



The State Bar of California

2024 Annual Financial Statement Audit Reports

Coco Zeng, Controller, Office of Finance

Aracely Montoya-Chico, Chief Financial Officer

Annie Louie, MGO Partner

Audit Committee Meeting, May 14, 2025

Overview



Background on
Audit Reports



Key Highlights of
Financial Results



Audit Results
Presentation with Annie
Louie, Macias Gini &
O'Connell (MGO) Partner



Background



**Audit
Committee
Oversight**



**MGO
Engagement**

July 2024



**Statutory
Deadline**

Financial report
submission required
by May 31, 2025



**Prepared by
Office of
Finance**



**Reporting
Period**

January 1 to
December 31, 2024





2024 Reports

- A. Annual Audited Financial Statements & Independent Auditor's Report
- B. Statement of Expenditures of Mandatory Fees
 - i. Compliance with Keller standard
 - ii. Cannot use mandatory fees paid by licensees for political or ideological activities not related to regulation of the legal profession
- C. Legal Services Trust Fund Report
 - i. Provision of Business and Professions Code sections 6210-6228
 - ii. Distribution of IOLTA funds to qualified legal services projects and legal support centers
- D. Report to the Audit Committee and the Board of Trustees



Statements of Net Position

Year Over Year Comparison

| | Dec 31, 2024 (in \$000s) | Dec 31, 2023 (in \$000s) | \$ Var | % Var |
|---|-----------------------------|-----------------------------|-------------------|-------------|
| Total Assets and deferred outflows | \$571,509 | \$500,408 | \$71,101 | 14% |
| Cash and investments | 386,354 | 313,642 | 72,712 | 23% |
| Accounts and other receivables | 22,518 | 21,191 | 1,327 | 6% |
| Capital assets | 109,506 | 115,863 | (6,357) | -5% |
| | | | | |
| Total Liabilities and deferred inflows | \$241,173 | \$273,536 | (\$32,363) | -12% |
| Lease liability | 48,376 | 51,009 | (2,633) | -5% |
| Unearned revenues | 22,522 | 67,067 | (44,545) | -66% |
| Net pension liability | 103,236 | 92,287 | 10,949 | 12% |
| | | | | |
| Total Net Position | \$330,336 | \$226,873 | \$103,463 | 46% |

Highlights

- Assets and deferred outflows increased \$71M primarily driven by:
 - Higher trust account revenues (IOLTA)
 - Accounts Receivable increase from attorney debt recognition
 - Capital asset depreciation and amortization
- Liabilities and deferred inflows decreased \$32M primarily due to:
 - Decrease in lease liability for 2024 payments
 - Decrease in unearned revenues due to 2025 licensee billing cycle change and less undistributed grants
 - Net pension liability increase (offset)



Statements of Revenues, Expenses and Changes in Net Position

Year Over Year Comparison

| | Dec 31, 2024 (in \$000s) | Dec 31, 2023 (in \$000s) | \$ Var | % Var |
|---|-----------------------------|-----------------------------|------------------|------------|
| Operating Revenues | \$442,019 | \$432,696 | \$9,323 | 2% |
| Examination application fees | 25,472 | 18,674 | 6,798 | 36% |
| Trust account revenue | 207,132 | 176,403 | 30,729 | 17% |
| Grant revenue | 83,483 | 119,499 | (36,016) | -30% |
| | | | | |
| Operating Expenses | \$353,527 | \$331,244 | \$22,283 | 7% |
| Chief Trial Counsel | 82,735 | 74,366 | 8,369 | 11% |
| Admissions | 28,588 | 25,477 | 3,111 | 12% |
| Grants | 179,621 | 168,744 | 10,877 | 6% |
| | | | | |
| Total nonoperating revenues and expenses | \$14,971 | \$11,373 | \$3,598 | 32% |
| Change in Net Position | \$103,464 | \$112,825 | (\$9,361) | -8% |
| Net Position – beginning | \$226,873 | \$114,048 | \$112,825 | 99% |
| Net Position – ending | \$330,336 | \$226,873 | \$103,463 | 46% |

Highlights

- Operating Revenues increased \$9M due to:
 - a. Higher exam fee revenues from more applicants and fee increases
 - b. Increase in trust account revenues (IOLTA) from higher account balances
 - c. Decrease in grant revenues distributed in 2024 (offset)
- Operating Expenses increased \$22M due to:
 - a. Higher personnel costs in Chief Trial Counsel and Admissions
 - b. Increased grant expenses due to more trust account revenues distributed in 2024
- Total net position increased \$103M due to:
 - a. Increased trust account revenues
 - b. General Fund operating at a deficit





2024 AUDIT RESULTS

State Bar of California

Presented by Macias Gini & O'Connell LLP

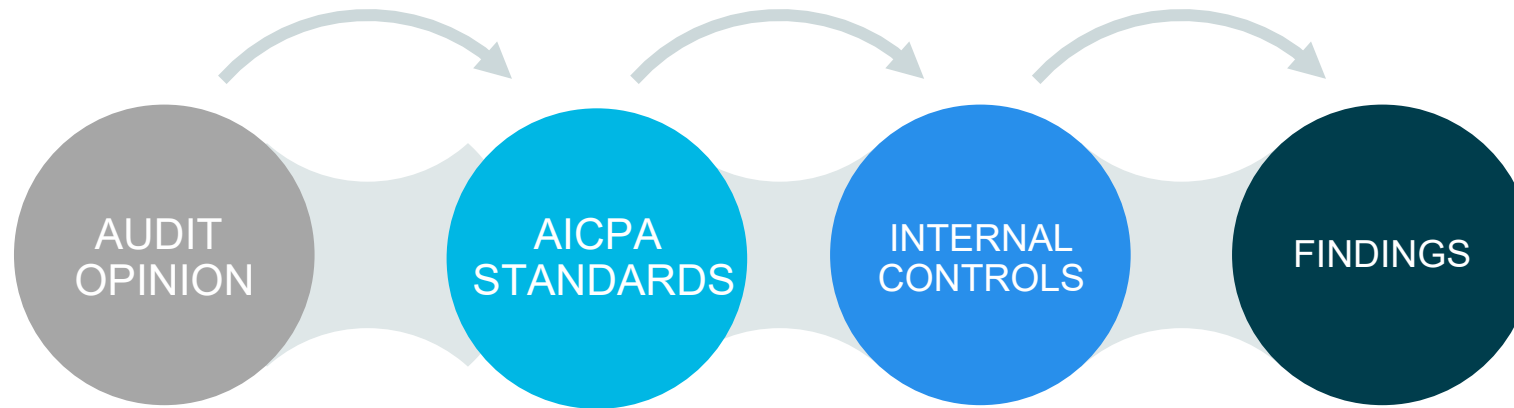
May 14, 2025

Scope of Services

1. Audit of the Basic Financial Statements
2. Examination report on State Bar of California's compliance with the Business and Professions Code related to the Legal Services Trust Fund
3. Examination report on the statement of expenditures of mandatory membership fees
4. Single Audit
5. Report to the Board of Trustees

Auditor Responsibility

Our responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*.



To express our opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. This does not relieve you or management of your responsibilities.

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and *Government Auditing Standards*, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

To obtain an understanding of the State Bar and its environment, including internal controls over financial reporting and compliance, as a basis for designing our audit procedures, but not for the purpose of expressing an opinion on its effectiveness.

To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Management Responsibilities

| | |
|---|---|
| Management responsibilities – Financial statements | <ul style="list-style-type: none">Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAPAdjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole |
| Management responsibilities – ICFR | <ul style="list-style-type: none">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 |
| Management responsibilities – Other | <ul style="list-style-type: none">To provide the auditor with:<ol style="list-style-type: none">access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;additional information that the auditor may request from management for the purpose of the audit; andunrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidenceIdentifying and ensuring that the entity complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulationsProviding the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's:<ol style="list-style-type: none">disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's financial reportingacknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud |
| Audit Committee responsibilities | <ul style="list-style-type: none">Oversight of the financial reporting process and internal control over financial reporting (ICFR)Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud |
| Management and the Audit Committee responsibilities | <ul style="list-style-type: none">Setting the proper tone and creating and maintaining a culture of honesty and high ethical standardsEnsuring that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the entity's financial statements. |

Audit Results and Required Communications

| | |
|---|---|
| Auditor's Report | Unmodified opinion on all reports |
| Deficiencies in internal controls | No matters to report |
| Significant accounting policies and practices | <p>Note 3 to basic financial statements</p> <p>Implementation of New GASB Statements:</p> <ul style="list-style-type: none">• GASB Statement No. 100, <i>Accounting Changes and Error Corrections</i>• GASB Statement No. 101, <i>Compensated Absences</i> <p>No exceptions noted.</p> |

Required Communications (continued)

Significant accounting estimates

| | |
|--|--|
| Fair value of investments | Investments are generally carried at fair value, which is defined as 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. |
| Allowance for doubtful accounts on accounts receivable | The allowance for losses on accounts receivable was based on historical experience and management's estimate regarding the likelihood of collectability. |
| Depreciation of capital assets, including leases and subscription-based information technology arrangements (SBITAs) | <p>Useful lives for depreciable capital assets were determined by management based on the nature of the capital asset. Lease and SBITA terms are derived from existing agreements and the State Bar's expectations for optional extensions or cancellations, where applicable. The State Bar uses the straight-line method of depreciation and amortization.</p> <p>The discount rate used for the calculation of the lease receivables and the subscription liabilities are based on the State Bar's incremental borrowing rate unless the rate is implicit in the lease.</p> |
| Pension and OPEB liabilities and related balances | Employer and employee contribution requirements, the net pension/OPEB liabilities and related deferred outflows and inflows of resources are based on actuarial calculations performed by the State Bar's and the CalPERS' independent actuaries. |

Required Communications (continued)

| | |
|--|---|
| Significant financial statement disclosures | Pension and OPEB benefits |
| Financial presentation and disclosure omissions | No matters to report |
| Corrected and uncorrected audit misstatements | No matters to report |
| Difficulties encountered in performing the audit | No matters to report |
| Disagreements with management | No matters to report |
| Representations Requested from Management | No matters to report |
| Management consultations with other independent accountants | No matters to report |
| Other Information in Documents Containing Audited Financial Statements | Required Supplementary Information (RSI) – unaudited Supplementary Information – audited in relation to the basic financial statements |

Accounting Updates

Effective for fiscal year 2025

Statement No. 102, *Certain Risk Disclosures*

Effective for fiscal year 2026

Statement No. 103, *Financial Reporting Model Improvements*

Statement No. 104, *Disclosure of Certain Capital Assets*

Questions?

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