



# The State Bar of California

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## **OPEN SESSION**

### **AGENDA ITEM**

**54-144 SEPTEMBER 2020**

**FINANCE COMMITTEE III.C**

**DATE: September 8, 2020**

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

**FROM: John Adams, Chief Financial Officer**

**SUBJECT: Q2 Financial Statement Report, Investment Report, and Client Security Fund Report**

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## **EXECUTIVE SUMMARY**

In adherence with the Board of Trustees Policy Manual, Section 5.2.1, the Office of Finance has prepared the accompanying unaudited financial reports for the second quarter ending June 30, 2020. For the second quarter, the financial report consists of three separate reports: Financial Statements, Investment Report, and Client Security Fund Report.

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## **BACKGROUND**

To increase transparency and to ensure public confidence in the operations of the State Bar at all levels, the Office of Finance prepares timely quarterly statements that show the financial condition of the State Bar, investments held by the State Bar, and the activity occurring in the Client Security Fund. The Finance Committee is responsible for reviewing quarterly reports prepared by the Office of Finance.

## **DISCUSSION**

The Financial Report for the second quarter ended June 30, 2020 is composed of multiple attachments, including: the Q2 Financial Statements, the Investment Report ending as of June 30, 2020, and the Q2 Client Security Fund Report. This agenda item is also on the consent agenda for the September 24, 2020 Board meeting.

## **FISCAL/PERSONNEL IMPACT**

None

## **AMENDMENTS TO RULES OF THE STATE BAR**

None

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

None

## **STRATEGIC PLAN GOALS & OBJECTIVES**

Goal: None - compliance

## **RECOMMENDATIONS**

**Should the Finance Committee concur in the proposed action, passage of the following resolution is recommended:**

**RESOLVED**, that the Finance Committee recommends that the Board of Trustees approves the 2020 Second Quarter Financial Report in this form on this day before the Board, for the six months ending June 30, 2020, as certified by the Chief Financial Officer and filed with the San Francisco office of the State Bar.

**Should the Board of Trustees concur in the proposed action, passage of the following resolution is recommended:**

**RESOLVED**, that upon recommendation of the Finance Committee, the Board of Trustees approves the 2020 Second Quarter Financial Report in this form on this day before the Board, for the six months ended June 30, 2020, as certified by the Chief Financial Officer and filed with the San Francisco office of the State Bar.

## **ATTACHMENT(S) LIST**

- A. Financial Statements as of June 30, 2020
- B. Investment Report for the Second Quarter Ended June 30, 2020
- C. Client Security Fund Report for the Second Quarter Ended June 30, 2020



# The State Bar of California

OFFICE OF FINANCE

Date: September 8, 2020

To: Members, Finance Committee  
Members, Board of Trustees

From: John Adams, Chief Financial Officer

Subject: 2nd Quarter 2020 Financial Statements

This memo outlines the State Bar's second quarter operating results and fiscal position as of June 30, 2020, with information and comparative analysis regarding revenue, expenses, net surplus, assets, liabilities, and net position.

## FINANCIAL HIGHLIGHTS

The table below summarizes highlights of the financial statements:

**Table 1. Financial Highlights for Year-to-Date through June 30, 2020**

ASSETS AND LIABILITIES: YEAR OVER YEAR COMPARISON					
Financial Statement Category	June 30, 2020 (in \$M)	June 30, 2019 (in \$M)	Changes (in \$M)	Changes (in %)	Refer to Attachment
<b>Total Assets</b>	<b>\$300.5</b>	<b>\$298.2</b>	<b>\$2.3</b>	<b>0.8%</b>	<b>4&amp;5</b>
Cash & Investments	163.2	162.2	1.0	0.6%	4&5
Deferred Outflows of Resources	9.5	14.6	(5.1)	-34.9%	4&5
<b>Total Liabilities</b>	<b>123.2</b>	<b>111.1</b>	<b>\$12.1</b>	<b>10.9%</b>	<b>4&amp;5</b>
Deferred Inflows of Resources	7.7	10.9	(3.2)	-29.3%	4&5
Net Pension Liabilities	67.2	59.4	7.8	13.1%	4&5
Loans Payable	21.0	23.6	(2.6)	-11.0%	4&5
<b>Net Position</b>	<b>\$177.3</b>	<b>187.1</b>	<b>(\$9.8)</b>	<b>-5.3%</b>	<b>4&amp;5</b>

### ASSETS

The State Bar’s total assets consist of cash, investments, accounts receivable, capital assets, OPEB plan assets and deferred outflows of resources. Total assets increased by \$2.3 million, from \$298.2 million at June 30, 2019 to \$300.5 million at June 30, 2020. Net position (total assets minus total liabilities) at June 30, 2020 was \$177.3 million, a decrease of \$9.8 million compared to \$187.1 million in the prior year. The decrease is mostly from the spend down of the Bank Settlement Funds.

### LIABILITIES

The State Bar’s total liabilities consist of accounts payable to vendors, unearned fees collected in advance, grants payable, net pension liabilities, the deferred inflows of resources related to pension, loans payable, and employee vacation and sick leave accruals. As of June 30, 2020, the State Bar’s total liabilities were \$123.2 million, up by \$12.1 million compared to \$111.1 million at the 2nd quarter of 2019.

### NET POSITION

Net position consists of restricted and unrestricted net position and investment in capital assets. The State Bar’s total net position (total assets minus total liabilities) as of June 30, 2020 was \$177.3 million, a decrease of \$9.8 million or 5.3 percent compared to \$187.1 million last year.

Year-to-date through June 30, 2020, operating revenue was \$159.1 million, 1.4 percent lower than the budget of \$161.4 million. Total operating expenses were \$130.1 million, 11.0 percent higher than the \$117.2 million budget.

Table 2 below provides budget to actual variance analysis for select revenues and business units:

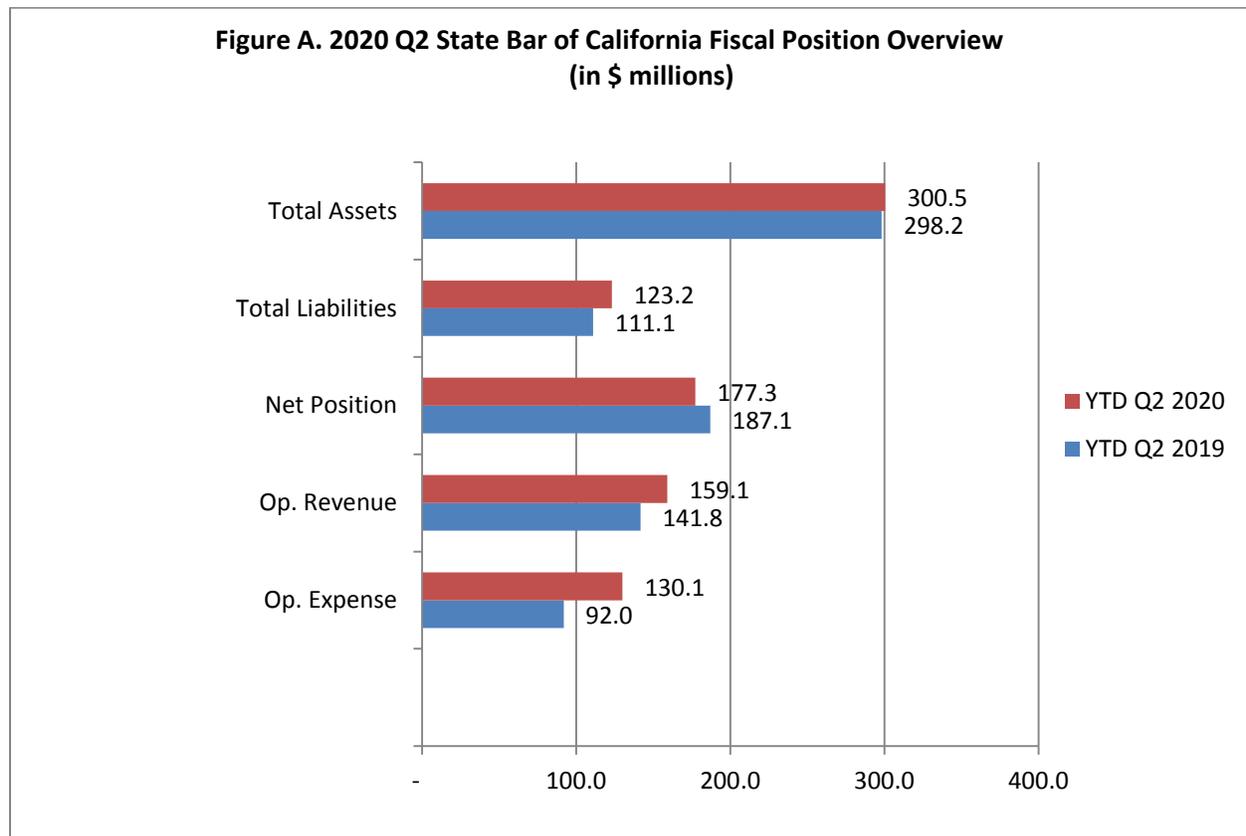
**Table 2. Budget to Actual Variance Analysis**

<b>OPERATING REVENUE AND EXPENSES: BUDGET TO ACTUAL VARIANCE</b>					
<b>Financial Statement Category</b>	<b>2020 Q2 Actual (in \$M)</b>	<b>2020 Q2 Budget (in \$M)</b>	<b>Variance (in \$M)</b>	<b>Variance (in %)</b>	<b>Refer to Attachment</b>
<b>Operating Revenue</b>	<b>159.1</b>	<b>161.4</b>	<b>2.3</b>	<b>-1.4%</b>	<b>1,2,3</b>
Licensing Fees & Donations	106.3	104.6	1.7	1.6%	1,2,3
<b>Operating Expenses</b>	<b>130.1</b>	<b>117.2</b>	<b>-12.9</b>	<b>(11.0%)</b>	<b>1,2,3</b>
General & Administrative	-4.2	0.9	5.1	-566.7%	1,2,3

**Table 2. Budget to Actual Variance Analysis (con't)**

<b>OPERATING REVENUE AND EXPENSES: BUDGET TO ACTUAL VARIANCE</b>					
<b>Financial Statement Category</b>	<b>2020 Q2 Actual (in \$M)</b>	<b>2020 Q2 Budget (in \$M)</b>	<b>Variance (in \$M)</b>	<b>Variance (in %)</b>	<b>Refer to Attachment</b>
Chief Trial Counsel	28.1	29.2	1.1	3.8%	1,2,3
Client Security Fund	6.2	7.9	1.7	21.5%	1,2,3
Admissions	9.3	11.7	2.4	-42.4%	1,2,3
Access & Inclusion	72.9	51.6	-21.3	-41.3%	1,2,3

Figure A below summarizes the State Bar’s financial position at the end of the Q2 2020, compared to Q2 2019.



See attachments 1 and 2 for more detailed comparisons of the State Bar’s financial position at June 30, 2019 versus June 30, 2020.<sup>1</sup>

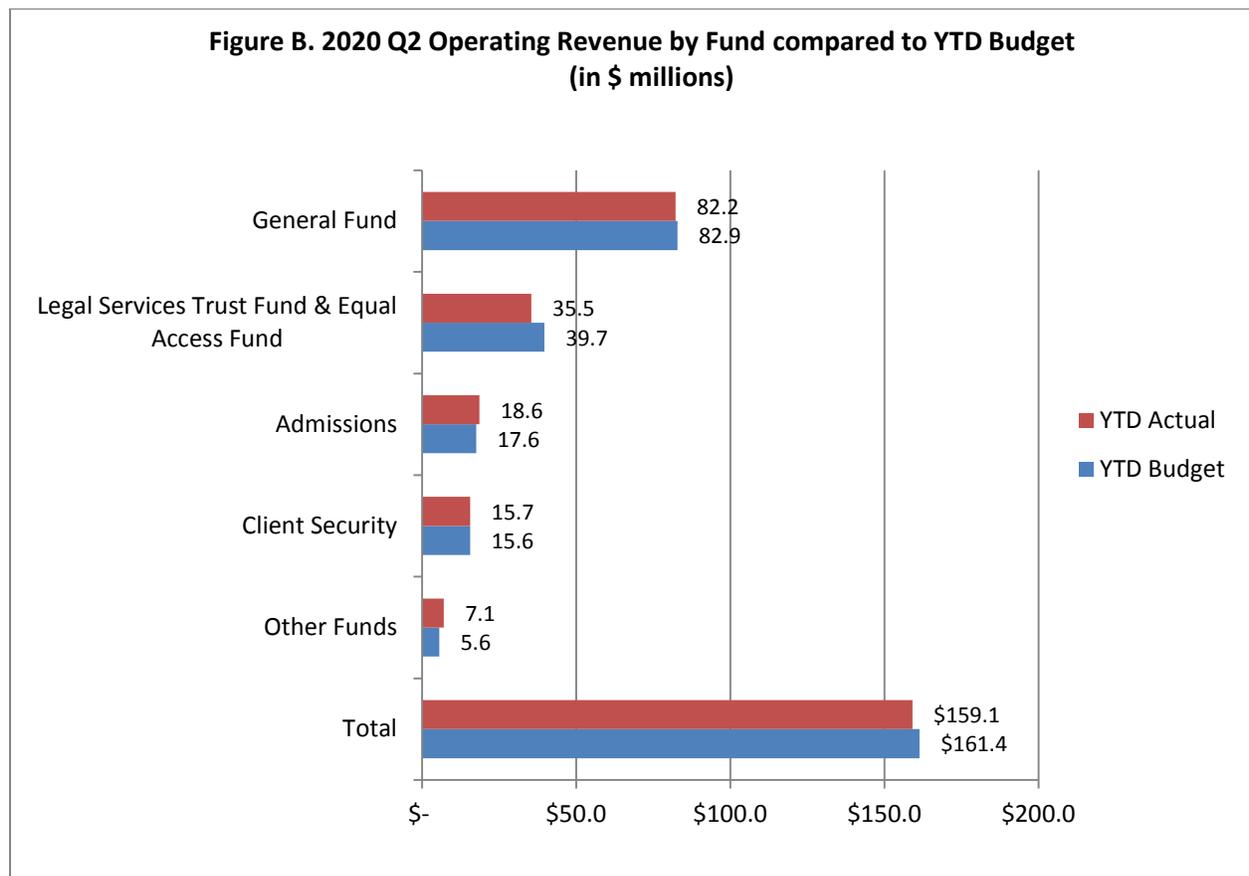
<sup>1</sup> **Note:** totals for Figures and Attachments may vary depending on revenue/expense items and level of detail displayed, in compliance with generally accepted accounting standards.

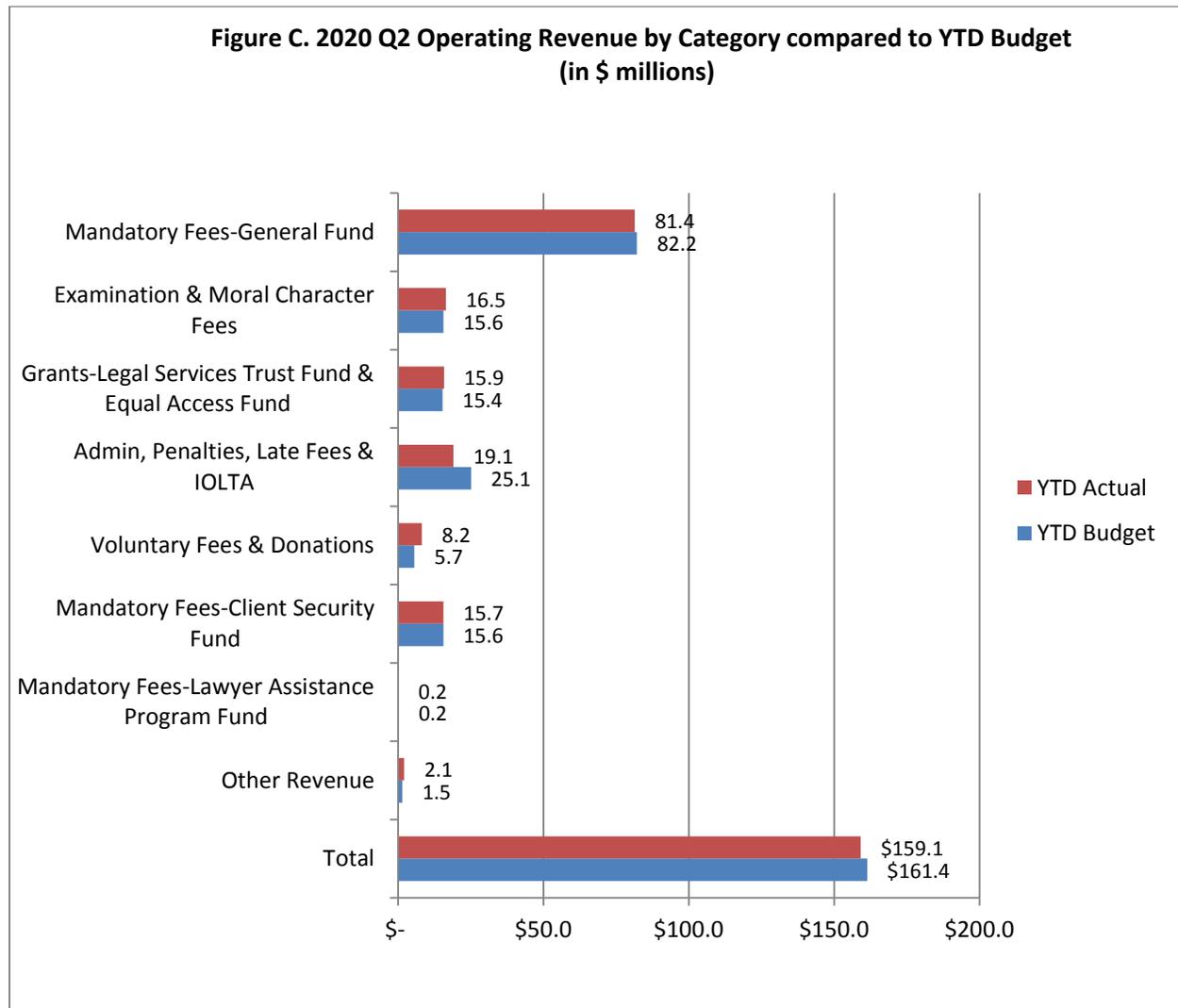
## REVENUE

Figures B and C compare budget to actuals for operating revenue, with Figure B presenting at the fund level and Figure C by revenue category. Overall, operating revenue totaled \$159.1 million through the second quarter of 2020, \$2.3 million less than the budgeted operating revenue of \$161.4 million.

The primary contributors to this negative variance are: Grant Income, which was \$1.9 million under budget because of timing of payments, and licensing fees, which was \$0.9 million under budget because the suspension deadline was moved from July 1 to October 1.

See Attachment 3 for a comparison of actuals for both operating revenue and operating expenses through Q2 2020 versus Q2 2019.





**NONOPERATING REVENUE**

Nonoperating revenue consists of investment income, rental income, and interest expense on loans. Investment income through Q2 2020 is \$2.1 million, \$0.5 million over the \$1.6 million budget, but was \$0.6 million lower than 2019.

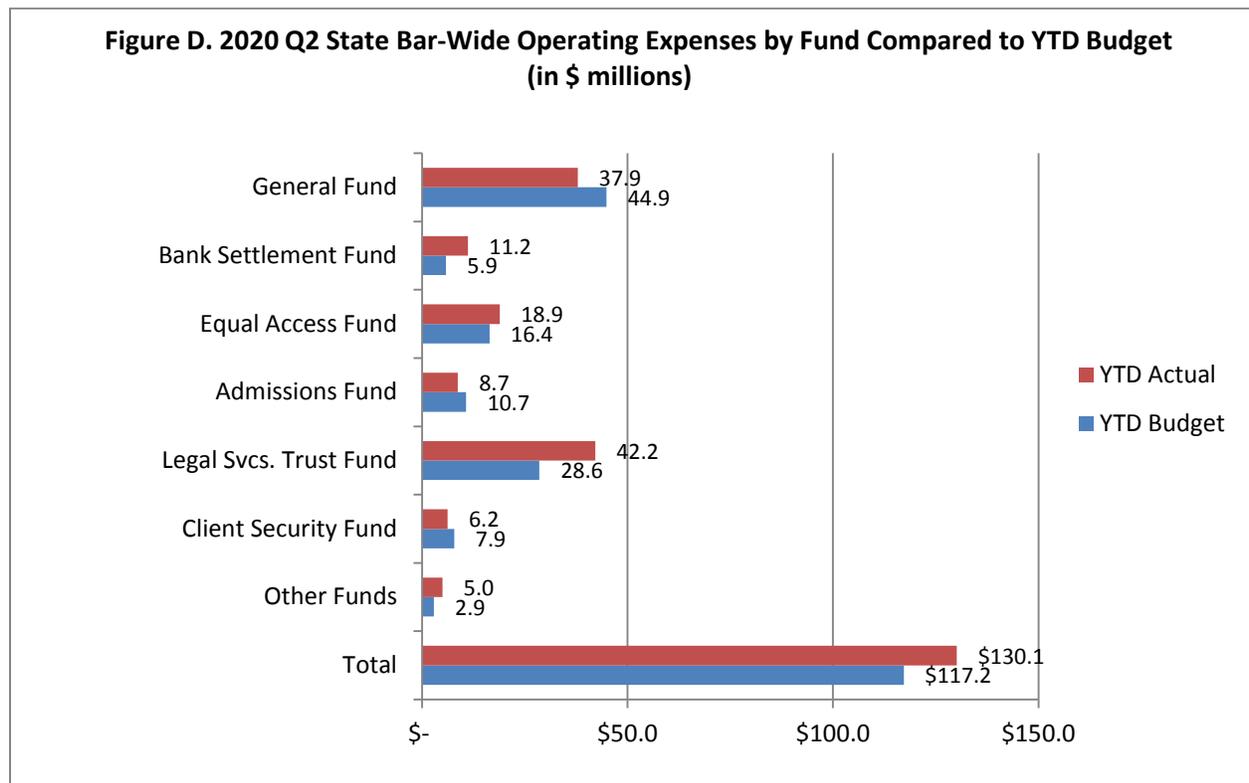
**EXPENSES**

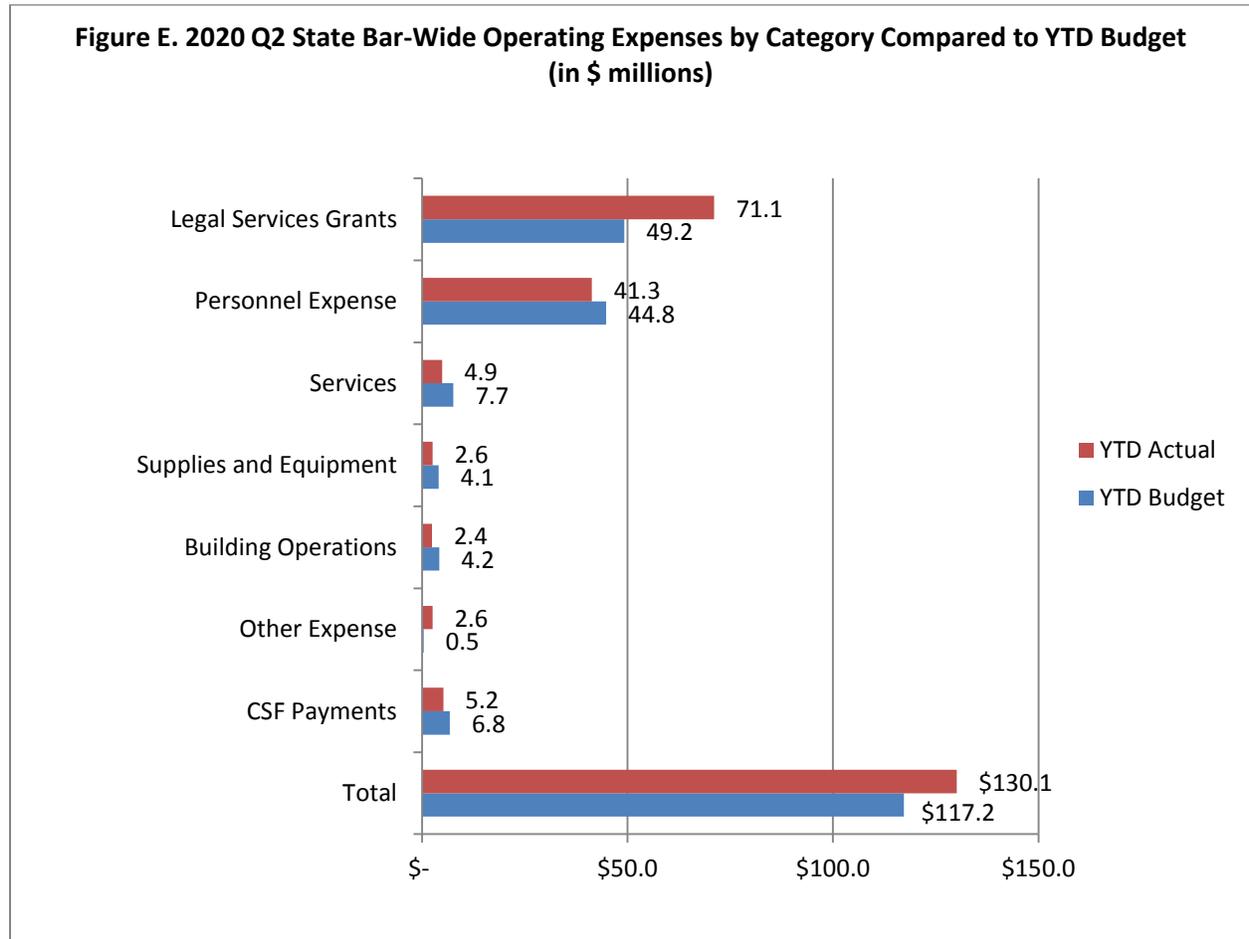
The State Bar’s operating expenses through the second quarter 2020 were \$130.1 million, compared to a budget of \$117.2 million. Savings on personnel expenses were \$3.5 million across the entire State Bar due to staff vacancies. Client Security Fund payments are \$1.6 million under budget, and exam expenses are \$1.4 million under budget.

Figures D and E summarize the State Bar’s 2020 year-to-date operating expenses compared to budget by fund and by category.

There is \$7 million of savings in the General Fund, due primarily to savings in personnel expenses and in professional services. The savings in professional services is anticipated to be used in the second half of the fiscal year.

Figure E shows Legal Services Grant awards exceeding budget by almost \$22 million through the first six months, but Grant payments are projected to be on budget by year-end.





Attachments:

- Attachment 1 – Operating Revenue, Operating Expenses, and Changes in Net Position (State Bar-Wide)
- Attachment 2 – Operating Revenue, Operating Expenses, and Changes in Net Position (Nongeneral Funds)
- Attachment 3 – Variances Year-over-Year for Operating Revenue, Operating Expenses, and Changes in Net Position (State Bar-Wide)
- Attachment 4 – Assets, Liabilities, and Net Position (State Bar-Wide)
- Attachment 5 – Assets, Liabilities, and Net Position (Nongeneral Funds)



# The State Bar of California

OFFICE OF FINANCE

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Date: September 8, 2020

To: Members, Finance Committee  
Members, Board of Trustees

From: John Adams, Chief Financial Officer

Subject: Investment Report for the 2nd Quarter Ended June 30, 2020

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Attached is the quarterly Investment Report for the State Bar of California as of June 30, 2020. The report is presented in a format that conforms to the investment policy adopted by the Board of Trustees. The State Bar's investment portfolio consists of fixed income securities and deposits with Wells Fargo Bank and with the State Treasurer's Local Agency Investment Fund (LAIF). As of June 30, 2020, the market value of the investment portfolio was \$145.0 million compared to \$142.6 million as of June 30, 2019.

The quarterly rate of return of the investment portfolio for this quarter is 1.71 percent. Interest rates are lower in comparison to the year prior, the quarterly interest rate on deposits in the LAIF decreased from 2.44 percent for the quarter ended June 30, 2019 to 1.41 percent for the quarter ended June 30, 2020. As of September 3, 2020, the daily rate at LAIF was 0.72 percent. For the fiscal year, actual investment earnings decreased from \$2.74 million in 2019 to \$2.13 million in 2020.

The State Bar's investment strategy is to purchase bonds and hold them until maturity to realize the full value of the investment. Unrealized gains or losses in the portfolio would only be recognized if a security was sold before maturity. Temporary price changes or market value fluctuations in the portfolio of held-to-maturity securities are recorded in the State Bar's quarterly financials.



# The State Bar *of California*

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OFFICE OF FINANCE

Date: September 8, 2020

To: Members, Finance Committee  
Members, Board of Trustees

From: John Adams, Chief Financial Officer

Subject: Client Security Fund Report for the Second Quarter Ending June 30, 2020

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Attached are a series of reports for the applications activity within the Client Security Fund (CSF) for the quarter ending June 30, 2020. These reports include:

- Status on Applications Activity for the quarter ended June 30, 2020
- Applications Aging Report
- Cumulative Applications Aging Report
- 24-Month Rolling Average of Applications Payout Ratio
- Analysis of New Applications Paid, Rejected or Withdrawn

As of June 30, a total of 275 new applications in the amount of \$7.2 million were filed. The number of applications filed has decreased by 32 percent, compared to 404 applications filed last year. The application amount decreased by \$1.0 million, or 12.2 percent compared to \$8.2 million filed in 2019.

For the quarter ending June 30, 2020, total applications processed are 522 for approximately \$9.5 million. Total payouts for 2020 are \$5.1 million, which increased by \$1.3 million in comparison to \$3.8 million the year prior. Total applications pending for processing as of June 30, 2020 are 2,134 in the amount of \$45.5 million, and for the same period in 2019, there were 2,532 pending applications in the amount of \$48.8 million.

For this report, the Office of Finance estimated the application payout amount based on a rolling average of 24-month historical applications payout ratio, currently 40.5 percent. As of June 30, 2020, total applications outstanding are 2,134 for \$45.5 million. Applying the rolling average applications payout ratio to the outstanding application amounts, the estimated

application payout as of June 30, 2020 is \$18.4 million, and there is a 3.2 percent decrease of \$0.6 million compared to \$19.0 million last year.

As of June 30, 2020, cash and investments available for applications reimbursement in the CSF are approximately \$9.5 million compared to \$3.9 million last year.

Key indicators for the CSF application process as of June 30, 2020 and 2019 are shown below:

<b>Key Indicator Descriptions</b>	<b>2020 Q2</b>	<b>2019 Q2</b>	<b>Attachment</b>
New Applications Received #/\$ (in million)	275/\$7.2	404/\$8.2	1
Total Applications Processed #/\$ (in million)	522/\$9.5	763/\$11.3	2
% of Paid Applications in # to total in process <sup>1</sup>	14.3%	14.0%	1
% of Paid Applications in \$ to total in process <sup>2</sup>	9.3%	6.3%	1
Total Payouts \$ (in million)	\$5.1	\$3.8	2
Total Applications Pending for Processing #/\$ (in million)	2,134/\$45.5	2,532/\$48.8	2
24-month Rolling Average Payout Ratio	40.48%	38.96%	4
Estimated CSF Application Liabilities (in million)	\$18.4	\$19.0	2
Net Assets as of March 31 (in million)	\$9.5	\$3.9	3

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<sup>1</sup> # of total in process represents pending application from prior year plus additional application filed in current fiscal year.

<sup>2</sup> \$ of total in process represents total application amount pending for processing from prior year plus additional applications filed in current fiscal year.