

# **OPEN SESSION AGENDA ITEM**

## **54-141 MARCH 2018 F&P COMMITTEE ITEM III.B.**

**DATE:** March 8, 2018

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

**FROM:** Kevin Harper, Interim Chief Financial Officer

**SUBJECT:** 2017 Q4 Financial Statement Report, Investment Report and CSF Report

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### **EXECUTIVE SUMMARY**

In adherence to the State Bar's Fiscal Control Policies and Procedures, the Office of Finance has prepared the Financial Report (Pre Audit) for the year ended December 31, 2017 for the Board's review. This financial report consists of three separate reports: Financial Statement Report, Investment Report and Client Security Fund Report.

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### **BACKGROUND**

None

### **DISCUSSION**

The following matters are on the consent agenda for the Board's March 9, 2018 meeting:

2017 Q4 Financial Statement Report, Investment Report and Client Security Fund Report.

### **FISCAL/PERSONNEL IMPACT**

None

### **RULE AMENDMENTS**

None

### **BOARD BOOK AMENDMENTS**

None

## **STRATEGIC PLAN GOALS & OBJECTIVES**

Goal: 3. Improve the fiscal and operational management of the State Bar, emphasizing integrity, transparency, accountability, and excellence.

Objective: d: Reallocate funds to support the discipline system based on expenditure review, revenue enhancement measures, implementation of the Bar's reserve policy, and other reengineering efforts.

## **RECOMMENDATION**

It is recommended that the Board of Trustees approve the following resolution:

**RESOLVED**, that the Board of Trustees approve the Financial Report, Investment Report and CSF Report (Pre-Audit) for the year ended December 31, 2017 in the form this day before the Board, as presented by the Chief Financial Officer, and on file in the Los Angeles office of the State Bar.

## **ATTACHMENT(S) LIST**

- A.** Financial Statement Report
- B.** Investment Report
- C.** Client Security Fund (CSF) Report

## The State Bar of California

### Financial Report for the Fourth Quarter Ended December 31, 2017

This report outlines the State Bar's fourth quarter operating results and fiscal position as of December 31, 2017, with information and comparative analyses regarding revenues, expenses, net surplus, assets, liabilities and net position. This report includes the following statements/attachments.

- Attachment 1 – Revenues, Expenses and Changes in Net Position (Bar Wide)
- Attachment 2 – Revenues, Expenses and Changes in Net Position (Non General Funds)
- Attachment 3 – Variance Analysis: Revenues, Expenses and Changes in Net Position (Bar Wide)
- Attachment 4 – Assets, Liabilities & Net Position (Bar Wide)
- Attachment 5 – Assets, Liabilities & Net Position (Non General Funds)

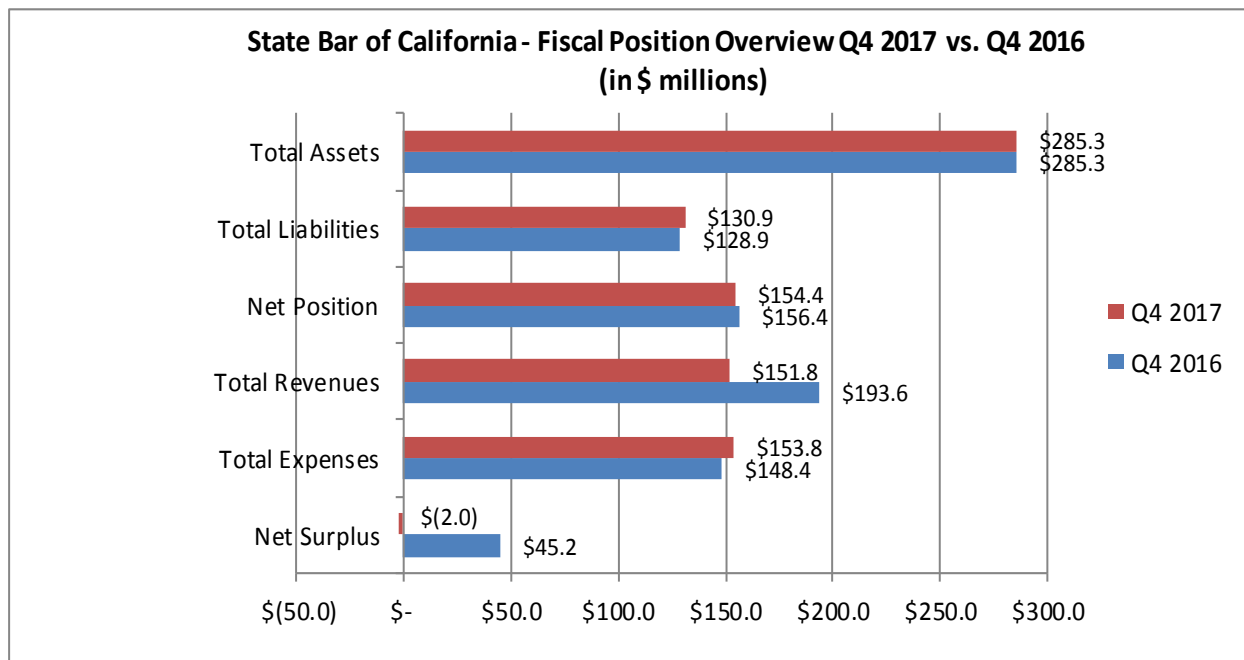
### Financial Highlights

Total assets as of December 31, 2017 were \$285.3 million, liabilities were \$130.9 million, and net position was \$154.4 million. For the reporting quarter, total revenues were \$151.8 million, at over 100.0% of \$144.3 million adopted 2017 budget. Total expenses were \$153.8 million at 91.8% of \$167.5 million adopted budget. Below is a summary of key financial highlights of the financial statements:

**Table 1. Financial Highlights as of and for the Year Ended December 31, 2017**

<i><b>Financial Statement Category</b></i>	<i><b>2017 Q4 (in \$ M)</b></i>	<i><b>2016 Q4 (in \$ M)</b></i>	<i><b>Changes (in \$ M)</b></i>	<i><b>Changes in %</b></i>	<i><b>Reference to Attachment</b></i>
<b>Total Assets</b>	<b>\$ 285.3</b>	<b>\$ 285.3</b>	<b>\$ -</b>	<b>0.0%</b>	4 & 5
Cash & Investments	132.4	132.9	(0.5)	(0.4%)	4 & 5
OPEB Plan Asset	11.8	10.8	1.0	9.3%	4 & 5
Deferred Outflows of Resources	33.2	33.2	-	0.0%	4 & 5
<b>Total Liabilities</b>	<b>\$ 130.9</b>	<b>\$ 128.9</b>	<b>\$ 2.0</b>	<b>1.6%</b>	4 & 5
Deferred Inflows of Resources	11.9	11.9	-	0.0%	4 & 5
Net Pension Liabilities	60.0	60.0	-	0.0%	4 & 5
Loan Payable	27.2	27.0	0.2	0.7%	4 & 5
<b>Total Revenues</b>	<b>\$ 151.8</b>	<b>\$ 193.6</b>	<b>\$ (41.8)</b>	<b>(21.6%)</b>	1,2,3
Membership Fees:					
General Fund	65.5	66.4	(0.9)	(1.4%)	1,2,3
Other Funds	18.6	19.0	(0.4)	(2.1%)	1,2,3
Bank Settlement Grant	-	44.7	(44.7)	(100.0%)	1,2,3
<b>Total Expenses</b>	<b>\$ 153.8</b>	<b>\$ 148.4</b>	<b>\$ 5.4</b>	<b>3.6%</b>	1,2,3
Personnel Costs	72.3	70.0	2.3	3.3%	NA
Travel & Training	2.7	2.9	(0.2)	(6.9%)	NA
Catering	1.4	1.8	(0.4)	(22.2%)	NA
Temporary Help	2.1	2.4	(0.3)	(12.5%)	NA
Professional Services	5.4	3.5	1.9	54.3%	NA
Client Security Fund Disbursements	6.3	8.0	(1.7)	(21.3%)	NA

The State Bar's total assets at December 31, 2017 were \$285.3 million, same as last year. Total liabilities increased by \$2.0 million, from \$128.9 million in 2016 to \$130.9 million in 2017. Net position (total assets – total liabilities) at December 31, 2017 was \$154.4 million, a decrease of \$2.0 million compared to \$156.4 million last year. Attachments 4 and 5 present the State Bar's fiscal position. Figure A below is a chart summarizing the State Bar's fiscal position at the end of fourth quarter compared to last year.



## Assets

The State Bar's total assets consist of cash, investments, accounts receivable, capital assets, OPEB plan asset and deferred outflows of resources. As of December 31, 2017, the Bar's total assets were \$285.3 million, same as the fourth quarter last year. Cash and restricted cash is up \$28.3 million due to maturity of investments which reduced \$28.9 million at December 31, 2017. OPEB Investments totaled \$25.3 million.

## 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 due to implementation of GASB 68, loans payable, and employee vacation and sick leave accruals.

As of December 31, 2017, State Bar's total liabilities were \$130.9 million, up by \$2.0 million or 1.6% compared to \$128.9 million last year. The increase is due primarily to a \$5.9 million increase in unearned income due to future year attorneys' fees and partially offset by a \$2.1 million decrease in loans payable due to repayments made in the past year.

## 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 – total liabilities) as of December 31, 2017 was \$154.4 million, down slightly by \$2.0 million or 1.3% compared to \$156.4 million last year.

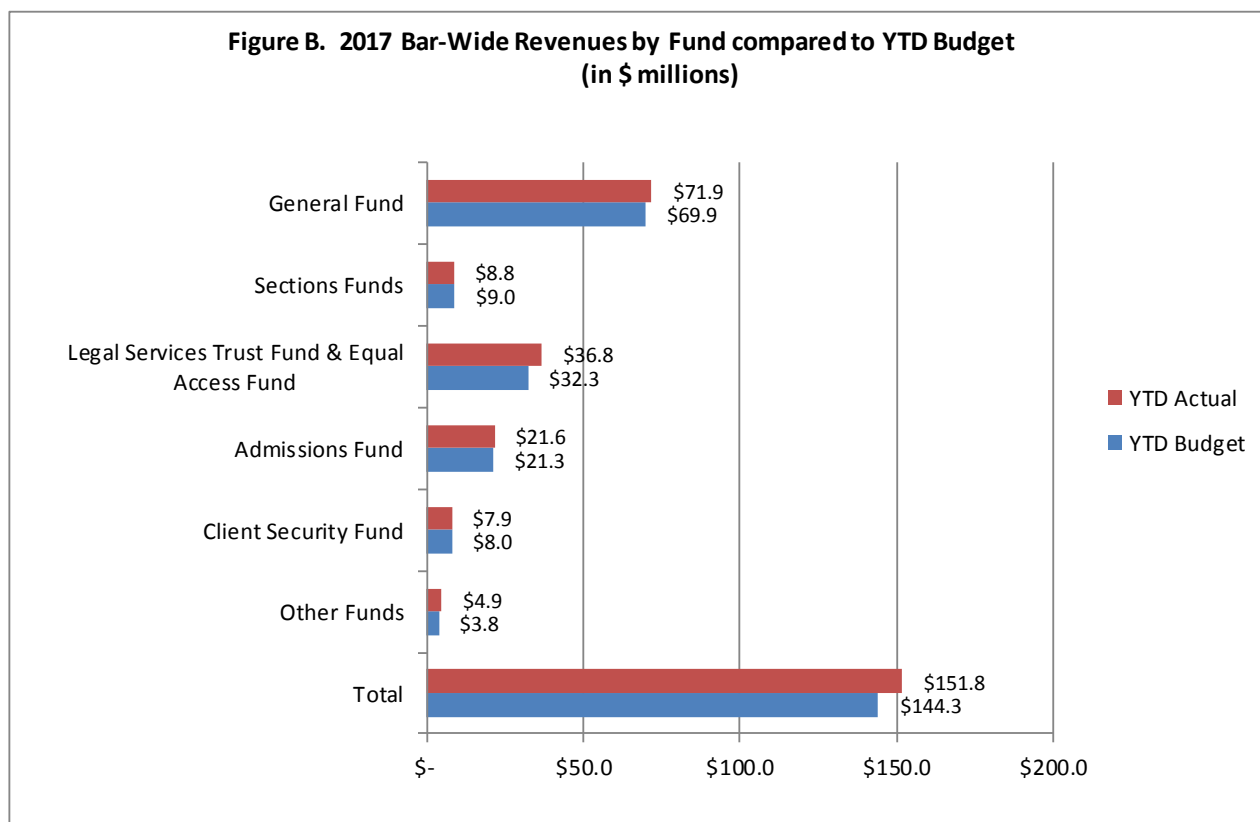
## Revenues, Expenses & Changes in Net Position

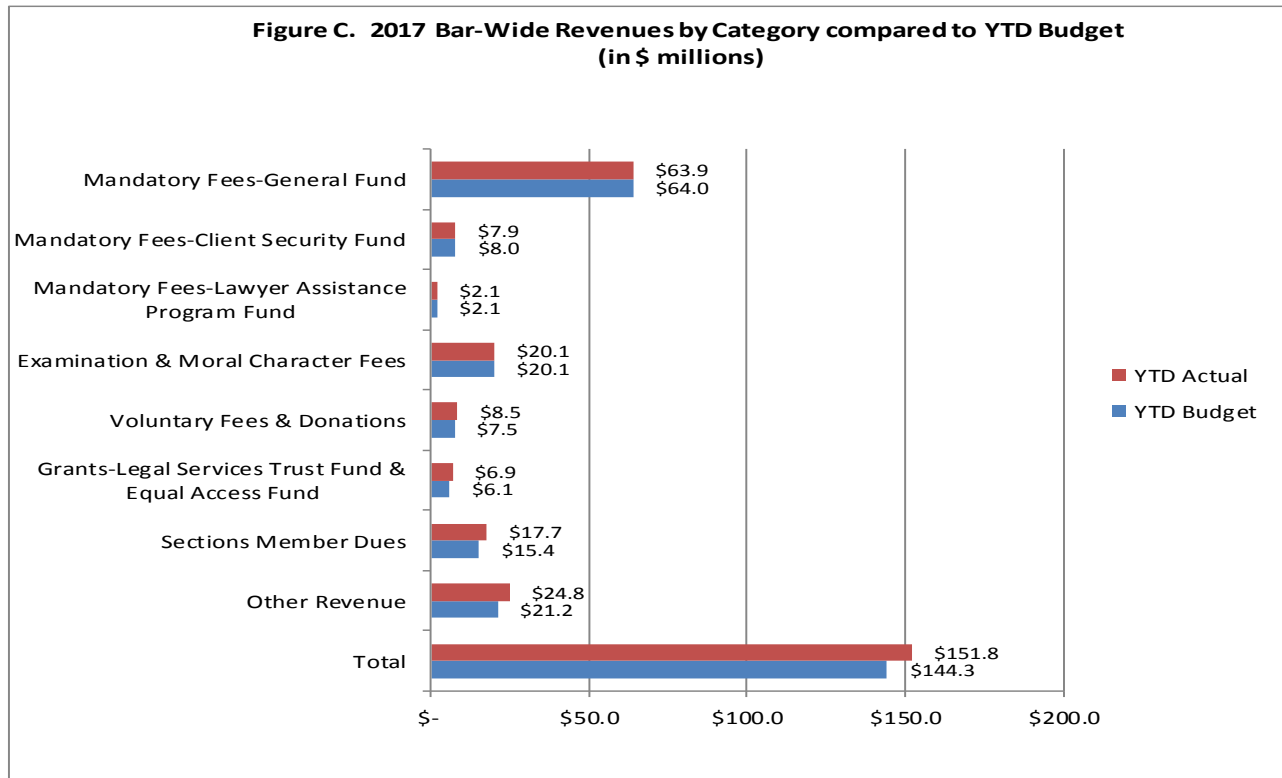
Attachments 1 and 2 present the State Bar's operating results for the year ended December 31, 2017.

### Revenues

2017 annual revenues of \$151.8 million compare favorably with the budget of \$144.3 million. The favorable variance of \$7.5 million primarily results from 1) Grants/IOLTA of \$4.0 million; 2) Debt Servicing of \$1.9 million; and 3) Voluntary Dues/Donations of \$1.0 million; and 4) Interest Income of \$600K Attachment 3 is a summary of the variances in revenues and expenses compared to the prior year.

Figures (B) and (C) below summarize the State Bar's year-to-date revenues by fund and by category compared to the budget.



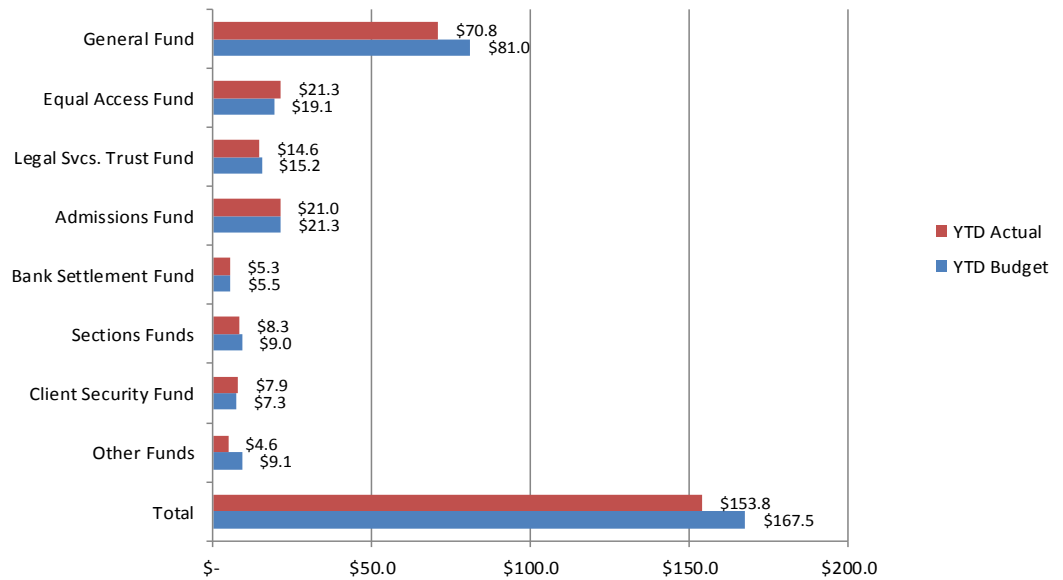


## Expenses

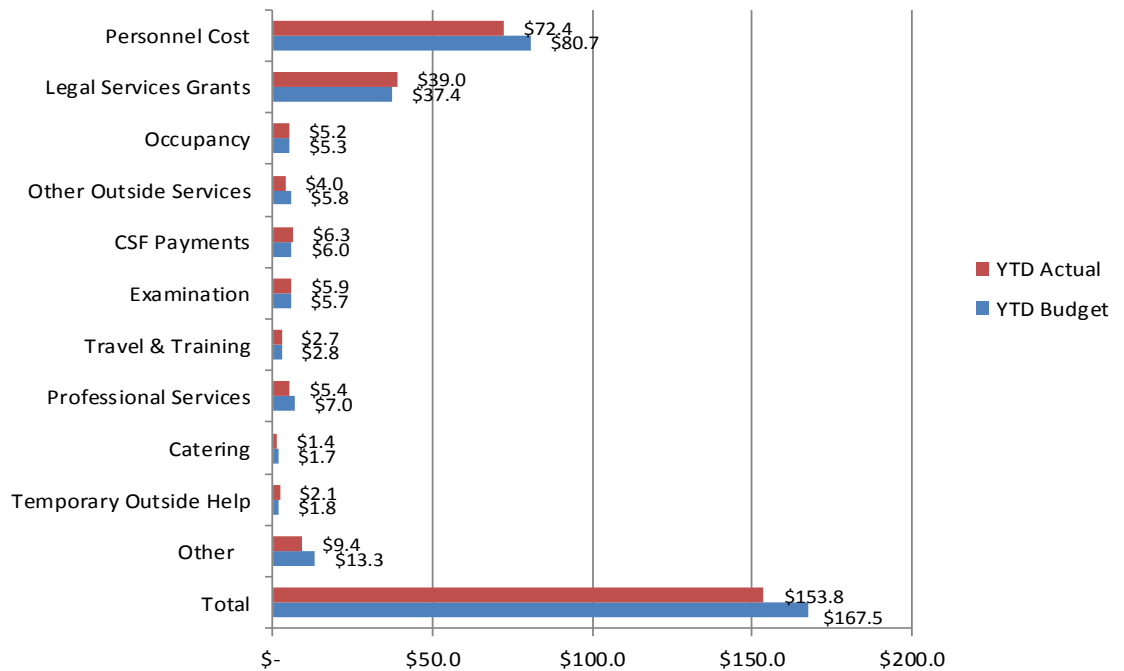
The State Bar's total 2017 operating expenses were \$153.8 million, reflecting a \$13.7 million favorable variance compared the budgeted of \$167.5 million. The \$13.7 million budget variance is due to a combination of 1) Salaries and Benefits of \$7.8 million; and 2)Deferred spending on technology projects of \$2.3 million; and 3) Deferred Spending on building Improvements of \$1.4 million; and 4) Deferred application of Legal Spec Spend Down by \$2.5 million.

Figures (D) and (E) below summarize the State Bar's 2017 operating expenses by fund and by category compared to the budget.

**Figure D. 2017 Bar-Wide Expenses by Fund compared to YTD Budget**  
(in \$ millions)



**Figure E. 2017 Bar-Wide Expenses by Category compared to YTD Budget**  
(in \$ millions)





## Net Changes in Position

At December 31, 2017 net position variance for the State Bar was negative \$2.0 million.

**The State Bar of California**  
**Statement of Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Twelve Months Ended December 31, 2017**  
**Pre-Audit**

Attachment 1

	General Fund	Other Funds	Interfund Elimination	2017 Actual	2016 Actual	Variance- 2017 Actual vs 2016 Actual	2017 Budget	Variance-2017 Actual vs Budget
<b>OPERATING REVENUES</b>								
Membership Fees and Donations	\$ 65,497,831	\$ 18,576,254	\$ -	\$ 84,074,085	\$ 85,407,760	\$ (1,333,675)	\$ 83,498,100	\$ 575,985
MJP Fees	-	794,869	-	794,869	759,154	35,715	655,500	139,369
Exam Application & Moral Character Fees	-	20,077,228	-	20,077,228	19,283,821	793,407	20,100,700	(23,472)
Trust Account Revenue	-	7,036,095	-	7,036,095	6,439,199	596,896	6,000,000	1,036,095
Law Practices Sections Fees	-	6,027,923	-	6,027,923	6,118,886	(90,963)	6,067,600	(39,677)
Seminar/Workshop Revenue	26,508	1,205,077	-	1,231,585	1,257,660	(26,075)	1,302,000	(70,415)
Advertising Revenue	-	42,236	-	42,236	162,981	(120,745)	48,500	(6,264)
Convention Income	-	460,504	-	460,504	1,200,752	(740,248)	699,100	(238,596)
Legal Specialization Fees	-	554,345	-	554,345	2,081,540	(1,527,195)	388,200	166,145
Law Corporation Registration Fees	1,541,653	-	-	1,541,653	1,475,984	65,669	1,443,000	98,653
Continuing Legal Education Fees	727,478	17,737	-	745,215	1,074,090	(328,875)	1,016,700	(271,485)
Grant Revenue	50,000	17,694,476	-	17,744,476	12,785,300	4,959,176	15,408,400	2,336,076
EAF AB 145 Filing Fee Revenue	-	4,433,556	-	4,433,556	3,800,000	633,556	3,800,000	633,556
Settlement Grants	-	-	-	-	44,778,670	(44,778,670)	-	-
Affinity Insurance Revenue	1,865,401	-	-	1,865,401	2,283,203	(417,802)	1,999,000	(133,599)
Other Revenue	478,130	2,241,045	-	2,719,175	2,866,328	(147,153)	2,278,000	441,175
<b>Total Operating Revenues</b>	<b>70,187,001</b>	<b>79,161,345</b>	<b>-</b>	<b>149,348,346</b>	<b>191,775,328</b>	<b>(42,426,982)</b>	<b>144,704,800</b>	<b>4,643,546</b>
<b>OPERATING EXPENSES</b>								
Chief Trial Counsel	40,931,692	-	-	40,931,692	38,708,988	2,222,704	45,632,004	(4,700,312)
State Bar Court	12,175,547	-	-	12,175,547	11,649,273	526,274	12,021,108	154,439
Attorney Regulation and Consumer Resources	4,327,641	-	-	4,327,641	3,727,687	599,954	4,542,956	(215,315)
Professional Competence	2,428,803	-	-	2,428,803	2,449,873	(21,070)	2,572,876	(144,073)
Probation	1,318,111	-	-	1,318,111	1,346,297	(28,186)	1,128,960	189,151
Mandatory Fee Arbitration	647,350	-	-	647,350	881,755	(234,405)	836,804	(189,454)
Judicial Evaluation	676,955	-	-	676,955	923,581	(246,626)	658,592	18,363
Commission on Access to Justice	14,651	-	-	14,651	20,571	(5,920)	20,320	(5,669)
Center on Access to Justice	1,557,378	-	-	1,557,378	1,731,845	(174,467)	1,711,304	(153,926)
California Young Lawyers Association	28,107	-	-	28,107	201,726	(173,619)	25,192	2,915
Communications	1,073,543	-	-	1,073,543	1,378,107	(304,564)	1,149,764	(76,221)
Governance	3,911,300	-	-	3,911,300	3,531,920	379,380	3,812,828	98,472
Lawyer Assistance Program	-	1,513,551	-	1,513,551	1,543,878	(30,327)	1,665,056	(151,505)
Client Security Fund	-	7,882,428	-	7,882,428	9,028,984	(1,146,556)	7,314,786	567,642
Admissions	-	20,912,754	-	20,912,754	20,312,066	600,688	21,455,561	(542,807)
Grant Expenses	-	38,960,055	-	38,960,055	30,808,302	8,151,753	37,387,100	1,572,955
Sections	-	8,309,698	-	8,309,698	8,220,232	89,466	8,965,228	(655,530)
General and Administrative	1,721,271	5,397,489	-	7,118,760	11,885,012	(4,766,252)	16,559,501	(9,440,741)
<b>Total Operating Expenses</b>	<b>70,812,349</b>	<b>82,975,975</b>	<b>-</b>	<b>153,788,324</b>	<b>148,350,097</b>	<b>5,438,227</b>	<b>167,459,940</b>	<b>(13,671,616)</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(625,348)</b>	<b>(3,814,630)</b>	<b>-</b>	<b>(4,439,978)</b>	<b>43,425,231</b>	<b>(47,865,209)</b>	<b>(22,755,140)</b>	<b>18,315,162</b>
<b>NON-OPERATING REVENUE</b>								
Investment Income	462,504	668,209	-	1,130,713	703,186	427,527	534,900	595,813
Rental Income	2,167,597	-	-	2,167,597	1,938,029	229,568	1,804,000	363,597
Interest Expense on Loan	(820,948)	-	-	(820,948)	(882,593)	61,645	(2,700,000)	1,879,052
<b>Total Non-Operating Revenue</b>	<b>1,809,153</b>	<b>668,209</b>	<b>-</b>	<b>2,477,362</b>	<b>1,758,622</b>	<b>718,740</b>	<b>(361,100)</b>	<b>2,838,462</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>1,183,805</b>	<b>(3,146,421)</b>	<b>-</b>	<b>(1,962,616)</b>	<b>45,183,853</b>	<b>(47,146,469)</b>	<b>(23,116,240)</b>	<b>21,153,624</b>
Transfer in From General Fund	-	1,600,000	1,600,000	1,600,000	-	-	1,600,000	-
Transfer In from Sections-OH Fund	-	217,766	217,766	217,766	-	-	-	-
Transfer In from Legal Specialization	-	-	-	-	-	-	1,000,000	-
Transfer in From GAP	-	-	-	-	-	-	2,133,000	-
Transfer Out to LSTF	-	-	-	-	-	-	(2,133,000)	-
Transfer Out To CSF	(1,600,000)	-	(1,600,000)	(1,600,000)	-	-	(1,600,000)	-
Transfer Out to Admissions Fund	-	-	-	-	-	-	(1,000,000)	-
Transfer Out to Sections-Education Fund	-	(65,224)	(65,224)	(65,224)	-	-	-	-
Transfer Out to Sections-Winder SEI Fund	-	(152,542)	(152,542)	(152,542)	-	-	-	-
Interfund Transaction - Revenue	446,654	10,795	457,449	457,449	-	-	400,000	-
Interfund Transaction - Expense	(451,642)	(5,807)	(457,449)	(457,449)	-	-	(400,000)	-
<b>CHANGE IN NET POSITION</b>	<b>(421,183)</b>	<b>(1,541,433)</b>	<b>-</b>	<b>36,413,002</b>	<b>45,183,853</b>	<b>(47,146,469)</b>	<b>(23,116,240)</b>	<b>21,153,624</b>
Net Position at beginning of year	75,143,002	81,238,620	-	156,381,622	111,197,769	45,183,853	156,381,622	156,381,622
<b>NET POSITION AT DECEMBER 31, 2017</b>	<b>\$ 74,721,819</b>	<b>\$ 79,697,187</b>	<b>\$ -</b>	<b>\$ 154,419,006</b>	<b>\$ 156,381,622</b>	<b>\$ (1,962,616)</b>	<b>\$ 133,265,382</b>	<b>\$ 177,535,246</b>

**The State Bar of California**  
**Statement of Revenues, Expenses and Changes in Net Position - Non General Funds**  
**For the Twelve Months Ended December 31, 2017**  
**Pre-Audit**

Attachment 2  
Page 1 of 2

	Admissions	Annual Meeting	Grants	Sections
<b>REVENUES</b>				
Membership Fees and Donations	\$ -	\$ -	\$ -	\$ -
MJP Fees	794,869	-	-	-
Exam Application & Moral Character Fees	20,077,228	-	-	-
Trust Account Revenue	-	-	-	-
Law Practices Sections Fees	-	-	-	6,027,923
Seminar/Workshop Revenue	-	-	-	1,199,717
Advertising Revenue	-	-	-	42,236
Convention Income	-	275	-	460,229
Legal Specialization Fees	-	-	-	-
Law Corporation Registration Fees	-	-	-	-
Continuing Legal Education Fees	-	-	-	-
Grant Revenue	-	-	13,500	-
EAF AB145 Filing Fee Revenue	-	-	-	-
Settlement Grants	-	-	-	-
Other Revenue	606,901	65,102	-	952,071
<b>Total Operating Revenues</b>	<b>21,478,998</b>	<b>65,377</b>	<b>13,500</b>	<b>8,682,176</b>
<b>OPERATING EXPENSES</b>				
Chief Trial Counsel	-	-	-	-
State Bar Court	-	-	-	-
Attorney Regulation and Consumer Resources	-	-	-	-
Professional Competence	-	-	-	-
Probation	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-
Judicial Evaluation	-	-	-	-
Commission on Access to Justice	-	-	-	-
Center on Access to Justice	-	-	-	-
California Young Lawyers Association	-	-	-	-
Communications	-	-	-	-
Governance	-	-	-	-
Lawyer Assistance Program	-	-	-	-
Client Security Fund	-	-	-	-
Admissions	20,912,754	-	-	-
Grant Expenses	-	-	30,000	-
Sections	-	-	-	8,309,698
General and Administrative	-	5,004	13,247	-
<b>Total Operating Expenses</b>	<b>20,912,754</b>	<b>5,004</b>	<b>43,247</b>	<b>8,309,698</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>566,244</b>	<b>60,373</b>	<b>(29,747)</b>	<b>372,478</b>
<b>NON-OPERATING REVENUE</b>				
Investment Income	77,669	4,931	-	78,737
<b>TOTAL EXPENSES</b>	<b>77,669</b>	<b>4,931</b>	<b>-</b>	<b>78,737</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>643,913</b>	<b>65,304</b>	<b>(29,747)</b>	<b>451,215</b>
Transfer in From General Fund	-	-	-	-
Transfer In from Sections-OH Fund	-	-	-	217,766
Transfer Out to Sections-Education Fund	-	-	-	(65,224)
Transfer Out to Sections-Winder SEI Fund	-	-	-	(152,542)
Interfund Transaction - Revenue	900	-	-	3,795
Interfund Transaction - Expense	(819)	-	-	(3,360)
<b>CHANGE IN NET POSITION</b>	<b>643,994</b>	<b>65,304</b>	<b>(29,747)</b>	<b>451,650</b>
Net Position at beginning of year	4,125,350	(83,014)	452,173	7,886,091
<b>NET POSITION AT DECEMBER 31, 2017</b>	<b>\$ 4,769,344</b>	<b>\$ (17,710)</b>	<b>\$ 422,426</b>	<b>\$ 8,337,741</b>

**The State Bar of California**  
**Statement of Revenue, Expenses and Changes in Net Position - Non General Funds**  
**For the Twelve Months Ended December 31, 2017**  
**Pre-Audit**

**Attachment 2**  
**Page 2 of 2**

	Client Security	Elimination of Bias	Equal Access	Info Tech Special Assess	Justice Gap	Lawyers Assistance Program	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Total Other Funds
<b>REVENUES</b>											
Membership Fees and Donations	\$ 7,864,484	\$ 93,025	\$ -	\$ -	\$ 1,409,276	\$ 2,064,183	\$ 162,664	\$ 6,982,622	\$ -	\$ -	18,576,254
MJP Fees	-	-	-	-	-	-	-	-	-	-	794,869
Exam Application & Moral Character Fees	-	-	-	-	-	-	-	-	-	-	20,077,228
Trust Account Revenue	-	-	-	-	-	-	-	7,036,095	-	-	7,036,095
Law Practices Sections Fees	-	-	-	-	-	-	-	-	-	-	6,027,923
Seminar/Workshop Revenue	-	5,360	-	-	-	-	-	-	-	-	1,205,077
Advertising Revenue	-	-	-	-	-	-	-	-	-	-	42,236
Convention Income	-	-	-	-	-	-	-	-	-	-	460,504
Legal Specialization Fees	-	-	-	-	-	-	-	-	554,345	-	554,345
Law Corporation Registration Fees	-	-	-	-	-	-	-	-	-	-	-
Continuing Legal Education Revenue	-	5,812	-	-	-	-	-	-	11,925	-	17,737
Grant Revenue	-	-	17,642,000	-	-	-	-	30,000	-	8,976	17,694,476
EAF AB145 Filing Fee Revenue	-	-	4,433,556	-	-	-	-	-	-	-	4,433,556
Settlement Grants	-	-	-	-	-	-	-	-	-	-	-
Other Revenue	13,222	-	550,626	-	-	27,693	-	16,753	1,677	7,000	2,241,045
<b>Total Operating Revenues</b>	<b>7,877,706</b>	<b>104,197</b>	<b>22,626,182</b>	<b>-</b>	<b>1,409,276</b>	<b>2,091,876</b>	<b>162,664</b>	<b>14,065,470</b>	<b>567,947</b>	<b>15,976</b>	<b>79,161,345</b>
<b>EXPENSES</b>											
Chief Trial Counsel	-	-	-	-	-	-	-	-	-	-	-
State Bar Court	-	-	-	-	-	-	-	-	-	-	-
Attorney Regulation and Consumer Resources	-	-	-	-	-	-	-	-	-	-	-
Professional Competence	-	-	-	-	-	-	-	-	-	-	-
Probation	-	-	-	-	-	-	-	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-	-	-	-	-	-	-	-
Judicial Evaluation	-	-	-	-	-	-	-	-	-	-	-
Commission on Access to Justice	-	-	-	-	-	-	-	-	-	-	-
Center on Access to Justice	-	-	-	-	-	-	-	-	-	-	-
California Young Lawyers Association	-	-	20,804,644	-	-	-	-	13,007,893	-	5,117,518	38,930,055
Communications	-	-	-	-	-	-	-	-	-	-	-
Governance	-	-	-	-	-	-	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-	1,513,551	-	-	-	-	1,513,551
Client Security Fund	7,882,428	-	-	-	-	-	-	-	-	-	7,882,428
Admissions	-	-	-	-	-	-	-	-	-	-	20,912,754
Grant Expenses	-	-	-	-	-	-	-	-	-	-	30,000
Sections	-	-	-	-	-	-	-	-	-	-	8,309,698
General and Administrative	-	569,059	535,998	-	9,226	-	419,624	1,624,499	2,075,196	145,636	5,397,489
<b>Total Operating Expenses</b>	<b>7,882,428</b>	<b>569,059</b>	<b>21,340,642</b>	<b>-</b>	<b>9,226</b>	<b>1,513,551</b>	<b>419,624</b>	<b>14,632,392</b>	<b>2,075,196</b>	<b>5,263,154</b>	<b>82,975,975</b>
<b>NON-OPERATING REVENUE</b>											
Investment Income	48,036	1,933	10,073	8,716	17,134	29,161	3,684	60,553	40,557	287,025	668,209
<b>Total Non-Operating Revenue</b>	<b>48,036</b>	<b>1,933</b>	<b>10,073</b>	<b>8,716</b>	<b>17,134</b>	<b>29,161</b>	<b>3,684</b>	<b>60,553</b>	<b>40,557</b>	<b>287,025</b>	<b>668,209</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>43,314</b>	<b>(462,929)</b>	<b>1,295,613</b>	<b>8,716</b>	<b>1,417,184</b>	<b>607,486</b>	<b>(253,276)</b>	<b>(506,369)</b>	<b>(1,466,692)</b>	<b>(4,960,153)</b>	<b>(3,146,421)</b>
Transfer in From General Fund	1,600,000	-	-	-	-	-	-	-	-	-	1,600,000
Transfer In from Sections-OH Fund	-	-	-	-	-	-	-	-	-	-	217,766
Transfer Out to Sections-Education Fund	-	-	-	-	-	-	-	-	-	-	(65,224)
Transfer Out to Sections-Winder SEI Fund	-	-	-	-	-	-	-	-	-	-	(152,542)
Interfund Transaction - Revenue	4,860	-	-	-	-	1,240	-	-	-	-	10,795
Interfund Transaction - Expense	(1,116)	(15)	-	-	-	-	-	(125)	(372)	-	(5,807)
<b>CHANGE IN NET POSITION</b>	<b>1,647,058</b>	<b>(462,944)</b>	<b>1,295,613</b>	<b>8,716</b>	<b>1,417,184</b>	<b>608,726</b>	<b>(253,276)</b>	<b>(506,494)</b>	<b>(1,467,064)</b>	<b>(4,960,153)</b>	<b>(1,541,433)</b>
Net Position at beginning of year	1,426,270	464,735	1,753,275	1,216,759	1,659,420	2,983,158	546,529	8,601,230	6,103,905	44,102,739	82,369,821
<b>NET POSITION AT DECEMBER 31, 2017</b>	<b>\$ 3,073,328</b>	<b>\$ 1,791</b>	<b>\$ 3,048,888</b>	<b>\$ 1,225,475</b>	<b>\$ 3,076,604</b>	<b>\$ 3,591,884</b>	<b>\$ 293,253</b>	<b>\$ 8,094,736</b>	<b>\$ 4,636,841</b>	<b>\$ 39,142,586</b>	<b>\$ 79,697,187</b>

**The State Bar of California**  
**Variance Analysis Statement of Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Twelve Months Ended December 31, 2017**  
**Pre-Audit**

**Attachment 3**  
**Page 1 of 2**

	2017 Actual	2016 Actual	Variance- 2017 Actual vs 2016 Actual	Percent Change	Note
<b>OPERATING REVENUES</b>					
Membership Fees and Donations	\$ 84,074,085	\$ 85,407,760	\$ (1,333,675)	(1.6%)	(A)
MJP Fees	794,869	759,154	35,715	4.7%	
Examination Application Fees	20,077,228	19,283,821	793,407	4.1%	
Trust Account Revenue	7,036,095	6,439,199	596,896	9.3%	
Law Practices Sections Fees	6,027,923	6,118,886	(90,963)	(1.5%)	
Seminar/Workshop Revenue	1,231,585	1,257,660	(26,075)	(2.1%)	
Advertising Revenue	42,236	162,981	(120,745)	(74.1%)	
Convention Income	460,504	1,200,752	(740,248)	(61.6%)	
Legal Specialization Fees	554,345	2,081,540	(1,527,195)	(73.4%)	(B)
Law Corporation Registration Fees	1,541,653	1,475,984	65,669	4.4%	
Continuing Legal Education Fees	745,215	1,074,090	(328,875)	(30.6%)	
Grant Revenue	17,744,476	12,785,300	4,959,176	38.8%	(C.)
EAF AB 145 Filing Fee Revenue	4,433,556	3,800,000	633,556	16.7%	
Settlement Grants	-	44,778,670	(44,778,670)	(100.0%)	(D)
Affinity Insurance Revenue	1,865,401	2,283,203	(417,802)	(18.3%)	
Other Revenue	2,719,175	2,866,328	(147,153)	(5.1%)	
<b>Total Operating Revenues</b>	<b>149,348,346</b>	<b>191,775,328</b>	<b>(42,426,982)</b>	<b>(22.1%)</b>	
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	40,931,692	38,708,988	2,222,704	5.7%	(E)
State Bar Court	12,175,547	11,649,273	526,274	4.5%	
Attorney Regulation and Consumer Resources	4,327,641	3,727,687	599,954	16.1%	
Professional Competence	2,428,803	2,449,873	(21,070)	(0.9%)	
Probation	1,318,111	1,346,297	(28,186)	(2.1%)	
Mandatory Fee Arbitration	647,350	881,755	(234,405)	(26.6%)	
Judicial Evaluation	676,955	923,581	(246,626)	(26.7%)	
Commission on Access to Justice	14,651	20,571	(5,920)	(28.8%)	
Center on Access to Justice	1,557,378	1,731,845	(174,467)	(10.1%)	
California Young Lawyers Association	28,107	201,726	(173,619)	(86.1%)	
Communications	1,073,543	1,378,107	(304,564)	(22.1%)	
Governance	3,911,300	3,531,920	379,380	10.7%	
Lawyer Assistance Program	1,513,551	1,543,878	(30,327)	(2.0%)	
Client Security Fund	7,882,428	9,028,984	(1,146,556)	(12.7%)	(F)
Admissions	20,912,754	20,312,066	600,688	3.0%	
Grant Expenses	38,960,055	30,808,302	8,151,753	26.5%	(G)
Sections	8,309,698	8,220,232	89,466	1.1%	
General and Administrative	7,118,760	11,885,012	(4,766,252)	(40.1%)	(H)
<b>Total Operating Expenses</b>	<b>153,788,324</b>	<b>148,350,097</b>	<b>5,438,227</b>	<b>3.7%</b>	
<b>OPERATING INCOME/(LOSS)</b>	<b>(4,439,978)</b>	<b>43,425,231</b>	<b>(47,865,209)</b>	<b>(110.2%)</b>	
<b>NON-OPERATING REVENUE</b>					
Investment Income	1,130,713	703,186	427,527	60.8%	
Rental Income	2,167,597	1,938,029	229,568	11.8%	
Interest Expense on Loan	(820,948)	(882,593)	61,645	(7.0%)	
<b>Total Non-Operating Revenue</b>	<b>2,477,362</b>	<b>1,758,622</b>	<b>718,740</b>	<b>40.9%</b>	
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>(1,962,616)</b>	<b>45,183,853</b>	<b>(47,146,469)</b>	<b>(104.3%)</b>	
<b>CHANGE IN NET POSITION</b>	<b>(1,962,616)</b>	<b>45,183,853</b>	<b>(47,146,469)</b>	<b>(104.3%)</b>	
Net Position at beginning of year	156,381,622	111,197,769	45,183,853	40.6%	
<b>NET POSITION AT DECEMBER 31, 2017</b>	<b>\$ 154,419,006</b>	<b>\$ 156,381,622</b>	<b>\$ (1,962,616)</b>	<b>(1.3%)</b>	

Note: See Attachment 3 page 2 for the Variances

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**Note REVENUE : 2017 Actual vs 2016 Actual**

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(A) **Membership Fees and Donations - \$1.3MM**

The \$1.3 million variance is primarily due to lower mandatory fees, donations and penalties of \$297 per licensee in 2017 compared to \$315 in 2016.

(B) **Legal Specialization Fees - \$1.5MM**

The \$1.5 million variance is primarily due to the 2017 Fee Holiday that was part of the Legal Specialization Fund spend down plan approved by the Board (\$1.7 million reduction in fees).

(C.) **Grant Revenue – \$5.0MM**

The \$5.0MM variance is driven by increased contracted IOLTA Formula Grants (\$4.5MM) and Partnership Grants (\$500K).

(D) **Settlement Grants – \$44.8MM**

One-time BofA grant settlement revenue in prior year (\$44.8MM).

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**Expenses: 2017 Actual vs 2016 Actual**

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(E) **Chief Trial Counsel – \$2.2MM**

The \$2.2 million variance is primarily due to an increase in the number of OCTC employees.

(F) **Client Security Fund – \$1.1MM**

The \$1.7 million variance reflects a decrease in Client Security Fund payouts of \$1.6 million (from \$8.0 million in 2016 to \$6.4 million in 2017).

(G) **Grants Expenses - \$8.2MM**

The \$8.2 million variance represents an increase in Equal Access Fund grant expenses of \$6.0 million (from \$14.8 million in 2016 to \$20.8 million in 2017) and increased use of Bank of America Settlement Funds of \$2.4 million.

(H) **General and Administration – \$4.8MM Decrease (3.3MM Increase w/o Interfund/Pension)**

\$3.3 million of this variance is due to the fact that the State Bar's pension and post-employment health care costs have not yet been recorded for 2017. These amounts are determined by actuaries who are expected to provide their reports by the end of March 2018. In addition, there is an increase in severance payments of \$1.6 million (from \$.3 million in 2016 to \$1.8 million in 2017).

**The State Bar of California**  
**Statement of Assets, Liabilities and Net Position - Bar Wide**  
**As of December 31, 2017**  
**Pre-Audit**

**Attachment 4**

	General Fund	Other Funds	December 2017 Balance	December 2016 Balance	Variance
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Cash & Restricted Cash	\$ 9,123,138	\$ 80,902,535	\$ 90,025,673	\$ 61,746,715	\$ 28,278,958
Investments	42,420,473	-	42,420,473	71,272,768	(28,852,295)
Accounts Receivable (net of allowances)	333,691	12,741,348	13,075,039	10,124,557	2,950,482
Capital Assets (net of depreciation)	93,000,565	-	93,000,565	96,275,743	(3,275,178)
OPEB Investment	11,792,271	-	11,792,271	10,792,270	1,000,001
Other Assets	1,453,544	302,097	1,755,641	1,844,281	(88,640)
Deferred Outflows of Resources	33,237,651	-	33,237,651	33,237,651	-
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 191,361,333</b>	<b>\$ 93,945,980</b>	<b>\$ 285,307,313</b>	<b>\$ 285,293,985</b>	<b>\$ 13,328</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Accounts Payable and Accrued Liabilities	\$ 6,397,235	\$ 6,398,012	\$ 12,795,247	\$ 14,562,230	\$ (1,766,983)
Unearned Income	11,125,656	7,850,781	18,976,437	13,107,536	5,868,901
Grants Payable	-	-	-	16,753	(16,753)
Loans Payable	27,228,858	-	27,228,858	29,338,079	(2,109,221)
Pension Liabilities	59,917,510	-	59,917,510	59,917,510	-
Deferred Inflows of Resources	11,970,255	-	11,970,255	11,970,255	-
<b>TOTAL LIAB. &amp; DEFERRED INFLOWS OF RESOURCES</b>	<b>116,639,514</b>	<b>14,248,793</b>	<b>130,888,307</b>	<b>128,912,363</b>	<b>1,975,944</b>
<b>NET POSITION</b>					
Net Position at Beginning of Year	75,143,002	81,238,620	156,381,622	111,197,769	45,183,853
Change in Net Position	(421,183)	(1,541,433)	(1,962,616)	45,183,853	(47,146,469)
<b>TOTAL NET POSITION</b>	<b>74,721,819</b>	<b>79,697,187</b>	<b>154,419,006</b>	<b>156,381,622</b>	<b>(1,962,616)</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 191,361,333</b>	<b>\$ 93,945,980</b>	<b>\$ 285,307,313</b>	<b>\$ 285,293,985</b>	<b>\$ 13,328</b>

**The State Bar of California**  
**Statement of Assets, Liabilities and Net Position - Non General Funds**  
**At December 31, 2017**  
**Pre-Audit**

**Attachment 5**  
**Page 1 of 2**

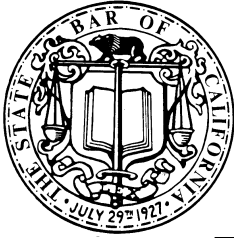
	<b>Admissions</b>	<b>Annual Meeting</b>	<b>Grants</b>	<b>Sections</b>
<b>ASSETS</b>				
Cash	\$ 9,952,067	\$ (17,710)	\$ 422,426	\$ 8,415,216
Accounts Receivable (net of allowances)	-	-	-	-
Other Assets	285,090	-	-	(5,316)
<b>TOTAL ASSETS</b>	<b>\$ 10,237,157</b>	<b>\$ (17,710)</b>	<b>\$ 422,426</b>	<b>\$ 8,409,900</b>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	\$ 279,660	\$ -	\$ -	\$ 72,159
Unearned Income	5,188,153	-	-	-
<b>TOTAL LIABILITIES</b>	<b>5,467,813</b>	<b>-</b>	<b>-</b>	<b>72,159</b>
<b>NET POSITION</b>				
Net Position at Beginning of Year	4,125,350	(83,014)	452,173	7,886,091
Change in Net Position	643,994	65,304	(29,747)	451,650
<b>TOTAL NET POSITION/(DEFICITS)</b>	<b>4,769,344</b>	<b>(17,710)</b>	<b>422,426</b>	<b>8,337,741</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 10,237,157</b>	<b>\$ (17,710)</b>	<b>\$ 422,426</b>	<b>\$ 8,409,900</b>



**The State Bar of California**  
**Statement of Assets, Liabilities and Net Position - Non General Funds**  
**As of December 31, 2017**  
**Pre-Adult**

**Attachment 5**  
**Page 2 of 2**

	Client Security	Elimination of Bias	Equal Access	Info Tech Special Assess	Justice Gap	Lawyers Assistance Program	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Total Other Fund	Total Other Funds
<b>ASSETS</b>												
Cash	\$ 4,212,327	\$ 77,455	\$ (3,003,900)	\$ 1,225,475	\$ 3,076,604	\$ 3,876,010	\$ 402,044	\$ 8,256,255	\$ 5,015,680	\$ 38,992,586	\$ 62,130,536	\$ 80,902,535
Accounts Receivable (net of allowances)	-	-	11,840,581	-	-	-	-	750,767	-	150,000	12,741,348	12,741,348
Other Assets	-	-	-	-	-	22,323	-	-	-	-	22,323	302,097
<b>TOTAL ASSETS</b>	<b>\$ 4,212,327</b>	<b>\$ 77,455</b>	<b>\$ 8,836,681</b>	<b>\$ 1,225,475</b>	<b>\$ 3,076,604</b>	<b>\$ 3,898,333</b>	<b>\$ 402,044</b>	<b>\$ 9,007,022</b>	<b>\$ 5,015,680</b>	<b>\$ 39,142,586</b>	<b>\$ 74,894,207</b>	<b>\$ 93,945,980</b>
<b>LIABILITIES</b>												
Accounts Payable and Accrued Liabilities	99,894	30,360	5,787,793	-	-	33,201	1,556	57,415	35,974	-	6,046,193	6,398,012
Unearned Income	1,039,105	45,304	-	-	-	273,248	107,235	854,871	342,865	-	2,662,628	7,850,781
<b>TOTAL LIABILITIES</b>	<b>1,138,999</b>	<b>75,664</b>	<b>5,787,793</b>	<b>-</b>	<b>-</b>	<b>306,449</b>	<b>108,791</b>	<b>912,286</b>	<b>378,839</b>	<b>-</b>	<b>8,708,821</b>	<b>14,248,793</b>
<b>NET POSITION</b>												
Net Position at Beginning of Year	1,426,270	464,735	1,753,275	1,216,759	1,659,420	2,983,158	546,529	8,601,230	6,103,905	44,102,739	68,858,020	81,238,620
Change in Net Position	1,647,058	(462,944)	1,295,613	8,716	1,417,184	608,726	(253,276)	(506,494)	(1,467,064)	(4,960,153)	(2,672,634)	(1,541,433)
<b>TOTAL NET POSITION/(DEFICITS)</b>	<b>3,073,328</b>	<b>1,791</b>	<b>3,048,888</b>	<b>1,225,475</b>	<b>3,076,604</b>	<b>3,591,884</b>	<b>293,253</b>	<b>8,094,736</b>	<b>4,636,841</b>	<b>39,142,586</b>	<b>66,185,386</b>	<b>79,697,187</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 4,212,327</b>	<b>\$ 77,455</b>	<b>\$ 8,836,681</b>	<b>\$ 1,225,475</b>	<b>\$ 3,076,604</b>	<b>\$ 3,898,333</b>	<b>\$ 402,044</b>	<b>\$ 9,007,022</b>	<b>\$ 5,015,680</b>	<b>\$ 39,142,586</b>	<b>\$ 74,894,207</b>	<b>\$ 93,945,980</b>



## **THE STATE BAR OF CALIFORNIA**

### **FINANCE**

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180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

### **M E M O R A N D U M**

**DATE:** March 9, 2018

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

**FROM:** Kevin Harper, Interim Chief Finance Officer

**SUBJECT:** Annual Investment Report as of December 31, 2017

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Attached is the quarterly investment report for the State Bar of California as of December 31, 2017. 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 deposit in the Local Agency Investment Fund (LAIF) with the State Treasurer's Office. As of December 31, 2017, the market value of the investment portfolio was \$106.9 million.

The time-weighted average rate of return of the investment portfolio for the reported quarter is 0.90%, compared to 0.71% in 2016. Actual investment earnings increased approximately 49.33% from \$703,186 last year to \$1,050,084 in 2017. The increase in investment earnings is due to a larger investment portfolio after receiving the \$44.7 million settlement grant from Bank of America. The higher rate of return is due to investments in bonds with longer durations compared to the prior year and higher interest rate in deposit in the LAIF.

The unrealized loss for the reporting quarter is \$176,397. This loss will be amortized over the life of the bonds and will eventually offset the effect on investment income when the bonds mature. An unrealized loss is a bond premium incurred when a bond is purchased at a price in excess of its face value. A bond is traded at a premium when it offers a coupon rate that is higher than prevailing interest rates, a reflection of declining interest rates in the existing bond market. This unrealized loss is considered to be a "paper loss" because all investments are held to maturity.

**The State Bar of California**  
**Investment Report Summary**  
**December 31, 2017**

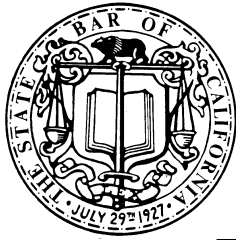
<b><u>Asset Group</u></b>	<b><u>Original Cost</u></b>	<b><u>Market Value</u></b>	<b><u>Portfolio Percentage</u></b>	<b><u>Weighted Average Yield</u></b>
Wells Fargo Custody Account:				
- Government Bonds	42,333,474	42,157,077	39.45%	0.84%
- Common Stock-Metlife Inc.	164,042	164,042	0.15%	N.A
- Interest Receivable	-	99,354	0.09%	N.A
<b>Subtotal-Securities, Bonds and Notes</b>	<b>42,497,516</b>	<b>42,420,474</b>	<b>39.69%</b>	
Local Agency Investment Fund	64,398,308	64,451,307	60.31%	0.94%
<b>Subtotal-Other Investments</b>	<b>64,398,308</b>	<b>64,451,307</b>	<b>60.31%</b>	
<b>Grand Total</b>	<b>106,895,824</b>	<b>106,871,781</b>	<b>100%</b>	0.90%

**Unrealized Gain/(Loss)-Securities, Bonds and Notes:**

Market Value of Portfolio	42,321,119
Original Cost of Portfolio	42,497,516
Unrealized Gain/(Loss):	<u>(176,397)</u>

**State Bar of California**  
**Investment Report - Wells Fargo Custody Account**  
**Balance as of December 31, 2017**

Issuer	CUSIP #	S&P Rating	Type	Par Value	Cost	Mkt Value	Interest	Unrealized	*Yield	Trade/	Maturity
							Receivable	Gain/(Loss)		Purchase	
FED HOME LN MTG CORP	3137EADN6	AA+	Government Agency	3,000,000	3,002,820	2,999,520	10,563	(3,300)	0.70%	02/16/16	01/12/18
FED HOME LN MTG CORP	3137EADN6	AA+	Government Agency	3,000,000	2,997,780	2,999,520	10,563	1,740	0.79%	03/08/16	01/12/18
FED HOME LN MTG CORP	3137EADN6	AA+	Government Agency	1,800,000	1,799,514	1,799,712	6,338	198	0.77%	03/29/16	01/12/18
FED FARM CREDIT BANK	3133EFV87	AA+	Government Agency	3,000,000	3,004,140	2,996,130	6,708	(8,010)	0.81%	03/29/16	03/29/18
FED HOME LN MTG CORP	3137EAEA3	AA+	Government Agency	5,000,000	4,995,300	4,990,800	8,542	(4,500)	0.80%	05/17/16	04/09/18
FED FARM CREDIT BANK	3133EGAF2	AA+	Government Agency	5,000,000	4,995,050	4,986,550	4,688	(8,500)	0.80%	05/17/16	05/16/18
FED HOME LN MTG CORP**	3134G8Y60	AA+	Government Agency	3,500,000	3,500,000	3,483,025	14,972	(16,975)	1.00%	04/28/16	07/27/18
FED HOME LN MTG CORP**	3134G8XA2	AA+	Government Agency	5,000,000	5,000,000	4,981,200	8,889	(18,800)	1.00%	04/28/16	07/27/18
FED FARM CREDIT BANK	3133EGFQ3	AA+	Government Agency	3,000,000	3,010,170	2,982,240	7,802	(27,930)	0.72%	06/24/16	09/14/18
FED FARM CREDIT BANK	3133EFX69	AA+	Government Agency	5,000,000	5,010,550	4,970,250	11,467	(40,300)	0.87%	05/17/16	10/05/18
FED FARM CREDIT BANK	3133EFX69	AA+	Government Agency	3,000,000	3,018,150	2,982,150	6,880	(36,000)	0.69%	06/29/16	10/05/18
FED HOME LN MTG CORP	3134G9HV2	AA+	Government Agency	2,000,000	2,000,000	1,985,980	1,944	(14,020)	1.00%	05/17/16	11/26/18
TOTAL GOVERNMENT BONDS AND NOTES:				42,300,000	42,333,474	42,157,077	99,354	(176,397)	0.84%		
BRIGHTHOUSE FINANCIAL INC	10922N103	N/A	Common Stock	-	-	15,598	-	15,598		08/07/17	N/A
METLIFE INC	59156R108	N/A	Common Stock	-	-	148,444	-	148,444			N/A
TOTAL COMMON STOCKS:				-	-	164,042	-	164,042			
Cash				-	-	-	-				
TOTAL INVESTMENT HELD BY WELLS FARGO:				42,300,000	42,333,474	42,321,119	99,354	(12,355)			
Wells Fargo Custody Total Assets [Mkt Value (incl MetLife) + Interest Receivable]:					42,420,474						



# **THE STATE BAR OF CALIFORNIA**

**FINANCE**

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180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

## **M E M O R A N D U M**

**DATE:** March 9, 2018

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

**FROM:** Kevin Harper, Interim Chief Operating Officer

**SUBJECT:** Executive Retirement Health Benefit (OPEB) Annual Investment  
Report as of December 31, 2017

---

Attached is the 2017 annual investment report for the State Bar's Executive Retirement Health Benefit (known as OPEB) asset. The State Bar's OPEB asset is managed by the California Employer's Retiree Benefit Trust (CERBT) managed by CalPERS, and on an ongoing basis, the State Bar makes quarterly transfers to the CERBT to pay the annual required contribution, as determined by the State Bar's actuary.

As of December 31, 2017, the market value of the OPEB assets totaled \$25.3 million. Rate of return of the entire portfolio since date of inception is 21.161%, with an unrealized gain of \$4.42 million.

The Governmental Accounting Standards Board (GASB) requires employers to prepare an actuarial valuation report and to measure the net OPEB liability on a biennial basis. The last valuation report was completed in July 2017, with measurement date of January 1, 2017. In this valuation report, the actuary determined that the annual required contribution for 2017 is approximately \$1.0 million. The Year to Date actual contribution for 2017 was therefore \$1.0 million.

**The State Bar of California  
OPEB Investment Report Summary  
December 31, 2017**

<b><u>Asset Group</u></b>	<b><u>Original Cost</u></b>	<b><u>Market Value</u></b>	<b><u>Yield from Date of inception</u></b>
- CalPERS CERBT Fund Stratgy 3 Investment	\$ 20,900,401	\$ 25,323,268	21.16%
<b>Subtotal-CalPERS CERBT Fund Investment:</b>	<b><u>\$ 20,900,401</u></b>	<b><u>\$ 25,323,268</u></b>	
 <b>Grand Total</b>	 <b><u><u>\$ 20,900,401</u></u></b>	 <b><u><u>\$ 25,323,268</u></u></b>	
 <b>Unrealized Gain/(Loss)-Securities, Bonds and Notes:</b>			
Market Value of Portfolio		\$ 25,323,268	
Original Cost of Portfolio		<u>20,900,401</u>	
Unrealized Gain/(Loss):		<b><u><u>\$ 4,422,867</u></u></b>	



## THE STATE BAR OF CALIFORNIA

### OFFICE OF FINANCE

180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

### MEMORANDUM

**DATE:** March 9, 2018  
**TO:** Members, Finance and Planning Committee  
Members, Board of Trustees  
**FROM:** Kevin Harper, Interim Chief Financial Officer  
**SUBJECT:** Client Security Fund Report for the Year Ended December 31, 2017

---

Attached for your review are a series of reports for the applications activity within the Client Security Fund for the quarter ended December 31, 2017. These reports include:

- Status on Applications Activity for the quarter ended December 31, 2017
- Applications Aging Report
- Cumulative Applications Aging Report
- 24 Month Rolling Average of Applications Paid out Ratio
- Analysis of New Applications Paid, Rejected or Withdrawn

As of December 31, a total of 936 new applications in the amount of \$17.5 million were filed. The number of applications filed is down by 16.4% compared to 1,120 applications filed last year. The application amount increased by \$0.7 million, or 4.2% compared to \$16.8 million filed in 2016.

For the year ended December 31, 2017, total applications processed are 1,758 for approximately \$16.3 million. Total payouts for 2017 are \$6.4 million, down by \$1.6 million compared to \$8.0 million last year. Total applications pending for processing as of December 31, 2017 are 3,431 in the amount of \$52.3 million, and for the same period in 2016, there were 4,253 pending applications in the amount of \$50.9 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 44.63%. Total applications outstanding as of December 31, 2017 are 3,431 for \$52.3 million. Applying the rolling average applications payout ratio to the outstanding application amounts, the estimated application payout as of December 31, 2017 is \$23.4 million and there is a decrease of \$0.1 million or 0.4% compared to \$23.5 million last year. As of December 31, 2017, cash and investments available

for applications reimbursement in the CSF are approximately \$3.1 million compared to \$1.4 million last year.

Below are some key indicators for the CSF application process as of December 31, 2017 compared to 2016:

<b>Key Indicator Descriptions</b>	<b>2017 Q4</b>	<b>2016 Q4</b>	<b>Attachment</b>
New Applications Received # / \$ (in million)	936/\$17.5	922/\$13.9	1
Total Applications Processed # / \$ (in million)	1,758/\$16.3	2,322/\$16.0	2
% of Paid Applications in # to total in process <sup>1</sup>	17.5%	27.2%	1
% of Paid Applications in \$ to total in process <sup>2</sup>	9.3%	12.0%	1
Total Payouts \$ (in million)	\$ 6.4	\$ 8.0	2
Total Applications Pending for Processing # / \$ (in million)	3,431/\$52.3	4,253/\$50.9	2
24-month Rolling Average Payout Ratio	44.63%	46.22%	4
Estimated CSF Application Liabilities (in million)	\$23.4	\$23.5	2
Net Assets as of December 31 (in million)	\$3.1	\$1.4	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.



**THE STATE BAR OF CALIFORNIA  
CLIENT SECURITY FUND  
STATUS ON APPLICATIONS ACTIVITIES  
DECEMBER 31, 2017  
YEAR TO DATE ACTIVITIES**

	<u>\$1 - 2,500</u>		<u>\$2,501 - 5,000</u>		<u>\$5,001 - 10,000</u>		<u>\$10,001 - 25,000</u>		<u>\$25,001 - 49,999</u>		<u>\$50,000</u>		<u>\$50,001 - 100,000</u>		<u>TOTAL</u>		(A)	(B)
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount		
Prior Years' Applications	884	1,597,263	1,726	6,518,785	741	5,280,767	462	7,533,922	148	5,226,897	55	2,787,265	237	22,189,650	4,253	51,134,549		
New Applications	200	337,066	234	908,016	184	1,378,751	141	2,305,633	53	1,845,883	8	400,000	116	10,369,537	936	17,544,886		
Paid Applications	(231)	(411,282)	(400)	(1,420,173)	(130)	(742,234)	(88)	(1,120,250)	(22)	(544,221)	(6)	(315,765)	(32)	(1,847,998)	(909)	(6,401,923)	17.5%	9.3%
Rejected Applications	(35)	(94,798)	(21)	(200,985)	(10)	(262,709)	(8)	(423,368)	(4)	(400,523)	(4)	(221,500)	(4)	(1,434,912)	(86)	(3,038,795)	1.7%	4.4%
Withdrawn Applications	(199)	(366,719)	(359)	(1,302,549)	(88)	(603,118)	(57)	(890,229)	(19)	(598,626)	(9)	(450,000)	(32)	(2,683,467)	(763)	(6,894,708)	14.7%	10.0%
<b>Applications Outstanding</b>	<b>619</b>	<b>\$ 1,061,530</b>	<b>1,180</b>	<b>\$ 4,503,094</b>	<b>697</b>	<b>\$ 5,051,457</b>	<b>450</b>	<b>\$ 7,405,708</b>	<b>156</b>	<b>\$ 5,529,410</b>	<b>44</b>	<b>\$ 2,200,000</b>	<b>285</b>	<b>\$ 26,592,810</b>	<b>3,431</b>	<b>\$ 52,344,009</b>		
<b>New applications % to total</b>	21.37%	1.92%	25.00%	5.18%	19.66%	7.86%	15.06%	13.14%	5.66%	10.52%	0.85%	2.28%	12.39%	59.10%	100.00%	100.00%		
<b>Applications paid % to total</b>	25.41%	6.42%	44.00%	22.18%	14.30%	11.59%	9.68%	17.50%	2.42%	8.50%	0.66%	4.93%	3.52%	28.87%	100.00%	100.00%		
<b>Applications rejected or withdrawn % to total</b>	27.56%	4.65%	44.76%	15.14%	11.54%	8.72%	7.66%	13.22%	2.71%	10.06%	1.53%	6.76%	4.24%	41.46%	100.00%	100.00%		
<b>Applications outstanding % to total</b>	18.04%	2.03%	34.39%	8.60%	20.31%	9.65%	13.12%	14.15%	4.55%	10.56%	1.28%	4.20%	8.31%	50.80%	100.00%	100.00%		

(A) % of # of paid applications, rejected applications and withdrawn applications to # of total applications in process in 2017 Q4.

(B) % of paid applications, rejected applications and withdrawn applications in \$ to the total applications \$ in process in 2017 Q4.

THE STATE BAR OF CALIFORNIA

Attachment 2

CLIENT SECURITY FUND

APPLICATIONS AGING REPORT

AS OF DECEMBER 31, 2017

<u>Year</u> <u>Application</u> <u>Filed</u>	<u>Gross Applications Prior</u>		<u>Current Year</u>		<u>Applications Paid</u>		<u>Applications Rejected or</u> <u>Withdrawn</u>		<u>Total Applications</u> <u>Processed</u>		<u>Applications Outstanding</u>	
	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>
2008	1	1,605			(1)	(1,605)	-	-	(1)	(1,605.00)	-	-
2009	108	331,935			(13)	(36,925)	(95)	(295,010)	(108)	(331,935)	-	-
2010	298	1,220,150			(61)	(158,917)	(231)	(971,680)	(292)	(1,130,597)	6	89,553
2011	208	1,186,588			(113)	(370,214)	(60)	(273,556)	(173)	(643,770)	35	542,818
2012	468	3,163,349			(254)	(1,276,241)	(104)	(837,706)	(358)	(2,113,947)	110	1,049,402
2013	341	4,654,850			(118)	(1,000,865)	(72)	(1,648,177)	(190)	(2,649,042)	151	2,005,808
2014	931	12,738,098			(240)	(2,310,100)	(81)	(1,282,581)	(321)	(3,592,681)	610	9,145,417
2015	910	12,934,185			(72)	(813,798)	(29)	(723,953)	(101)	(1,537,751)	809	11,396,434
2016	988	14,903,789			(16)	(296,564)	(77)	(1,699,312)	(93)	(1,995,876)	895	12,907,913
2017			936	17,544,886	(21)	(136,694)	(100)	(2,201,528)	(121)	(2,338,222)	815	15,206,664
<b>TOTAL</b>	<b>4,253</b>	<b>51,134,549</b>	<b>936</b>	<b>17,544,886</b>	<b>(909)</b>	<b>(6,401,923)</b>	<b>(849)</b>	<b>(9,933,503)</b>	<b>(1,758)</b>	<b>(16,335,426)</b>	<b>3,431</b>	<b>52,344,009</b>

Applications Outstanding **\$52,344,009**

Estimated Application Payout Ratio **44.63%**

Estimated Application Payouts **\$23,361,259**

THE STATE BAR OF CALIFORNIA

Attachment 3

CLIENT SECURITY FUND

CUMULATIVE APPLICATIONS AGING REPORT

AS OF DECEMBER 31, 2017

<u>Year Application</u> <u>Filed</u>	<u>Gross Applications</u>		<u>Current Year</u>  <u>#</u>	<u>Amount</u>	<u>Applications Paid</u>		<u>Applications</u> <u>Rejected and</u> <u>Withdrawn</u>		<u>Total Applications</u> <u>Processed</u>		<u>Applications</u> <u>Outstanding</u>			
	<u>Prior Years</u>													
	<u>#</u>	<u>Amount</u>			<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>
2007-2008	1	1,605			(1)	(1,605)	-	-	(1)	(1,605)	-	-		
2007-2009	109	333,540			(13)	(38,530)	(95)	(295,010)	(108)	(333,540)	-	-		
2007-2010	407	1,553,690			(74)	(197,447)	(326)	(1,266,690)	(400)	(1,464,137)	6	89,553		
2007-2011	615	2,740,278			(187)	(567,661)	(386)	(1,540,246)	(573)	(2,107,907)	41	632,371		
2007-2012	1,083	5,903,627			(441)	(1,843,902)	(490)	(2,377,952)	(931)	(4,221,854)	151	1,681,773		
2007-2013	1,424	10,558,477			(559)	(2,844,767)	(562)	(4,026,129)	(1,121)	(6,870,896)	302	3,687,581		
2007-2014	2,355	23,296,575			(799)	(5,154,867)	(643)	(5,308,710)	(1,442)	(10,463,577)	912	12,832,998		
2007-2015	3,265	36,230,760			(871)	(5,968,665)	(672)	(6,032,663)	(1,543)	(12,001,328)	1,721	24,229,432		
2007-2016	4,253	51,134,549			(887)	(6,265,229)	(749)	(7,731,975)	(1,636)	(13,997,204)	2,616	37,137,345		
2007-2017			936	17,544,886	(908)	(6,401,923)	(849)	(9,933,503)	(1,757)	(16,335,426)	3,431	52,344,009		
			<b>936</b>	<b>17,544,886</b>	<b>(908)</b>	<b>(6,401,923)</b>	<b>(849)</b>	<b>(9,933,503)</b>	<b>(1,757)</b>	<b>(16,335,426)</b>	<b>3,431</b>	<b>52,344,009</b>		

Net Asset in Client Security Fund:

As of 12/31/2017 **\$3,073,325**

**THE STATE BAR OF CALIFORNIA**  
**CLIENT SECURITY FUND**  
**24 MONTH ROLLING AVERAGE APPLICATIONS PAIDOUT RATIO**  
**JANUARY 2016 THROUGH DECEMBER 2017**

Attachment 4

Month Covered	<u>PAID APPLICATIONS</u>		<u>REJECTED/ WITHDRAWN APPLICATIONS</u>	<u>PROCESSED</u>
	Amount	Montly Average Payout Ratio	Amount	Amount
Jan 16	585,226	49.06%	607,752	1,192,979
Feb16	886,832	67.24%	432,125	1,318,957
Mar16	828,661	56.07%	649,255	1,477,916
Apr16	710,863	28.12%	1,816,690	2,527,553
May16	529,062	60.57%	344,346	873,408
Jun16	608,802	49.98%	609,260	1,218,061
Jul16	290,255	47.71%	318,127	608,382
Aug16	659,281	57.19%	493,532	1,152,812
Sept16	512,805	45.75%	608,055	1,120,860
Oct16	710,552	53.13%	626,746	1,337,297
Nov16	278,690	26.44%	775,523	1,054,213
Dec16	1,438,997	67.20%	702,246	2,141,244
Jan17	405,553	45.15%	492,720	898,272
Feb17	126,013	21.18%	469,086	595,099
Mar17	384,925	23.99%	1,219,448	1,604,373
Apr17	161,862	19.45%	670,175	832,036
May17	495,727	51.74%	462,373	958,100
Jun17	400,335	15.43%	2,193,931	2,594,266
Jul17	177,823	39.77%	269,311	447,133
Aug17	1,186,834	58.35%	856,114	2,042,948
Sept17	432,036	30.12%	1,002,515	1,434,552
Oct17	964,259	40.61%	1,410,095	2,374,354
Nov17	1,663,556	74.56%	567,737	2,231,293
Dec17	3,000	0.93%	319,999	322,999
Total:	<u>14,441,948</u>		Total: <u>17,917,159</u>	<u>32,359,107</u>
24 Month Rolling Average PaidOut Ratio:			44.63%	

**THE STATE BAR OF CALIFORNIA  
CLIENT SECURITY FUND  
ANALYSIS OF NEW APPLICATIONS PAID, REJECTED  
OR WITHDRAWN, ESTIMATED  
APPLICATIONS PAYOUTS PER ACTIVE ATTORNEY**

Attachment 5

DECEMBER 31, 2017

	<u>1ST QTR</u>	<u>2nd QTR</u>	<u>3rd QTR</u>	<u>4th QTR</u>
Beginning Balance	4,253	3,982	3,703	3,623
Add: Reinstated Applications				
New Applications	237	204	258	237
Less: Paid / Rejected or Withdrawn	508	483	338	429
TOTAL	3,982	3,703	3,623	3,431
APPLICATIONS OUTSTANDING AMT.	\$52,222,498	\$ 51,554,113	\$ 52,857,951	\$ 52,344,009
# Of Active Attorneys	188,613	188,789	189,608	189,984
Cost Per Active Attorney	\$277	\$273	\$279	\$276
ESTIMATED APPLICATIONS LIAB.				
Applications Payout Ratio	46.21%	44.63%	43.89%	44.63%
Estimated Application Amount *	\$24,132,016	\$23,010,578	\$23,199,591	\$23,361,259
# of Active Attorneys	188,613	188,789	189,702	189,984
Cost per Active Attorney	\$128	\$122	\$122	\$123
APPLICATION ACTIVITIES IN %:				
NEW APPLICATIONS - YTD				
1 - 2,500	1.55%	1.67%	1.87%	1.92%
2,501 - 5,000	5.65%	5.35%	5.34%	5.18%
5,001 - 10,000	7.68%	8.69%	7.75%	7.86%
10,001 - 25,000	14.37%	13.93%	12.32%	13.14%
25,001 - 49,999	10.61%	10.42%	9.45%	10.52%
50,000	3.41%	2.47%	2.27%	2.28%
50,001 - 100,000	56.72%	57.45%	61.01%	59.10%
APPLICATIONS PAID - YTD				
1 - 2,500	8.16%	7.85%	5.90%	6.42%
2,501 - 5,000	43.08%	41.67%	30.32%	22.18%
5,001 - 10,000	18.82%	16.92%	14.33%	11.59%
10,001 - 25,000	15.24%	17.61%	21.34%	17.50%
25,001 - 49,999	0.32%	2.84%	5.88%	8.50%
50,000	5.36%	2.51%	1.32%	4.93%
50,001 - 100,000	9.01%	10.59%	20.92%	28.87%
REJ./WDRAWN - YTD				
1 - 2,500	8.39%	6.06%	5.05%	4.65%
2,501 - 5,000	28.54%	19.70%	17.11%	15.14%
5,001 - 10,000	9.30%	7.44%	7.43%	8.72%
10,001 - 25,000	12.85%	11.28%	12.94%	13.22%
25,001 - 49,999	8.86%	7.39%	9.38%	10.06%
50,000	4.62%	5.47%	5.91%	6.76%
50,001 - 100,000	27.43%	42.66%	42.17%	41.46%
APPLICATIONS O/S-CUM. - YTD				
1 - 2,500	2.66%	2.38%	2.33%	2.03%
2,501 - 5,000	10.99%	9.76%	9.01%	8.60%
5,001 - 10,000	10.04%	10.17%	9.85%	9.65%
10,001 - 25,000	14.68%	14.79%	13.82%	14.15%
25,001 - 49,999	10.51%	10.84%	10.48%	10.56%
50,000	5.24%	5.04%	4.82%	4.20%
50,001 - 100,000	45.88%	47.01%	49.68%	50.80%
NET ASSET, END OF PERIOD	\$ 9,094,336	8,005,246	\$ 6,046,317	\$ 3,073,325

\*Based upon 24 month rolling weighted average of applications payout ratio (See page 4)

State Bar of California  
Client Security Fund  
Ten Years Comparison  
2008-2017

	2008		2009		2010		2011		2012		2013		2014		2015		2016		2017	
	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount
Applications outstanding, begin of year	787	11,811,143	710	11,871,541	2,997	22,124,850	6,112	34,513,647	7,345	45,327,104	7,801	55,518,550	6,342	50,528,936	5,674	46,703,719	5,465	49,867,330	4,253	50,914,241
Prior year's outstanding application adjustment	-	107,497	-	15,532	-	100,260	-	194,064	-	108,564	-	243,483	-	596,474	-	216,816	-	239,189	-	220,308
New Applications	825	11,290,084	3,028	19,469,661	3,875	23,231,936	3,411	26,086,578	2,767	25,112,748	2,228	22,825,372	1,554	20,842,066	1,178	17,328,024	1,120	16,831,403	936	17,544,886
TOTAL APPLICATIONS	1,612	23,208,724	3,738	31,356,734	6,872	45,457,046	9,523	60,794,289	10,112	70,548,416	10,029	78,587,404	7,896	71,967,476	6,852	64,248,559	6,585	66,937,922	5,189	68,679,435
Less: Processed Applications:																				
Paid	479	4,638,272	378	3,461,950	267	3,331,124	1,534	7,819,854	1,468	6,870,643	1,999	11,054,352	1,152	9,031,386	821	6,012,453	1,793	8,037,525	909	6,401,923
Rejected	57	2,196,878	52	1,930,226	138	2,869,032	54	2,585,888	112	3,092,632	68	3,095,196	116	4,575,821	74	2,929,880	76	2,627,266	86	3,038,795
Withdrawn	366	4,502,033	311	3,839,708	355	4,743,243	590	5,061,443	733	5,066,591	1,620	13,907,920	954	11,656,750	492	5,438,896	463	5,358,890	763	6,894,708
TOTAL PROCESSED APPLICATIONS	902	11,337,183	741	9,231,884	760	10,943,399	2,178	15,467,185	2,311	15,029,866	3,687	28,058,468	2,222	25,263,757	1,387	14,381,229	2,332	16,023,681	1,758	16,335,426
Applications outstanding, end of year	710	11,871,541	2,997	22,124,850	6,112	34,513,647	7,345	45,327,104	7,801	55,518,550	6,342	50,528,936	5,674	46,703,719	5,465	49,867,330	4,253	50,914,241	3,431	52,344,009
Applications outstanding inc./(dec.) over beginning balance	(77)	60,398	2,287	10,253,309	3,115	12,388,797	1,233	10,813,457	456	10,191,446	(1,459)	(4,989,614)	(668)	(3,825,217)	(209)	3,163,611	(1,212)	1,046,911	(822)	1,429,768
Applications payout ratio		40.68%		39.38%		33.67%		42.22%		48.17%		41.60%		37.68%		37.96%		46.22%		44.63%
Est. applications payouts		\$4,829,343		\$8,712,766		\$11,620,745		\$19,137,103		\$26,743,285		\$21,020,037		\$17,597,961		\$18,929,638		\$23,532,562		\$23,361,131
Net Application (Liab) Assets, end of year		(524,824)		(6,033,801)		(9,298,430)		(7,215,281)		(15,638,262)		(15,444,495)		(15,389,407)		(16,729,198)		(22,106,292)		(20,287,806)
Net Assets per Financial Statement		4,304,519		2,678,965		\$2,322,315		11,921,822		11,105,023		5,575,542		2,208,554		2,200,440		1,426,270		3,073,325
Estimated Increase/(Decrease) in Application Payouts:		(184,487)		3,883,423		2,907,979		7,516,358		7,606,182		(5,723,248)		(3,422,076)		1,331,677		4,602,924		(171,431)