



# The State Bar of California

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## **OPEN SESSION**

### **AGENDA ITEM**

**4.1 MAY 2025**

### **AUDIT COMMITTEE**

**DATE:** May 14, 2025

**TO:** Members, Audit Committee  
Members, Board of Trustees

**FROM:** Aracely Montoya-Chico, Chief Financial Officer  
Coco Zeng, Controller, Office of Finance

**SUBJECT:** Approval of Annual Financial Statement Audit Pursuant to Business and Professions Code Section 6145(a), Including Legal Services Trust Fund Report Under Business and Professions Code Section 6222, and Presentation of Audit Results by Independent Auditors, Macias Gini & O'Connell

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### **EXECUTIVE SUMMARY**

Each fiscal year, the State Bar contracts with an independent accounting firm to perform an audit of its financial statements, and an examination of the Statement of Expenditures of Mandatory Fees and the Legal Services Trust Fund Program report. The Audit Committee is responsible for reviewing the annual financial statement audit results, the related auditor's report, and the agency's response. Pursuant to Business and Professions Code section 6145(a), the financial statements must be sent by May 31 each year to the Board of Trustees, the Chief Justice of the Supreme Court, and the Assembly and Senate Judiciary Committees. Statute also requires the audit report to include information about the receipt of funds in the Legal Services Trust Fund pursuant to Business and Professions Code sections 6210 through 6228. This staff report presents these reports to the Audit Committee for review.

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### **RECOMMENDED ACTION**

That the Audit Committee recommends the Board of Trustees receive and review the audited Financial Statements, the Statement of Expenditures of Mandatory Fees and the Legal Services Trust Fund Program report for the year ended December 31, 2024. In addition, that the Board authorizes staff to file the State Bar's audited Financial Statements and the Legal Services Trust Fund Program report with the Supreme Court, and the State Legislature by May 31, 2025.

## **DISCUSSION**

Business and Professions Code section 6145(a), requires the State Bar to employ an independent national or regional public accounting firm with at least five years of experience in governmental auditing for an audit of its financial statement for each fiscal year. The financial statements must be certified under oath by the chief financial officer of the State Bar, and a copy of the audited financial statement submitted by May 31 to the Board, to the Chief Justice of the Supreme Court, and to the Assembly and Senate Committees on Judiciary. Business and Professions Code section 6222 requires the State Bar to include a report of receipts of funds into the Legal Services Trust Fund, along with expenditures for administrative costs and disbursements of the funds.

The State Bar's annual financial audit was conducted by Macias Gini & O'Connell (MGO), an independent accounting firm. In July 2024, MGO was appointed for a three-year term, with two additional one-year optional renewals. Annie Louie, partner at MGO, met with the Audit Committee chair in October 2024 to discuss the scope and responsibilities of the audit for fiscal year ended December 31, 2024. MGO is presenting in this staff report the final draft reports for the following statements:

- Annual Audited Financial Statements (Attachment A)
- Statement of Expenditures of Mandatory Fees (Attachment B)
- Legal Services Trust Fund Program Report (Attachment C)
- Report to the Audit Committee and Board of Trustees (Attachment D)

## **KEY HIGHLIGHTS**

As of December 31, 2024, the State Bar's total net position was \$330 million, an increase of \$103 million, or 46 percent, from \$227 million in 2023. The increase was attributed mostly due higher Interest on Lawyers' Trust Accounts (IOLTA) revenue. Total assets and deferred outflows increased to \$572 million in 2024 from \$500 million in 2023, also driven by higher IOLTA revenues. Total liabilities and deferred inflows of resources decreased to \$241 million in 2024 from \$274 million in 2023. The decrease was mainly due to lower unearned revenues.

The auditor's opinion on each of the statements listed above is unmodified. No findings were reported in the current year.

### **A. Annual Audited Financial Statements & Independent Auditor's Report**

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.

This report is based on an audit conducted by MGO for the purpose of forming an opinion on the State Bar's financial statements as a whole.

### **B. Statement of Expenditures of Mandatory Fees**

To comply with the constitutional requirements for collection of mandatory fees under *Keller v. State Bar of California* (1990) 496 U.S. 1, the State Bar must prepare each year a statement of its major categories of expenses showing that no mandatory fees were used for political or ideological activities not “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.” The purpose of the Statement of Expenditures of Mandatory Fees is to provide an explanation of the mandatory licensing fees that each State Bar licensee must pay under state law in order to practice law in California. It describes and separates expenses of mandatory licensing fees by program into “chargeable” and “nonchargeable” categories.

Because of the deductions for the full expenses of these programs and the State Bar’s policy to fund them solely with voluntary revenues received from licensees electing not to take the deductions, the statement does not present any “nonchargeable” activities that are supported by the mandatory portion of the annual licensing fees. The statement is prepared using the State Bar’s most recently completed audited financial statement and shows the major categories of expenses with a brief description of each category so that each State Bar licensee may gauge whether the expense is justified under the *Keller* standard. An independent auditor must verify the Statement of Expenses of Mandatory Licensing Fees. The Statement of Expenditures of Mandatory Licensing Fees is then published by posting on the State Bar website and notice is included in the annual licensee billing statement.

### **C. Legal Services Trust Fund Program Report**

To ensure the State Bar’s compliance with the provisions of Business and Professions Code sections 6210 through 6228, grant allocations for the Legal Services Trust Fund Program were reviewed for compliance. Under the code provisions, interest earned on certain client trust accounts held by California attorneys is forwarded regularly to the State Bar. After the payment of administrative costs, the State Bar distributes 85 percent of the funds to qualified legal service projects and 15 percent of the funds to qualified legal support. The report consists of an operating statement of the Legal Services Trust Fund, notes to the statement, and grant disbursements scheduled, presented on a county-by-county basis.

### **D. Report to the Audit Committee and the Board of Trustees**

The Audit Committee is charged to assist the Board of Trustees in fulfilling its oversight responsibilities related to the integrity of accounting and financial reporting processes, the system of internal controls, and audit processes. Current audit standards require the independent auditors to meet with the Audit Committee, as described under Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*. The auditor shall communicate in a report to those charged with governance any material weakness or reportable conditions found during the audit, as defined by the generally accepted auditing standards. In addition, the following matters shall be reported:

- The auditor’s responsibility under generally accepted auditing standards
- Significant accounting policies
- Management judgments and accounting estimates
- Significant audit adjustments

- Disagreements with management
- Management consultation with other accountants
- Major issues discussed with management prior to retention
- Difficulties encountered in performing the audit

The report includes current-year recommendations from the auditors as well as an update on prior-year recommendations or findings, if any.

For the 2023 audit year, there was a recommendation to revisit the current approach to estimating the current and noncurrent portions of compensated absences and consider adopting a methodology that more accurately reflects current experience and expectations. This recommendation relates to an issue the Board of Trustees has considered on several occasions over the last year as related to the inclusion of leave accruals in the annual adopted budget. The State Bar has updated its methodology for compensated absences accruals calculations in 2024.

The current report notes that the 2023 recommendation has been fully addressed. There are no findings or recommendations to report in the current year.

Attachment D is the Report to the Audit Committee and Board of Trustees, which addresses the items above in more detail.

## **PREVIOUS ACTION**

None

## **FISCAL/PERSONNEL IMPACT**

None

## **AMENDMENTS TO RULES**

None

## **AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL**

None

## **STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS**

None – compliance

## **RESOLUTIONS**

Should the Audit Committee concur, it is:

**RESOLVED**, that the Audit Committee recommends that the Board of Trustees receives and reviews the State Bar's audited Financial Statements, the Statement of Expenditures of Mandatory Fees and the Legal Services Trust Fund Program Report for the year ended December 31, 2024; and it is

**FURTHER RESOLVED**, that the Audit Committee recommends that the Board of Trustees authorizes staff to file the State Bar's audited Financial Statements and the Legal Services Trust Fund Program report with the Supreme Court, and the State Legislature by May 31, 2025.

**Should the Board of Trustees concur, it is:**

**RESOLVED**, that the Board of Trustees, upon recommendation of the Audit Committee, receives the State Bar's audited Financial Statements, the Statement of Expenditures of Mandatory Fees and the Legal Services Trust Fund Program Report for the year ended December 31, 2024; and it is

**FURTHER RESOLVED**, that the Board of Trustees, upon recommendation of the Audit Committee, authorizes staff to file the State Bar's audited Financial Statements and the Legal Services Trust Fund Program report with the Supreme Court, and the State Legislature by May 31, 2025.

## **ATTACHMENTS LIST**

- A.** Annual Audited Financial Statements & Independent Auditor's Report
- B.** Statement of Expenditures of Mandatory Fees
- C.** Examination Legal Services Trust Fund Report
- D.** Report to the Audit Committee and Board of Trustees