1,133,033)	(1,172,820)	(1,418,516)
<b>Net change in total OPEB liability</b>	<b>3,853,096</b>	<b>23,595,012</b>	<b>418,433</b>	<b>(9,643,168)</b>
<b>Total OPEB liability - beginning</b>	<b>41,436,040</b>	<b>17,841,028</b>	<b>17,422,595</b>	<b>27,065,763</b>
<b>Total OPEB liability - ending</b>	<b>\$ 45,289,136</b>	<b>\$ 41,436,040</b>	<b>\$ 17,841,028</b>	<b>\$ 17,422,595</b>
<b>Plan fiduciary net position</b>				
Contributions - Employer	4,941,476	1,133,033	1,922,820	2,168,516
Net investment income	4,209,476	1,776,547	1,892,678	1,111,880
Benefits payments, including refunds of employee contributions	(1,281,476)	(1,133,033)	(1,172,820)	(1,418,516)
Administrative expense	(16,556)	(14,162)	(12,821)	(12,109)
<b>Net change in plan fiduciary net position</b>	<b>7,852,920</b>	<b>1,762,385</b>	<b>2,629,857</b>	<b>1,849,771</b>
<b>Plan fiduciary net position - beginning</b>	<b>29,819,206</b>	<b>28,056,821</b>	<b>25,426,964</b>	<b>23,577,193</b>
<b>Plan fiduciary net position - ending</b>	<b>37,672,126</b>	<b>29,819,206</b>	<b>28,056,821</b>	<b>25,426,964</b>
<b>Plan net OPEB liability (asset) - ending</b>	<b>\$ 7,617,010</b>	<b>\$ 11,616,834</b>	<b>\$ (10,215,793)</b>	<b>\$ (8,004,369)</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>83.2%</b>	<b>72.0%</b>	<b>157.3%</b>	<b>145.9%</b>
<b>Covered-employee payroll</b>	<b>\$ 58,652,475</b>	<b>\$ 54,145,762</b>	<b>\$ 50,333,174</b>	<b>\$ 49,538,071</b>
<b>Plan net OPEB (Asset) as a percentage of covered-employee payroll</b>	<b>12.99%</b>	<b>21.45%</b>	<b>-20.30%</b>	<b>-16.16%</b>

**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%.

**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 \$23.7 million change.

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

**THE STATE BAR OF CALIFORNIA**  
**Schedules of Contribution - OPEB Plan (Unaudited)**  
**As of December 31, 2021**  
**Last 10 Years\***

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 3,503,000	\$ 3,660,000	\$ -	\$ -
Contributions	<u>4,623,159</u>	<u>4,603,702</u>	<u>1,150,166</u>	<u>2,179,258</u>
Contribution deficiency (excess)	<u>\$ (1,120,159)</u>	<u>\$ (943,702)</u>	<u>\$ (1,150,166)</u>	<u>\$ (2,179,258)</u>
Covered payroll (measurement period ended June 30)	\$ 58,652,475	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071
Contribution as a percentage of covered-employee payroll	7.9%	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, 2021, was derived from the January 1, 2020, actuarial valuation as follows:

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	6.00%
Inflation	2.50%
Healthcare Trend Rate	Trend assumption based on the "Getsen" model developed by the Society of Actuaries. Assumed the vision cost would increase at an annual rate of 3.00% and 3.25%, respectively, for January 1, 2020 and 2018 valuations. Assumed the PEMCHA minimum contribution would grow with general medical inflation, and assumed the medical CPI increase at an annual rate of 3.00% and 3.25%, respectively, for January 1, 2020 and 2018 valuations.
Mortality	CalPERS Mortality rates which include 15 years of projected on-going improvement using 90 percent of scale MP-16.

\* Year 2018 was the first year implementation of GASB Statement No. 75, therefore only four 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, 2021**

	General Fund	SF Tenant Improvement	Admissions	Grants	Client Security
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 22,997,344	\$ 4,315,607	\$ 16,581,143	\$ 19,916,227	\$ 6,044,148
Investments	20,611,071	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,867,889 in 2021 and 2020	1,219,199	-	-	-	-
Other current assets	2,596,624	-	3,002	-	-
Total current assets	<u>47,424,238</u>	<u>4,315,607</u>	<u>16,584,145</u>	<u>19,916,227</u>	<u>6,044,148</u>
Noncurrent assets					
Restricted cash	-	3,172,743	-	-	-
Restricted Investments	-	11,999,720	-	-	-
Capital assets					
Nondepreciable	19,778,580	-	-	-	-
Depreciable, net	82,512,244	-	-	-	-
Total noncurrent assets	<u>102,290,824</u>	<u>15,172,463</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>149,715,062</u>	<u>19,488,070</u>	<u>16,584,145</u>	<u>19,916,227</u>	<u>6,044,148</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension items	7,881,618	-	-	-	-
Other postemployment benefits items	4,282,095	-	-	-	-
Total deferred outflows of resources	<u>12,163,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>161,878,775</u>	<u>19,488,070</u>	<u>16,584,145</u>	<u>19,916,227</u>	<u>6,044,148</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities	12,324,736	126,342	231,615	-	69,296
Unearned revenues collected in advance	20,377,312	-	5,356,585	19,633,333	1,960,633
Loans payable	811,000	1,907,584	-	-	-
Total current liabilities	<u>33,513,048</u>	<u>2,033,926</u>	<u>5,588,200</u>	<u>19,633,333</u>	<u>2,029,929</u>
Noncurrent liabilities					
Loans payable	12,426,000	18,582,989	-	-	-
Compensated absences	3,479,525	-	347,420	-	103,944
Net OPEB liability	7,617,010	-	-	-	-
Net pension liability	21,343,799	-	-	-	-
Total noncurrent liabilities	<u>44,866,334</u>	<u>18,582,989</u>	<u>347,420</u>	<u>-</u>	<u>103,944</u>
Total liabilities	<u>78,379,382</u>	<u>20,616,915</u>	<u>5,935,620</u>	<u>19,633,333</u>	<u>2,133,873</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension items	40,217,597	-	-	-	-
Other postemployment benefits items	2,712,425	-	-	-	-
Total deferred inflows of resources	<u>42,930,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>121,309,404</u>	<u>20,616,915</u>	<u>5,935,620</u>	<u>19,633,333</u>	<u>2,133,873</u>
<b>NET POSITION</b>					
Net investments in capital assets	89,053,824	(5,318,110)	-	-	-
Restricted for:					
Enabling legislation	-	-	10,648,525	-	3,910,275
Other restrictions	-	-	-	282,894	-
Unrestricted	<u>(48,484,453)</u>	<u>4,189,265</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 40,569,371</u>	<u>\$ (1,128,845)</u>	<u>\$ 10,648,525</u>	<u>\$ 282,894</u>	<u>\$ 3,910,275</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2021**

	Elimination of Bias	Equal Access	Information Technology Special Assessment	Justice Gap Fund	Lawyers Assistance Program
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 397,466	\$ 3,536,837	\$ 6,224	\$ 3,829,861	\$ 2,111,491
Investments	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,867,889 in 2021 and 2020	-	-	-	-	-
Other current assets	-	-	-	-	14,967
Total current assets	<u>397,466</u>	<u>3,536,837</u>	<u>6,224</u>	<u>3,829,861</u>	<u>2,126,458</u>
Noncurrent assets					
Restricted cash	-	-	-	-	-
Restricted Investments	-	-	-	-	-
Capital assets					
Nondepreciable	-	-	-	-	-
Depreciable, net	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>397,466</u>	<u>3,536,837</u>	<u>6,224</u>	<u>3,829,861</u>	<u>2,126,458</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
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>397,466</u>	<u>3,536,837</u>	<u>6,224</u>	<u>3,829,861</u>	<u>2,126,458</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities	-	3,782	-	-	28,509
Unearned revenues collected in advance	87,020	-	-	331,620	515,783
Loans payable	-	-	-	-	-
Total current liabilities	<u>87,020</u>	<u>3,782</u>	<u>-</u>	<u>331,620</u>	<u>544,292</u>
Noncurrent liabilities					
Loans payable	-	-	-	-	-
Compensated absences	-	-	-	-	42,764
Net OPEB liability	-	-	-	-	-
Net pension liability	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,764</u>
Total liabilities	<u>87,020</u>	<u>3,782</u>	<u>-</u>	<u>331,620</u>	<u>587,056</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
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>87,020</u>	<u>3,782</u>	<u>-</u>	<u>331,620</u>	<u>587,056</u>
<b>NET POSITION</b>					
Net investments in capital assets	-	-	-	-	-
Restricted for:					
Enabling legislation	-	3,533,055	6,224	3,498,241	1,539,402
Other restrictions	310,446	-	-	-	-
Unrestricted	-	-	-	-	-
Total net position	<u>\$ 310,446</u>	<u>\$ 3,533,055</u>	<u>\$ 6,224</u>	<u>\$ 3,498,241</u>	<u>\$ 1,539,402</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Net Position**  
**December 31, 2021**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Grand Total
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 528,731	\$ 29,044,676	\$ 7,008,519	\$ 7,139,874	\$ 123,458,148
Investments	-	-	-	-	20,611,071
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,867,889 in 2021 and 2020	-	2,005,298	-	-	3,224,497
Other current assets	-	-	-	-	2,614,593
Total current assets	<u>528,731</u>	<u>31,049,974</u>	<u>7,008,519</u>	<u>7,139,874</u>	<u>149,908,309</u>
Noncurrent assets					
Restricted cash	-	-	-	-	3,172,743
Restricted Investments	-	-	-	-	11,999,720
Capital assets					
Nondepreciable	-	-	-	-	19,778,580
Depreciable, net	-	-	-	-	82,512,244
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,463,287</u>
Total assets	<u>528,731</u>	<u>31,049,974</u>	<u>7,008,519</u>	<u>7,139,874</u>	<u>267,371,596</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	7,881,618
Other postemployment benefits items	-	-	-	-	4,282,095
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,163,713</u>
Total assets and deferred outflows of resources	<u>528,731</u>	<u>31,049,974</u>	<u>7,008,519</u>	<u>7,139,874</u>	<u>279,535,309</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities	10,850	28,494	8,367	-	12,831,991
Unearned revenues collected in advance	205,050	1,882,075	623,805	-	50,973,216
Loans payable	-	-	-	-	2,718,584
Total current liabilities	<u>215,900</u>	<u>1,910,569</u>	<u>632,172</u>	<u>-</u>	<u>66,523,791</u>
Noncurrent liabilities					
Loans payable	-	-	-	-	31,008,989
Compensated absences	16,275	42,741	12,551	-	4,045,220
Net OPEB liability	-	-	-	-	7,617,010
Net pension liability	-	-	-	-	21,343,799
Total noncurrent liabilities	<u>16,275</u>	<u>42,741</u>	<u>12,551</u>	<u>-</u>	<u>64,015,018</u>
Total liabilities	<u>232,175</u>	<u>1,953,310</u>	<u>644,723</u>	<u>-</u>	<u>130,538,809</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension items	-	-	-	-	40,217,597
Other postemployment benefits items	-	-	-	-	2,712,425
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,930,022</u>
Total liabilities and deferred inflows of resources	<u>232,175</u>	<u>1,953,310</u>	<u>644,723</u>	<u>-</u>	<u>173,468,831</u>
<b>NET POSITION</b>					
Net investments in capital assets	-	-	-	-	83,735,714
Restricted for:					
Enabling legislation	296,556	29,096,664	6,363,796	7,139,874	66,032,612
Other restrictions	-	-	-	-	593,340
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,295,188)</u>
Total net position	<u>\$ 296,556</u>	<u>\$ 29,096,664</u>	<u>\$ 6,363,796</u>	<u>\$ 7,139,874</u>	<u>\$ 106,066,478</u>



**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2021**

	General Fund	SF Tenant Improvement	Admissions	Grants	Client Security
<b>OPERATING REVENUES</b>					
Licensee fees and donations	\$ 83,882,829	\$ -	\$ 879,905	\$ -	\$ 8,061,178
Examination application fees	-	-	17,262,838	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	3,375	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	1,808,170	-	-	-	-
Continuing legal education fees	664,984	-	-	-	-
Grant revenue	-	-	-	9,923,704	-
EAF AB145 filing fee revenue	-	-	-	-	-
Other revenue	62,438	-	830,965	-	24,075
Unallocated Pension gain	15,379,467	-	-	-	-
Total operating revenues	101,801,263	-	18,973,708	9,923,704	8,085,253
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	59,124,212	-	-	-	-
State Bar Court	13,739,100	-	-	-	-
Attorney Regulation and Consumer Resources	5,968,145	-	-	-	-
Professional Competence	3,292,881	-	-	-	-
Probation	1,762,906	-	-	-	-
Mandatory Fee Arbitration	44,409	-	-	-	-
Judicial Evaluation	250,065	-	-	-	-
Center on Access to Justice	1,020,819	-	-	-	-
Communications	976,725	-	-	-	-
Governance	3,437,857	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-
Client Security Fund	-	-	-	-	6,407,813
Admissions	-	-	18,782,655	-	-
Grants	-	-	-	9,896,097	-
General and administration	6,025,427	143,312	-	(6,852)	-
Total operating expenses	95,642,546	143,312	18,782,655	9,889,245	6,407,813
OPERATING INCOME (LOSS)	6,158,717	(143,312)	191,053	34,459	1,677,440
<b>NONOPERATING REVENUES AND EXPENSES</b>					
Investment (loss) income	46,055	(502)	(6,738)	-	(1,662)
Rental income	3,133,009	-	-	-	-
Interest expense on loan	(307,724)	(374,441)	-	-	-
Total nonoperating revenues and expenses	2,871,340	(374,943)	(6,738)	-	(1,662)
INCOME/(LOSS) BEFORE TRANSFERS	9,030,057	(518,255)	184,315	34,459	1,675,778
Transfer in	57,091	-	-	-	5,520
Transfer out	(60,307)	-	(101,389)	-	(2,315)
CHANGE IN NET POSITION	9,026,841	(518,255)	82,926	34,459	1,678,983
NET POSITION—beginning of year	31,542,530	(610,590)	10,565,599	248,435	2,231,292
NET POSITION—end of year	\$ 40,569,371	\$ (1,128,845)	\$ 10,648,525	\$ 282,894	\$ 3,910,275

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2021**

	Elimination of Bias	Equal Access	Information Technology Special Assessment	Justice Gap Fund	Lawyers Assistance Program
<b>OPERATING REVENUES</b>					
Licensee fees and donations	\$ 314,893	\$ -	\$ -	\$ 1,175,151	\$ 2,104,211
Examination application fees	-	-	-	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	-	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	-	-	-	-	-
Continuing legal education fees	-	-	-	-	112
Grant revenue	-	20,392,000	-	-	-
EAF AB145 filing fee revenue	-	5,482,000	-	-	-
Other revenue	-	486,000	-	-	-
Unallocated Pension gain	-	-	-	-	-
Total operating revenues	<u>314,893</u>	<u>26,360,000</u>	<u>-</u>	<u>1,175,151</u>	<u>2,104,323</u>
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	-	-	-	-	-
State Bar Court	-	-	-	-	-
Attorney Regulation and Consumer Resources	-	-	-	-	-
Professional Competence	-	-	-	-	-
Probation	-	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-	-
Judicial Evaluation	-	-	-	-	-
Center on Access to Justice	-	-	-	-	-
Communications	-	-	-	-	-
Governance	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	2,286,347
Client Security Fund	-	-	-	-	-
Admissions	-	-	-	-	-
Grants	-	24,396,022	-	-	-
General and administration	338,044	900,498	-	13,719	-
Total operating expenses	<u>338,044</u>	<u>25,296,520</u>	<u>-</u>	<u>13,719</u>	<u>2,286,347</u>
<b>OPERATING INCOME (LOSS)</b>	(23,151)	1,063,480	-	1,161,432	(182,024)
<b>NONOPERATING REVENUES AND EXPENSES</b>					
Investment (loss) income	(177)	(7,018)	-	(1,552)	(1,809)
Rental income	-	-	-	-	-
Interest expense on loan	-	-	-	-	-
Total nonoperating revenues and expenses	<u>(177)</u>	<u>(7,018)</u>	<u>-</u>	<u>(1,552)</u>	<u>(1,809)</u>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	(23,328)	1,056,462	-	1,159,880	(183,833)
Transfer in	-	-	-	-	1,400
Transfer out	-	-	-	(1,500,000)	-
<b>CHANGE IN NET POSITION</b>	<u>(23,328)</u>	<u>1,056,462</u>	<u>-</u>	<u>(340,120)</u>	<u>(182,433)</u>
<b>NET POSITION—beginning of year</b>	333,774	2,476,593	6,224	3,838,361	1,721,835
<b>NET POSITION - end of year</b>	<u>\$ 310,446</u>	<u>\$ 3,533,055</u>	<u>\$ 6,224</u>	<u>\$ 3,498,241</u>	<u>\$ 1,539,402</u>

**THE STATE BAR OF CALIFORNIA**  
**Supplementary Information**  
**Program Funds Schedule of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2021**

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Interfunds Eliminations	Grand Total
<b>OPERATING REVENUES</b>						
Licensee fees and donations	\$ 726,163	\$ 6,926,358	\$ -	\$ -	\$ -	\$ 104,070,688
Examination application fees	-	-	-	-	-	17,262,838
Trust account revenue	-	22,526,029	-	-	-	22,526,029
Seminar/workshop revenue	-	-	-	-	-	3,375
Legal specialization fees	-	-	2,264,062	-	-	2,264,062
Law corporation registration fees	-	-	-	-	-	1,808,170
Continuing legal education fees	-	-	16,248	-	-	681,344
Grant revenue	-	-	-	-	-	30,315,704
EAF AB145 filing fee revenue	-	-	-	-	-	5,482,000
Other revenue	-	-	90,746	-	-	1,494,224
Unallocated Pension gain	-	-	-	-	-	15,379,467
Total operating revenues	<u>726,163</u>	<u>29,452,387</u>	<u>2,371,056</u>	<u>-</u>	<u>-</u>	<u>201,287,901</u>
<b>OPERATING EXPENSES</b>						
Chief Trial Counsel	-	-	-	-	-	59,124,212
State Bar Court	-	-	-	-	-	13,739,100
Attorney Regulation and Consumer Resources	-	-	-	-	-	5,968,145
Professional Competence	-	-	-	-	-	3,292,881
Probation	-	-	-	-	-	1,762,906
Mandatory Fee Arbitration	-	-	-	-	-	44,409
Judicial Evaluation	-	-	-	-	-	250,065
Center on Access to Justice	-	-	-	-	-	1,020,819
Communications	-	-	-	-	-	976,725
Governance	-	-	-	-	-	3,437,857
Lawyer Assistance Program	-	-	-	-	-	2,286,347
Client Security Fund	-	-	-	-	-	6,407,813
Admissions	-	-	-	-	-	18,782,655
Grants	-	23,951,697	-	2,272,758	-	60,516,574
General and administration	<u>779,777</u>	<u>2,441,111</u>	<u>1,746,876</u>	<u>148,952</u>	<u>-</u>	<u>12,530,864</u>
Total operating expenses	<u>779,777</u>	<u>26,392,808</u>	<u>1,746,876</u>	<u>2,421,710</u>	<u>-</u>	<u>190,141,372</u>
OPERATING INCOME (LOSS)	(53,614)	3,059,579	624,180	(2,421,710)	-	11,146,529
<b>NONOPERATING REVENUES AND EXPENSES</b>						
Investment (loss) income	(323)	(21,590)	(2,377)	(9,955)	-	(7,648)
Rental income	-	-	-	-	-	3,133,009
Interest expense on loan	-	-	-	-	-	(682,165)
Total nonoperating revenues and expenses	<u>(323)</u>	<u>(21,590)</u>	<u>(2,377)</u>	<u>(9,955)</u>	<u>-</u>	<u>2,443,196</u>
INCOME/(LOSS) BEFORE TRANSFERS	(53,937)	3,037,989	621,803	(2,431,665)	-	13,589,725
Transfer in	-	1,500,000	100,000	-	(1,664,011)	-
Transfer out	-	-	-	-	1,664,011	-
CHANGE IN NET POSITION	<u>(53,937)</u>	<u>4,537,989</u>	<u>721,803</u>	<u>(2,431,665)</u>	<u>-</u>	<u>13,589,725</u>
NET POSITION—beginning of year	<u>350,493</u>	<u>24,558,675</u>	<u>5,641,993</u>	<u>9,571,539</u>	<u>-</u>	<u>92,476,753</u>
NET POSITION - end of year	<u>\$ 296,556</u>	<u>\$ 29,096,664</u>	<u>\$ 6,363,796</u>	<u>\$ 7,139,874</u>	<u>\$ -</u>	<u>\$ 106,066,478</u>



# The State Bar *of California*

## **Statement of Expenditures of Mandatory Fees and Independent Accountant's Report Year Ended December 31, 2021**

**April 29, 2022**



## Independent Accountant's Report

To the Boards 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, 2021. The expenditures of mandatory fees for the year ended December 31, 2021 is 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 those requirements. Our responsibility is to express an opinion on the State Bar's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the State Bar complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether the State Bar complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the State Bar's compliance with the requirements of the Code, 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. Our examination does not provide a legal determination on the State Bar's compliance with specified requirements.

In our opinion, the State Bar complied, in all material respects, 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, based on the criteria set forth in the note to the Statement, for the year ended December 31, 2021.

This report is intended solely for the information and use of the Boards of Trustees and Management of the State Bar, and it is not intended to be, and should not be, used by anyone other than these specified parties.

San Francisco, California  
April 29, 2022

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2021

	<u>Dollar Amount</u>	<u>Percentage of Total Program Expenses</u>
CHARGEABLE EXPENSES AND RELATED		
PROGRAM REVENUES:		
Chief Trial Counsel	\$ 59,124,212	64.5%
Client Security Fund	6,407,813	7.0%
State Bar Court	13,739,100	15.0%
Attorney Regulation and Consumer Resources	5,968,145	6.5%
Professional Competence	3,292,881	3.6%
Lawyer Assistance Program	2,286,347	2.5%
Probation	1,762,906	1.9%
Communications	976,725	1.1%
Center on Access to Justice	1,020,819	1.1%
Judicial Evaluation	250,065	0.3%
Mandatory Fee Arbitration	44,409	0.1%
Program Revenues	<u>(3,131,418)</u>	<u>-3.4%</u>
Total chargeable program expenses	<u>\$ 91,742,004</u>	<u>100.0%</u>

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

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees  
Year Ended December 31, 2021

**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 an 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 2021 financial statements.

**Use of Estimates** – The preparation of the Statement requires management to make estimates and assumptions related to the amounts of chargeable expenditures 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 expenditures into chargeable and non-chargeable categories. Although derived from the State Bar’s audited 2021 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 expenditures, 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**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2021

**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 addition to these changes, 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 and not take the deduction from the annual fee 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 can deduct the 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, 2021.

**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**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2021

**3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)**

b. *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.)

c. *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)

d. *Attorney Regulations and Consumer Resources*

The Office of Attorney Regulations and Consumer Resources maintains the Court's roll of attorneys admitted to the practice of law by the court. It also bills and collects fees, costs, and penalties imposed on licensed attorneys, including reimbursements to the Client Security Fund and disciplinary costs. It also keeps track of all licensees of the Bar, including any record of discipline, and answers inquiries from courts, other governmental agencies, other states, and the public.

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**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2021

**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. *Center on Access to Justice*

This program addresses the development of policy and initiatives in collaboration with other institutions working to expand access to justice for low-income Californians (e.g. Judicial Council; legal services entities; local, state and national organizations such as the American Bar Association and National Legal Aid and Defender Association).

Programs that affect the public's access to justice fall within the exclusive preserve of the judicial branch. (See *Superior Court v. Mendocino*, supra (1996) 13 Cal.4th at 66.)

j. *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.

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2021

**3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)**

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.

k. *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. 4<sup>th</sup> 582, 622 (199).)

- 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**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2021

**3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)**

The 2021 State Bar indirect cost allocation to chargeable programs is summarized below:

General Counsel	\$ 4,588,817
Finance	2,836,900
Member Billing	951,600
Human Resources	1,732,400
General Services - Los Angeles	4,316,507
General Services - San Francisco	6,349,261
Information Technology	11,740,071
Governance	2,849,152
Recruitment & Retention	1,227,700
OPEB	3,660,000
	<hr/>
Indirect Cost Pool	40,252,408
Less: Overhead Allocation to Other Programs	(9,052,711)
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Overhead Allocation to Chargeable Program	\$ 31,199,697

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 collect of member dues. Program revenues for 2021 are comprised of:

Law Corporation Registration Fees	\$ 1,808,170
Continuing Legal Education Fees	664,984
Seminar/Workshop Revenue	3,375
Other	654,889
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Total	\$ 3,131,418

**THE STATE BAR OF CALIFORNIA**  
Statement of Expenditures of Mandatory Fees (Continued)  
Year Ended December 31, 2021

**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 \$52 for active and inactive attorneys. This amount included \$5 fixed by the court for legislative, \$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. *Lobbying*

Attorneys who do not want to fund lobbying and other legislative activity may deduct \$5. (Bus. & Prof. Code §6140.05.)

b. *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.)

c. *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.)