

# **OPEN SESSION AGENDA ITEM**

## **54-141 SEPTEMBER 2018 FINANCE AND PLANNING COMMITTEE ITEM III.B.**

**DATE:** September 13, 2018

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

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

**SUBJECT:** **2018 Q2 Financial Statement Report, Investment Report and Client Security Fund Report**

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### **EXECUTIVE SUMMARY**

In adherence with the Board Book, Section 4, Tab 4.1, Article 1, Section 4, the Office of Finance has prepared the accompanying Financial Report (unaudited) for the 2nd quarter ended June 30, 2018 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 Financial Report for the 2<sup>nd</sup> quarter ended June 30, 2018 is composed of three separate report: Financial Statement Report, Investment Report, and Client Security Fund Report.

The Financial Report is on the consent agenda for the Board's September 13, 2018 meeting.

### **FISCAL/PERSONNEL IMPACT**

None

### **RULE AMENDMENTS**

None

## **BOARD BOOK AMENDMENTS**

None

## **STRATEGIC PLAN GOALS & OBJECTIVES 2017-2022**

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

Objective: f: No later than November 30, 2018, determine whether reallocation of funds to support the discipline system continues to be possible in the light of the fact the Bar has not received a fee increase in 20 years. As part of this effort, reassess the Bar's current Fund classification structure and determine if any changes are needed.

## **RECOMMENDATION**

The staff recommends that the Board of Trustees approve the following resolution:

**RESOLVED** that the Board of Trustees approve the 2018 Second Quarter Financial Report in the form this day before the Board, for the six months ended June 30, 2018, as certified by the Interim Chief Financial Officer, and on file with the San Francisco office of the State Bar.

## **ATTACHMENT(S) LIST**

- A.** Q2 Financial Statement Report
- B.** Q2 Investment Report
- C.** Q2 Client Security Fund Report

# The State Bar of California

## Financial Report for the Second Quarter Ended June 30, 2018

This report outlines the State Bar's second quarter operating results and fiscal position as of June 30, 2018, 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 June 30, 2018 were \$295.5 million, liabilities were \$109.9 million, and net position was \$185.6 million. For the year-to-date through June 30, 2018, total operating revenues were \$127.8 in 2018, 1.9% higher than \$125.4 million adopted budget. Total operating expenses were \$88.6 million at 96.5% of the \$91.8 million adopted budget. Below is a summary of key financial highlights of the financial statements:

**Table 1. Financial Highlights for Year-to-Date Through June 30, 2018**

<b>Financial Statement Category</b>	<b>June 30, 2018 (in \$M)</b>	<b>June 30, 2017 (in \$ M)</b>	<b>Changes (in \$ M)</b>	<b>Changes (in %)</b>	<b>Refer to Attachment</b>
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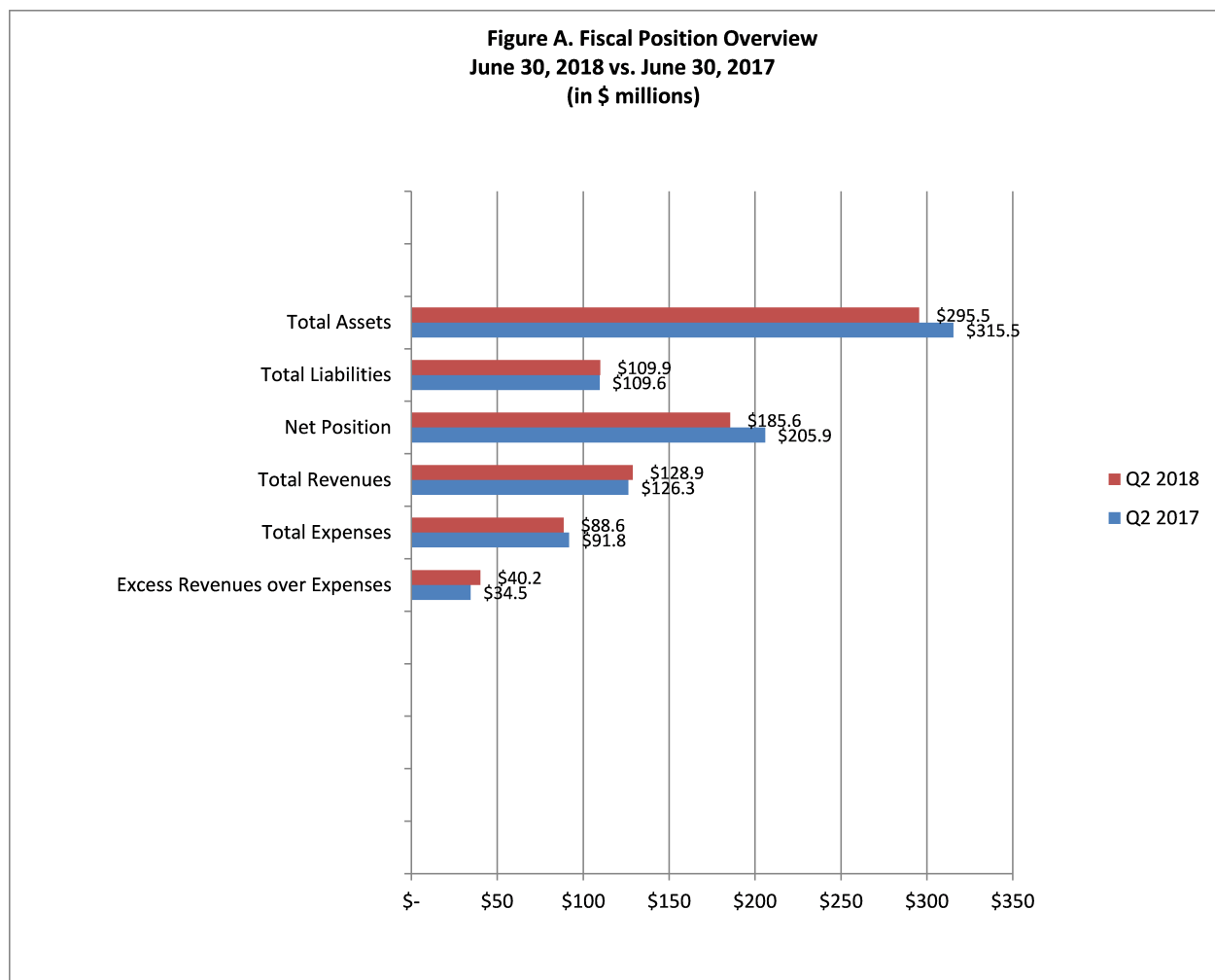
<b>Total Assets</b>	<b>\$ 295.5</b>	<b>\$ 315.5</b>	<b>\$ (20.0)</b>	<b>(6.3%)</b>	4&5
Cash & Investments	160.1	172.3	(12.2)	(7.1%)	4&5
Deferred Outflows of Resources	24.2	33.2	(9.0)	(27.1%)	4&5
<b>Total Liabilities</b>	<b>\$109.9</b>	<b>\$109.6</b>	<b>\$0.3</b>	<b>0.2%</b>	4&5
Deferred Inflows of Resources	2.3	12.0	(9.7)	(80.8%)	4&5
Net Pension Liabilities	73.5	60.0	13.6	22.7%	4&5
Loans Payable	26.0	28.2	(2.2)	(7.8%)	4&5

<b>Financial Statement Category</b>	<b>2018 Q2 Actual (in \$M)</b>	<b>2018 Q2 Budget (in \$ M)</b>	<b>Changes (in \$ M)</b>	<b>Changes (in %)</b>	<b>Refer to Attachment</b>
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<b>Operating Revenues</b>	<b>\$127.8</b>	<b>\$125.4</b>	<b>\$2.4</b>	<b>1.9%</b>	1,2,3
Membership Fees	85.3	85.2	0.1	0.2%	1,2,3

<b>Operating Expenses</b>	<b>\$ 88.6</b>	<b>\$ 91.8</b>	<b>\$(3.2)</b>	<b>(3.5)%</b>	1,2,3
Personnel Costs	37.1	41.4	(4.3)	(10.4%)	NA
Travel & Training	.07	0.8	(0.1)	(12.5%)	NA
Catering	0.0	0.1	(0.1)	(100.0%)	NA
Temporary Help	0.6	0.6	-	-	NA
Professional Services	2.0	2.4	(0.4)	(16.7)%	NA
Client Security Fund Disbursements	4.0	4.0	-	-	NA
Chief Trial Counsel	22.1	24.3	(2.2)	(9.1%)	1,2,3

The State Bar's total assets decreased by \$19.1 million, from \$315.5 million at June 30, 2017 to \$295.5 million at June 30, 2018. Total liabilities increased by \$0.3 million, from \$109.6 million in 2017 to \$109.9 million in 2018. Net position (total assets – total liabilities) at June 30, 2018 was \$185.6 million, a decrease of 9.9% compared to \$205.9 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 the second 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 June 2018, the Bar's total assets were \$295.5 million, down \$19.9 million compared to \$315.5 million last year. Cash and investments decreased by \$12.2

million from \$172.3 million at June 30, 2017 to \$160.1 million at June 30, 2018. This decrease is primarily due to expenses exceeding revenues during the second half of 2017 and \$8.3 million payment to California Lawyers Association upon separation of the Sections.

Deferred outflows totaled \$ 24.2 million at June 30, 2018, a decrease of \$9.0 million compared to last year. Deferred outflows represent consumption of net pension assets that is applicable to future reporting periods. This decline is due to updated estimates of pension assets and liabilities from our actuary.

## **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, 2018, State Bar's total liabilities were \$ 109.9 million, up by \$0.3 million or 0.2% compared to \$109.6 million last year. This increase is due primarily to an increase in pension liabilities of \$13.6 million offset by decreases in deferred inflows of resources totaling \$9.7 million and loans payable of \$2.2 million. Pension liabilities and deferred inflows of resources changed due to updated estimates of pension assets and liabilities from our actuaries. Loans payable declined due to scheduled repayments.

## **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 June 30, 2018 was \$ 185.6 million, down by \$20.3 million or 9.9% compared to \$205.9 million last year. This decline resulted from expenses exceeding revenues in the past 12 months and \$8.3 million payments to the California Lawyers Association as part of the Sections' separation.

## **Revenues, Expenses & Changes in Net Position**

Attachments 1 and 2 present the State Bar's operating results for the year to date through June 30, 2018.

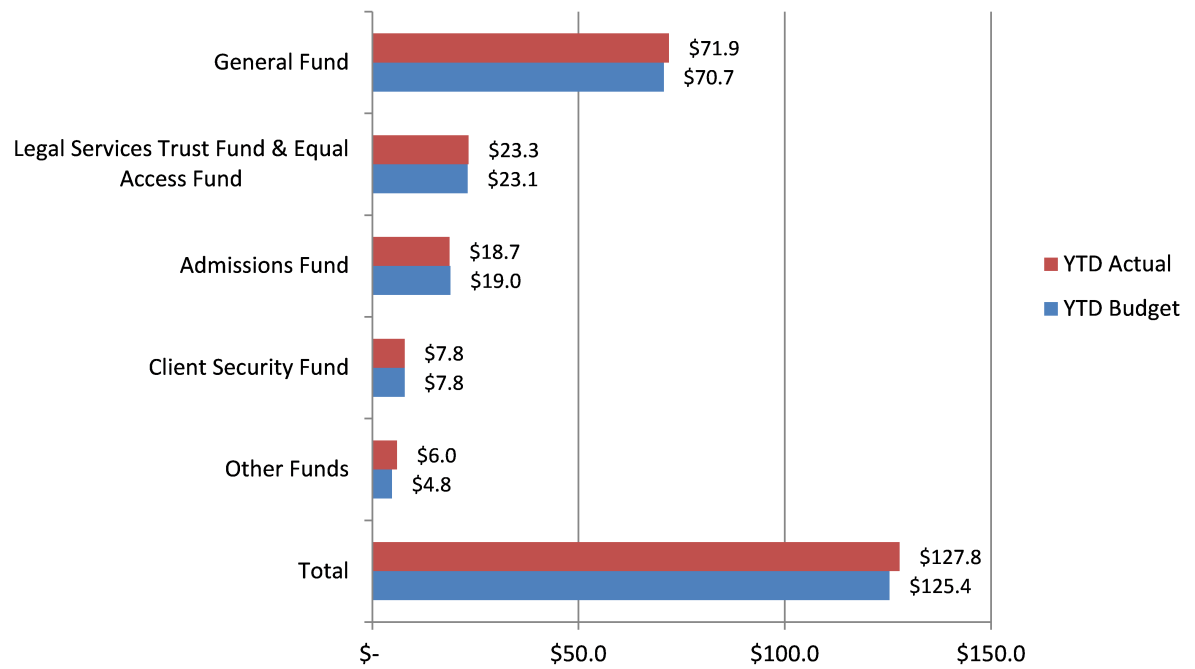
### **Revenues**

2018 operating revenues of \$127.8 million compare favorably with the budget of \$125.4 million. The variance is 1.9%. The primary element of the increase is that Equal Access Fund AB145 Filing Fee revenue for 2018 of \$3.3 million is \$1.3 million over budget.

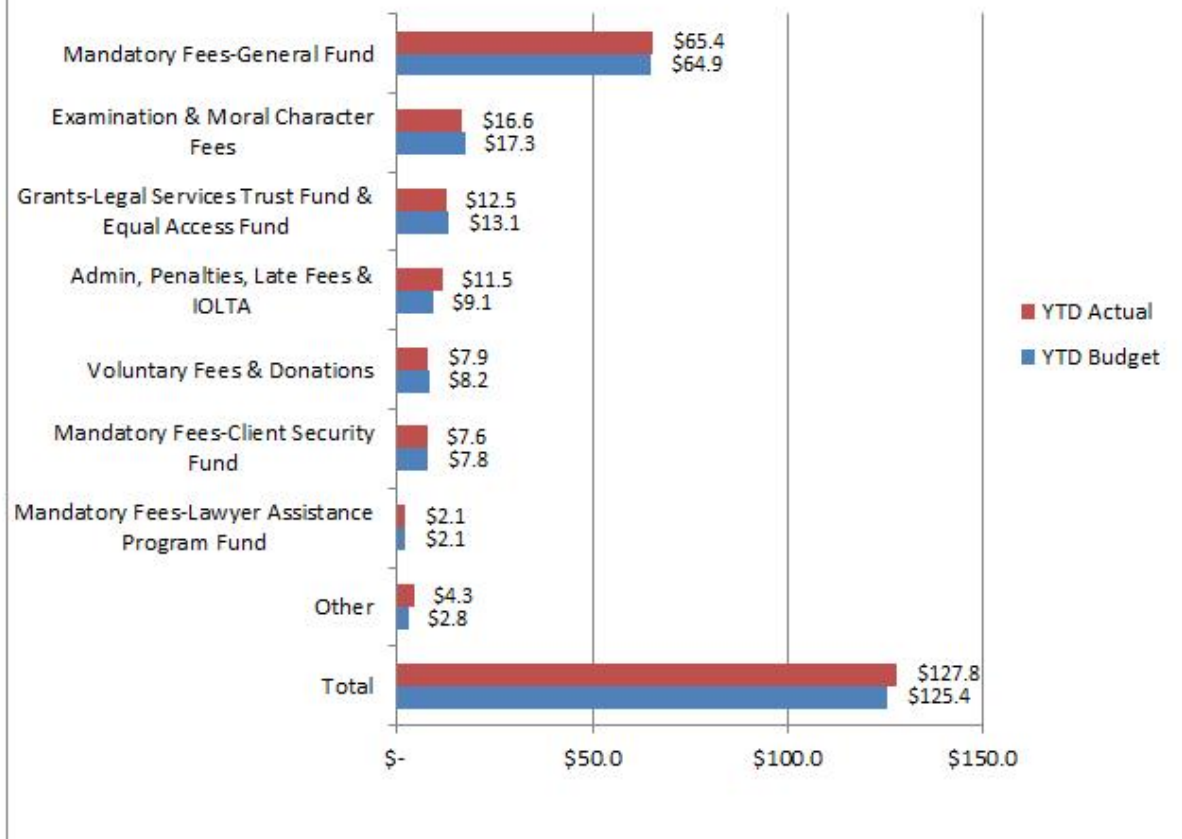
See Attachment 3 for description of variances compared to prior year.

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

**Figure B. 2018 Q2 Bar-Wide Revenues by Fund compared to YTD Budget  
(in \$ millions)**



**Figure C. 2018 Q2 Bar-Wide Revenues by Category compared to YTD Budget  
(in \$ millions)**



## Expenses

The State Bar's total 2018 operating expenses were \$88.6 million, reflecting a \$3.2 million favorable variance compared to the budgeted \$91.8 million. The \$3.2 million favorable budget variance is primarily composed of \$3.1 million unfavorable variance for Admissions, \$1.0 million unfavorable variance for the Lawyer Assistance Program, offset by \$2.1 million favorable variance in the Office of the Chief Trial Counsel primarily due to delays in hiring.

See Attachment 3 for description of variance compared to prior year.

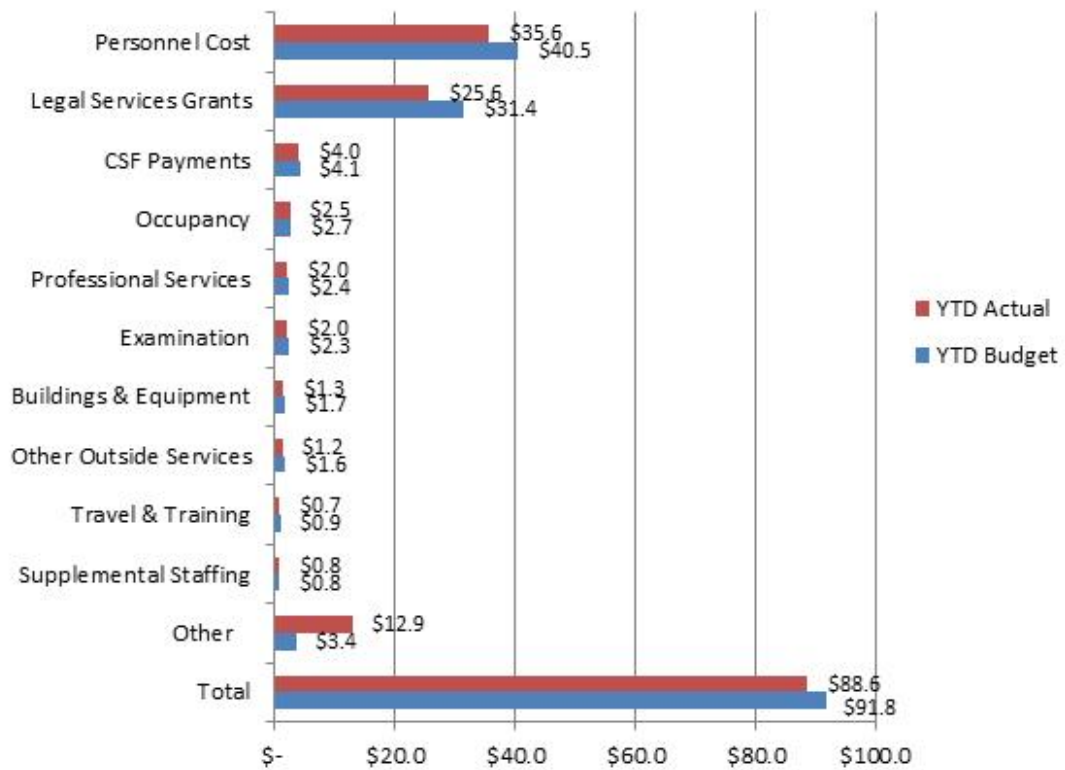
Figures (D) and (E) below summarize the State Bar's 2018 year-to-date operating expenses by fund and by category compared to the budget.



**Figure D. 2018 Q2 Bar-Wide Expenses by Fund compared to YTD Budget  
(in \$ millions)**



**Figure E. 2018 Q2 Bar-Wide Expenses by Category compared to YTD Budget  
(in \$ millions)**



### Non-Operating Revenue

Non-operating revenue consists of investment income net of interest expense on loans. Investment income for 2018 of \$1.6 million is \$1.3 million over budget due to \$0.5 million gain on sale of investments prior to maturity and higher interest rates. For example, interest rates on the deposit in the Local Agency Investment Fund increased from 0.92% in June of 2017 to 1.90% in June 2018.

**The State Bar of California**  
**Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Six Months Ending June 30, 2018**

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

	<b>General Fund</b>	<b>Other Funds</b>	<b>2018 Actual</b>	<b>2018 Budget</b>	<b>Variance-2018 Actual vs Budget</b>
<b>OPERATING REVENUES</b>					
Licensing Fees and Donations	\$ 67,717,360	\$ 17,590,847	\$ 85,308,207	\$ 85,179,221	\$ 128,986
Multi-Jurisdictional Practice Fees	-	712,957	712,957	334,650	378,307
Exam Application & Moral Character Fees	-	17,708,003	17,708,003	18,799,390	(1,091,387)
Trust Account Revenue	-	4,559,443	4,559,443	3,164,284	1,395,159
Law Practices Sections Fees	-	-	-	-	-
Seminar/Workshop Revenue	36,021	-	36,021	555,880	(519,859)
Legal Specialization Fees	-	1,970,473	1,970,473	1,517,430	453,043
Law Corporation Registration Fees	706,528	-	706,528	805,703	(99,175)
Continuing Legal Education Fees	567,755	4,825	572,580	312,045	260,535
Grant Revenue	-	9,172,900	9,172,900	8,556,340	616,560
EAF AB 145 Filing Fee Revenue	-	3,304,748	3,304,748	1,977,262	1,327,486
Affinity Insurance Revenue	914,849	-	914,849	283,446	631,403
Other Revenue	1,974,501	837,021	2,811,522	3,910,232	(1,098,710)
<b>Total Operating Revenues</b>	<b>71,917,014</b>	<b>55,861,217</b>	<b>127,778,231</b>	<b>125,395,883</b>	<b>2,382,348</b>
<b>OPERATING EXPENSES</b>					
Chief Trial Counsel	22,146,911	-	22,146,911	24,287,688	(2,140,777)
State Bar Court	6,111,862	-	6,111,862	6,672,696	(560,834)
Attorney Regulation and Consumer Resources	2,461,568	-	2,461,568	2,429,966	31,602
Professional Competence	1,276,969	-	1,276,969	1,329,285	(52,316)
Probation	714,047	-	714,047	715,344	(1,297)
Mandatory Fee Arbitration	120,567	-	120,567	63,318	57,249
Judicial Evaluation	354,196	-	354,196	362,644	(8,448)
Commission on Access to Justice	6,939	-	6,939	14,111	(7,172)
Access & Inclusion	643,132	-	643,132	820,152	(177,020)
California Young Lawyers Association	-	-	-	-	-
Communications	391,629	-	391,629	486,384	(94,755)
Governance	1,896,592	-	1,896,592	1,816,831	79,761
Lawyer Assistance Program	-	901,163	901,163	-	901,163
Client Security Fund	-	4,840,270	4,840,270	3,828,600	1,011,670
Admissions	-	8,800,733	8,800,733	10,142,663	(1,341,930)
Grant Expenses	-	25,622,682	25,622,682	32,438,226	(6,815,544)

**The State Bar of California**  
**Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Six Months Ending June 30, 2018**

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

	<b>General Fund</b>	<b>Other Funds</b>	<b>2018 Actual</b>	<b>2018 Budget</b>	<b>Variance-2018 Actual vs Budget</b>
<b>OPERATING EXPENSES</b>					
Payment to Calif Lawyers Association	-	8,337,741	8,337,741	-	8,337,741
General and Administrative	1,261,507	2,704,048	3,965,555	6,386,752	(2,421,197)
<b>Total Operating Expenses</b>	<b>37,385,919</b>	<b>51,206,637</b>	<b>88,592,556</b>	<b>91,794,660</b>	<b>(3,202,104)</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>34,531,095</b>	<b>4,654,580</b>	<b>39,185,675</b>	<b>33,601,223</b>	<b>5,584,452</b>
<b>NON-OPERATING REVENUE</b>					
Investment Income	1,571,422	62,812	1,634,234	307,712	1,326,522
Interest Expense on Loan	(387,870)	(194,614)	(582,484)	590,960	(1,173,444)
<b>Total Non-Operating Revenue</b>	<b>1,183,552</b>	<b>(131,802)</b>	<b>1,051,750</b>	<b>898,672</b>	<b>153,078</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>35,714,647</b>	<b>4,522,778</b>	<b>40,237,425</b>	<b>34,499,895</b>	<b>5,737,530</b>
Transfer in From Lawyer Assistance Program Fund	-	250,000	250,000	250,000	-
Transfer out to Client Security Fund	-	(250,000)	(250,000)	(250,000)	-
Interfund Transaction - Revenue	41,515	6,050	47,565	-	47,565
Interfund Transaction - Expense	(44,228)	(3,337)	(47,565)	-	(47,565)
<b>CHANGE IN NET POSITION</b>	<b>35,711,934</b>	<b>4,525,491</b>	<b>40,237,425</b>	<b>34,499,895</b>	<b>\$ 5,737,530</b>
Net Position at beginning of year	65,643,083	79,746,631	145,389,714	145,389,714	
<b>NET POSITION AT JUNE 30, 2018</b>	<b>\$ 101,355,017</b>	<b>\$ 84,272,122</b>	<b>\$ 185,627,139</b>	<b>\$ 179,889,609</b>	

**The State Bar of California**  
**Statement of Revenues, Expenses and Changes in Net Position - Non-General Funds**  
**For the Six Months Ending June 30, 2018**

**Attachment 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	Admissions	Annual Meeting	Grants	Sections	SF Tenant Improvement	Total Other Funds
<b>REVENUES</b>																
Licensing Fees and Donations	\$ 7,573,744	\$ 300,230	\$ -	\$ -	\$ 935,023	\$ 2,052,119	\$ 700,080	\$ 6,029,651	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,590,847
Multi-Jurisdictional Practice	-	-	-	-	-	-	-	-	-	-	712,957	-	-	-	-	712,957
Exam Application & Moral Character Fees	-	-	-	-	-	-	-	-	-	-	17,708,003	-	-	-	-	17,708,003
Trust Account Revenue	-	-	-	-	-	-	-	4,559,443	-	-	-	-	-	-	-	4,559,443
Legal Specialization Fees	-	-	-	-	-	-	-	-	1,970,473	-	-	-	-	-	-	1,970,473
Continuing Legal Education Revenue	-	-	-	-	-	-	-	-	4,825	-	-	-	-	-	-	4,825
Grant Revenue	-	-	9,176,400	-	-	-	-	-	-	-	-	-	(3,500)	-	-	9,172,900
EAF AB145 Filing Fee Revenue	-	-	3,304,748	-	-	-	-	-	-	-	-	-	-	-	-	3,304,748
Other Revenue	262,270	2,770	258,635	-	-	1,230	-	-	480	-	311,636	-	-	-	-	837,021
<b>Total Operating Revenues</b>	<b>7,836,014</b>	<b>303,000</b>	<b>12,739,783</b>	<b>-</b>	<b>935,023</b>	<b>2,053,349</b>	<b>700,080</b>	<b>10,589,094</b>	<b>1,975,778</b>	<b>-</b>	<b>18,732,596</b>	<b>-</b>	<b>(3,500)</b>	<b>-</b>	<b>-</b>	<b>55,861,217</b>
<b>EXPENSES</b>																
Lawyer Assistance Program	-	-	-	-	-	901,163	-	-	-	-	-	-	-	-	-	901,163
Client Security Fund	4,840,270	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,840,270
Admissions	-	-	-	-	-	-	-	-	-	-	8,800,733	-	-	-	-	8,800,733
Grant Expenses	-	-	8,727,275	-	-	-	-	7,004,118	-	9,891,289	-	-	-	-	-	25,622,682
Payment to Calif Lawyers Association	-	-	-	-	-	-	-	-	-	-	-	-	-	8,337,741	-	8,337,741
General and Administrative	-	121,378	70,185	-	3,609	3,477	238,092	1,332,208	889,537	42,991	-	-	2,571	-	-	2,704,048
<b>Total Operating Expenses</b>	<b>4,840,270</b>	<b>121,378</b>	<b>8,797,460</b>	<b>-</b>	<b>3,609</b>	<b>904,640</b>	<b>238,092</b>	<b>8,336,326</b>	<b>889,537</b>	<b>9,934,280</b>	<b>8,800,733</b>	<b>-</b>	<b>2,571</b>	<b>8,337,741</b>	<b>-</b>	<b>51,206,637</b>
<b>NON-OPERATING REVENUE</b>																
Investment Income	2,597	58	1,589	968	2,299	2,971	298	5,041	3,993	30,789	7,946	2,114	-	-	2,149	62,812
Interest Expense on Loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(194,614)	(194,614)
<b>Total Non-Operating Revenue</b>	<b>2,597</b>	<b>58</b>	<b>1,589</b>	<b>968</b>	<b>2,299</b>	<b>2,971</b>	<b>298</b>	<b>5,041</b>	<b>3,993</b>	<b>30,789</b>	<b>7,946</b>	<b>2,114</b>	<b>-</b>	<b>-</b>	<b>(192,465)</b>	<b>(131,802)</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>2,998,341</b>	<b>181,680</b>	<b>3,943,912</b>	<b>968</b>	<b>933,713</b>	<b>1,151,680</b>	<b>462,286</b>	<b>2,257,809</b>	<b>1,090,234</b>	<b>(9,903,491)</b>	<b>9,939,809</b>	<b>2,114</b>	<b>(6,071)</b>	<b>(8,337,741)</b>	<b>(192,465)</b>	<b>4,522,778</b>
Transfer in From LAP Fund	250,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250,000
Transfer Out to Client Security Fund	-	-	-	-	-	(250,000)	-	-	-	-	-	-	-	-	-	(250,000)
Interfund Transaction - Revenue	4,820	-	-	-	-	1,230	-	-	-	-	-	-	-	-	-	6,050
Interfund Transaction - Expense	(1,532)	-	-	-	-	-	-	(108)	(383)	-	(1,314)	-	-	-	-	(3,337)
<b>CHANGE IN NET POSITION</b>	<b>3,251,629</b>	<b>181,680</b>	<b>3,943,912</b>	<b>968</b>	<b>933,713</b>	<b>902,910</b>	<b>462,286</b>	<b>2,257,701</b>	<b>1,089,851</b>	<b>(9,903,491)</b>	<b>9,938,495</b>	<b>2,114</b>	<b>(6,071)</b>	<b>(8,337,741)</b>	<b>(192,465)</b>	<b>4,525,491</b>
Net Position at beginning of year	3,073,328	1,791	3,048,887	1,225,475	3,076,604	3,591,884	293,253	8,094,736	4,637,350	39,142,586	4,769,344	(17,710)	422,426	8,337,741	48,936	79,746,631
<b>NET POSITION AT JUNE 30, 2018</b>	<b>\$ 6,324,957</b>	<b>\$ 183,471</b>	<b>\$ 6,992,799</b>	<b>\$1,226,443</b>	<b>\$4,010,317</b>	<b>\$ 4,494,794</b>	<b>\$ 755,539</b>	<b>\$10,352,437</b>	<b>\$ 5,727,201</b>	<b>\$ 29,239,095</b>	<b>\$14,707,839</b>	<b>\$ (15,596)</b>	<b>\$ 416,355</b>	<b>\$ -</b>	<b>\$ (143,529)</b>	<b>\$ 84,272,122</b>

**The State Bar of California**  
**Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Six Months Ending June 30, 2018**

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

	2018 Actual	2017 Actual	Variance- 2018 Actual vs 2017 Actual	Percent Change	Note
<b>OPERATING REVENUES</b>					
Licensing Fees and Donations	\$ 85,308,207	\$ 81,588,738	\$ 3,719,469	4.6%	(A)
Law Practices Sections Fees	-	5,942,813	(5,942,813)	(100.0%)	(B)
Trust Account Revenue	4,559,443	3,323,015	1,236,428	37.2%	(D)
EAF AB 145 Filing Fee Revenue	3,304,748	2,090,000	1,214,748	58.1%	(C)
Grant Revenue	9,172,900	8,545,600	627,300	7.3%	
Seminar/Workshop Revenue	36,021	544,790	(508,769)	(93.4%)	
Legal Specialization Fees	1,970,473	311,080	1,659,393	533.4%	(E)
Multi-Jurisdictional Practice Fees	712,957	637,639	75,318	11.8%	
Exam Application & Moral Character Fees	17,708,003	17,653,061	54,942	0.3%	
Advertising Revenue	-	16,370	(16,370)	(100.0%)	
Convention Income	-	194,254	(194,254)	(100.0%)	
Law Corporation Registration Fees	706,528	818,540	(112,012)	(13.7%)	
Continuing Legal Education Fees	572,580	400,331	172,249	43.0%	
Affinity Insurance Revenue	914,849	1,056,941	(142,092)	(13.4%)	
Other Revenue	2,811,522	2,918,781	(107,259)	(3.7%)	
<b>Total Operating Revenues</b>	<b>127,778,231</b>	<b>126,041,953</b>	<b>1,736,278</b>	<b>1.4%</b>	
<b>OPERATING EXPENSES</b>					
Sections	-	3,606,069	(3,606,069)	(100.0%)	(F)
General and Administrative	3,965,555	1,971,598	1,993,957	101.1%	(G)
Grant Expenses	25,622,682	23,186,875	2,435,807	10.5%	(H)
Chief Trial Counsel	22,146,911	19,938,037	2,208,874	11.1%	(I)
Client Security Fund	4,840,270	2,770,883	2,069,387	74.7%	(J)
Admissions	8,800,733	9,813,944	(1,013,211)	(10.3%)	(K)
Communications	391,629	546,946	(155,317)	(28.4%)	
Lawyer Assistance Program	901,163	741,648	159,515	21.5%	
Attorney Regulation and Consumer Resources	2,461,568	2,079,245	382,323	18.4%	
Mandatory Fee Arbitration	120,567	366,575	(246,008)	(67.1%)	
State Bar Court	6,111,862	6,081,693	30,169	0.5%	
Professional Competence	1,276,969	1,162,206	114,763	9.9%	
Probation	714,047	665,343	48,704	7.3%	
Judicial Evaluation	354,196	357,926	(3,730)	(1.0%)	

**The State Bar of California**  
**Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Six Months Ending June 30, 2018**

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

	2018 Actual	2017 Actual	Variance- 2018 Actual vs 2017 Actual	Percent Change	Note
<b>OPERATING EXPENSES</b>					
Commission on Access to Justice	6,939	14,853	(7,914)	(53.3%)	
Access & Inclusion	643,132	780,804	(137,672)	(17.6%)	
California Young Lawyers Association	-	16,603	(16,603)	(100.0%)	
Governance	1,896,592	1,841,851	54,741	3.0%	
Payment to Calif Lawyers Association	8,337,741	-	8,337,741	100.0%	(F)
<b>Total Operating Expenses</b>	<b>88,592,556</b>	<b>75,943,099</b>	<b>12,649,457</b>	<b>16.7%</b>	
<b>OPERATING INCOME/(LOSS)</b>	<b>39,185,675</b>	<b>50,098,854</b>	<b>(10,913,179)</b>	<b>(21.8%)</b>	
<b>NON-OPERATING REVENUE</b>					
Investment Income	1,634,234	62,812	1,571,422	2501.8%	(L)
Interest Expense on Loan	(582,484)	(635,754)	53,270	(8.4%)	
<b>Total Non-Operating Revenue</b>	<b>1,051,750</b>	<b>(572,942)</b>	<b>1,624,692</b>	<b>-283.6%</b>	
<b>CHANGE IN NET POSITION</b>	<b>40,237,425</b>	<b>49,525,912</b>	<b>(9,288,487)</b>	<b>(18.8%)</b>	
Net Position at beginning of year	145,389,714	156,381,622	(10,991,908)	(7.0%)	
<b>NET POSITION AT JUNE 2018</b>	<b>\$ 185,627,139</b>	<b>\$ 205,907,534</b>	<b>\$ (20,280,395)</b>	<b>(9.8%)</b>	

Note: See Attachment 3 page 2 for the Variances

**The State Bar of California**  
**Variance Analysis: Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Six Months Ending June 30, 2018**

**Attachment 3**  
**Page 3 of 3**

**Note REVENUES: 2018 Actual vs 2017 Actual**

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**(A) Licensing Fees and Donations - 2018 Actual \$85.3 million, 2017 Actual \$81.6 million. \$3.7 million increase.**

The \$3.7 million increase is due primarily to reinstatement of the licensing fee from \$297 to \$315 on January 1, 2018, increased number of active attorneys, and \$1.1 million increase in late fees.

**(B) Law Practices Sections Fees - 2018 Actual \$0.0 million, 2017 Actual \$5.9 million. \$5.9 million decrease.**

The \$5.9 million decrease is due to the Sections separation effective December 31, 2017.

**(C) Equal Access Fund AB 145 Filing Fee Revenue – 2018 Actual \$3.3 million, 2017 Actual \$2.1 million. \$1.2 million increase.**

The \$1.2 million increase is driven by increases of grant revenue in the Equal Access Fund.

**(D) Trust Account Revenue – 2018 Actual \$4.6 million, 2017 Actual \$3.3 million. \$1.2 million increase.**

The \$1.2 million increase is driven by higher interest rates on IOLTA accounts.

**(E) Legal Specialization Fees - 2018 Actual \$2.0 million, 2017 Actual \$0.3 million. \$1.7 million increase.**

In 2017, there was a fee holiday for Legal Specialization fees as part of the Legal Specialization Fund spend down plan. The fee was reinstated in 2018.

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**EXPENSES: 2018 Actual vs 2017 Actual**

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**(F) Sections - 2018 Actual \$0.0 million, 2017 Actual \$3.6 million. \$3.6 million decrease.**

Sections expenses declined from \$3.6 million last year to zero in 2018 because Sections was spun off to California Lawyers Association (CLA) effective December 31, 2017. \$8.3 million was paid to CLA in early 2018 representing the fund balance of the Sections funds.

**(G) General and Administrative – 2018 Actual \$4.0 million, 2017 Actual \$2.0 million. \$2.0 million increase.**

The \$2.0 million increase is primarily composed of \$1.1 million increase in personnel costs and \$0.6 million for professional services related to the new Case Management System and Admissions System.

**(H) Grant Expenses - 2018 Actual \$25.6 million, 2017 Actual \$23.2 million. \$2.4 million increase.**

The \$2.4 million increase primarily represents increased use of Bank of America Settlement Funds.

**(I) Chief Trial Counsel – 2018 Actual \$22.1 million, 2017 Actual \$19.9 million. \$2.2 million increase**

The \$2.2 million increase is primarily due to an increase in the number of OCTC employees (217 as of 6/30/17 vs 258 as of 6/30/18).

**(J) Client Security Fund – 2018 Actual \$4.8 million, 2017 Actual \$2.8 million. \$2.1 million increase**

The \$2.1 million increase reflects an increase in Client Security Fund payouts of \$2.1 million (from \$1.9 million in 2017 to \$4.0 million in 2018).

**(K) Admissions - 2018 Actual \$8.8 million, 2017 Actual \$9.8 million. \$1.0 million decrease.**

This decrease is primarily composed of decreases in proctors costs (\$0.2 million), exam room rentals (\$0.2 million), laptop licenses (\$0.2 million), bank processing fees (\$0.2 million), personnel costs \$0.1 million and professional services (\$0.1 million).

**(L) Investment Income – 2018 Actual \$1.6 million, 2017 Actual \$0.1 million. \$1.6 million increase**

\$0.5 million of this increase represents gain on sale of investments prior to maturity. The remainder represents increase in yield on investments.



The State Bar of California Assets, Liabilities and Net Position - Bar Wide June 30, 2018

Attachment 4

	General Fund	Total Other Funds	June 2018 Balance	June 2017 Balance	Variance
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Cash, Restricted Cash and Investments	\$72,408,731	\$87,647,224	\$160,055,956	\$172,300,301	(\$12,244,345)
Accounts Receivable (net of allowances)	1,752,165	2,016,317	3,768,481	3,158,788	609,693
Capital Assets (net of depreciation)	90,212,539	3,609,926	93,822,465	94,617,022	(794,557)
OPEB Investment	12,398,222	-	12,398,222	11,292,271	1,105,951
Other Assets	624,769	631,438	1,256,207	867,473	388,734
Deferred Outflows of Resources	24,247,204	-	24,247,204	33,237,651	(8,990,447)
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$201,643,630</b>	<b>\$93,904,905</b>	<b>\$295,548,535</b>	<b>\$315,473,506</b>	<b>(\$19,924,971)</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Accounts Payable and Accrued Liabilities	\$6,624,306	\$1,424,272	\$8,048,579	\$9,383,035	(\$1,334,456)
Unearned Income	-	-	-	80,703	(80,703)
Grants Payable	-	-	-	16,753	(16,753)
Loans Payable	17,826,716	8,208,510	26,035,226	28,197,716	(2,162,490)
Pension Liabilities	73,531,695	-	73,531,695	59,917,510	13,614,185
Deferred Inflows of Resources	2,305,896	-	2,305,896	11,970,255	(9,664,359)
<b>TOTAL LIAB. &amp; DEFERRED INFLOWS OF RESOURCES</b>	<b>\$100,288,613</b>	<b>\$9,632,783</b>	<b>\$109,921,396</b>	<b>\$109,565,972</b>	<b>\$355,424</b>
<b>NET POSITION</b>					
Net Position at Beginning of Year	\$65,643,083	\$79,746,630	\$145,389,713	\$156,381,622	(\$10,991,909)
Change in Net Position	35,711,934	4,525,491	40,237,425	49,525,912	(9,288,487)
<b>TOTAL NET POSITION</b>	<b>\$101,355,017</b>	<b>\$84,272,122</b>	<b>\$185,627,139</b>	<b>\$205,907,534</b>	<b>(\$20,280,395)</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$201,643,630</b>	<b>\$93,904,905</b>	<b>\$295,548,535</b>	<b>\$315,473,506</b>	<b>(\$19,924,971)</b>

The State Bar of California  
Assets, Liabilities and Net Position - Non General Funds  
June 30, 2018

Attachment 5

	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	Admissions	Annual Meeting	Grants	Sections	SF Tenant Improvement	Total Other Funds
<b>ASSETS</b>																
Cash, Restricted Cash and Investments	\$ 6,522,835	\$ 185,684	\$ 5,821,021	\$ 1,226,441	\$ 4,010,318	\$ 4,515,078	\$ 709,241	\$ 9,688,419	\$ 5,796,218	\$ 29,239,095	\$ 15,022,687	\$ -	\$ 416,355	\$ 5,516	\$ 4,488,315	\$ 87,647,224
Accounts Receivable (net of allowances)	-	-	1,265,548	-	-	-	-	750,768	-	-	-	-	-	-	-	2,016,317
Capital Assets (net of depreciation)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,609,926	3,609,926
Other Assets	98,184	2,214	-	-	-	14,370	(46,295)	28,603	28,943	-	526,532	(15,597)	-	(5,516)	-	631,438
<b>TOTAL ASSETS</b>	<b>6,621,019</b>	<b>187,899</b>	<b>7,086,569</b>	<b>1,226,441</b>	<b>4,010,318</b>	<b>4,529,448</b>	<b>662,946</b>	<b>10,467,791</b>	<b>5,825,161</b>	<b>29,239,095</b>	<b>15,549,219</b>	<b>(15,597)</b>	<b>416,355</b>	<b>-</b>	<b>8,098,241</b>	<b>93,904,905</b>
<b>LIABILITIES</b>																
Accounts Payable and Accrued Liabilities	296,062	4,427	93,769	-	-	34,648	(92,589)	115,353	97,961	-	841,380	-	-	-	33,260	1,424,272
Loan Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,208,510	8,208,510
<b>TOTAL LIABILITIES</b>	<b>296,062</b>	<b>4,427</b>	<b>93,769</b>	<b>-</b>	<b>-</b>	<b>34,648</b>	<b>(92,589)</b>	<b>115,353</b>	<b>97,961</b>	<b>-</b>	<b>841,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,241,770</b>	<b>9,632,783</b>
<b>NET POSITION</b>																
Net Position at Beginning of Year	3,073,328	1,791	3,048,887	1,225,475	3,076,604	3,591,884	293,253	8,094,736	4,637,350	39,142,586	4,769,344	(17,711)	422,426	8,337,741	48,936	79,746,630
Change in Net Position	3,251,629	181,680	3,943,912	968	933,713	902,910	462,286	2,257,701	1,089,851	(9,903,491)	9,938,495	2,114	(6,071)	(8,337,741)	(192,465)	4,525,491
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>6,324,957</b>	<b>183,471</b>	<b>6,992,799</b>	<b>1,226,443</b>	<b>4,010,317</b>	<b>4,494,794</b>	<b>755,539</b>	<b>10,352,437</b>	<b>5,727,201</b>	<b>29,239,095</b>	<b>14,707,839</b>	<b>(15,597)</b>	<b>416,355</b>	<b>-</b>	<b>(143,529)</b>	<b>84,272,121</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 6,621,019</b>	<b>\$ 187,898</b>	<b>\$ 7,086,568</b>	<b>\$ 1,226,443</b>	<b>\$ 4,010,317</b>	<b>\$ 4,529,442</b>	<b>\$ 662,950</b>	<b>\$ 10,467,790</b>	<b>\$ 5,825,162</b>	<b>\$ 29,239,095</b>	<b>\$ 15,549,219</b>	<b>\$ (15,597)</b>	<b>\$ 416,355</b>	<b>\$ -</b>	<b>\$ 8,098,241</b>	<b>\$ 93,904,904</b>



# THE STATE BAR OF CALIFORNIA

## OFFICE OF FINANCE

180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

### MEMORANDUM

**DATE:** September 13, 2018  
**TO:** Members, Finance and Planning Committee  
**FROM:** Kevin Harper, Interim Chief Finance Officer  
**SUBJECT:** Annual Investment Report as of June 30, 2018

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Attached is the quarterly investment report for the State Bar of California as of June 30, 2018. 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 in Wells Fargo Bank and in the State Treasurer's Local Agency Investment Fund. As of June 30, 2018, the market value of the investment portfolio was \$134.5 million.

The time-weighted average rate of return of the investment portfolio for the reported quarter is 2.16% compared to 0.85% in the comparable quarter of 2017. Actual investment earnings increased approximately 113% from \$507,899 last year to \$1.08 million in 2018. The increase in investment earnings is due to higher rates of return. For example, the interest rate on deposits in the Local Agency Investment Fund increased from 0.92% in June 2017 to 1.90% in June 2018.

The unrealized loss for the reporting quarter is \$463,246. Please refer to the attached detailed schedule for the various transactions that contributed to this loss. 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  
June 30, 2018**

<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	68,013,499	\$ 67,584,867	50.2%	2.01%
- Corporate Bonds	21,712,016	21,538,734	16.0%	2.64%
- Common Stock-Metlife Inc.	-	138,668	0.1%	N.A
Subtotal-Securities, Bonds and Notes	89,725,515	89,262,269	66.4%	
Interest Receivable	-	453,480	0.3%	N.A
Local Agency Investment Fund	44,814,344	44,814,344	33.3%	1.17%
<b>Total</b>	<b>\$ 134,539,859</b>	<b>\$ 134,530,093</b>	<b>100.0%</b>	2.16%

**Unrealized Gain/(Loss):**

Market Value of Portfolio -Securities, Bonds and Notes	\$ 89,262,269
Original Cost of Portfolio -Securities, Bonds and Notes	89,725,515
Unrealized Gain/(Loss)	<u><u>\$ (463,246)</u></u>

**State Bar of California**  
**Investment Report - Wells Fargo Custody Account**  
**Balance as of June 30, 2018**

Issuer	CUSIP #	S&P Rating	Type	Par Value	Cost	Mkt Value	Interest Receivable	Unrealized Gain/(Loss)	*Yield	Trade/ Purchase	Maturity
										Date	Date
FED HOME LN MTG CORP**	3134G8XA2	AA+	Government Agency	5,000,000	5,000,000.00	4,996,850.00	8,888.89	(3,150.00)	1.000%	04/28/16	07/27/18
FED FARM CREDIT BANK	3133EGFQ3	AA+	Government Agency	3,000,000	3,010,170.00	2,993,430.00	7,802.08	(16,740.00)	0.720%	06/24/16	09/14/18
FED FARM CREDIT BANK	3133EFX69	AA+	Government Agency	5,000,000	5,010,550.00	4,985,500.00	11,466.67	(25,050.00)	0.870%	05/17/16	10/05/18
FED FARM CREDIT BANK	3133EFX69	AA+	Government Agency	3,000,000	3,018,150.00	2,991,300.00	6,880.00	(26,850.00)	0.690%	06/29/16	10/05/18
FED HOME LN MTG CORP	3134G9HV2	AA+	Government Agency	2,000,000	2,000,000.00	1,991,340.00	1,944.44	(8,660.00)	1.000%	05/17/16	11/26/18
FANNIE MAE (FNMA)	3135G0H63	AA+	Government Agency	3,125,000	3,109,137.50	3,109,593.75	18,261.72	456.25	1.943%	02/28/18	01/28/19
WELLS FARGO BANK, NA	94988J5D5	A+	Corporate Bond	3,125,000	3,099,590.63	3,097,000.00	5,620.66	(2,590.63)	2.425%	02/28/18	05/24/19
FREDDIE MAC (FHLMC)	3134G3A91	AA+	Government Agency	3,125,000	3,094,562.50	3,083,625.00	15,677.08	(10,937.50)	2.075%	02/28/18	08/22/19
FANNIE MAE (FNMA)	3135G0R39	AA+	Government Agency	3,125,000	3,068,959.38	3,065,500.00	5,815.97	(3,459.38)	2.115%	02/28/18	10/24/19
FED FARM CREDIT BANK	3133EJCN7	AA+	Government Agency	3,125,000	3,117,268.75	3,101,937.50	24,617.19	(15,331.25)	2.200%	02/28/18	02/14/20
FED HOME LN BANK	313383HU8	AA+	Government Agency	3,125,000	3,091,484.38	3,074,156.25	2,886.28	(17,328.13)	2.235%	02/28/18	06/12/20
FED HOME LN BANK	313370US5	AA+	Government Agency	3,125,000	3,171,512.50	3,139,937.50	27,452.26	(31,575.00)	2.265%	02/28/18	09/11/20
MICROSOFT CORP	594918AH7	AAA	Corporate Bond	3,125,000	3,169,646.88	3,145,531.25	23,437.50	(24,115.63)	2.425%	02/28/18	10/01/20
APPLE INC	037833BS8	AA+	Corporate Bond	3,125,000	3,093,868.75	3,070,656.25	25,000.00	(23,212.50)	2.600%	02/28/18	02/23/21
CHEVRON CORP.	166764BG4	AA-	Corporate Bond	3,125,000	3,071,040.63	3,051,875.00	8,203.13	(19,165.63)	2.665%	02/28/18	05/16/21
MICROSOFT CORP	594918BP8	AAA	Corporate Bond	3,125,000	3,016,371.88	2,996,593.75	19,240.45	(19,778.13)	2.615%	02/28/18	08/08/21
FREDDIE MAC (FHLMC)	3134GSCP8	AA+	Government Agency	3,125,000	3,120,312.50	3,091,812.50	8,246.53	(28,500.00)	2.543%	02/28/18	11/23/21
STATE OF CALIFORNIA	13063DAD0	AA-	Municipal Bond	3,035,000	2,993,268.75	2,955,816.85	17,959.61	(37,451.90)	2.725%	02/28/18	04/01/22
APPLE INC	037833BF6	AA+	Corporate Bond	3,215,000	3,201,014.75	3,164,428.05	11,574.00	(36,586.70)	2.810%	02/28/18	05/13/22
FREDDIE MAC (FHLMC)	3134GBC83	AA+	Government Agency	3,125,000	3,064,843.75	3,042,062.50	3,054.69	(22,781.25)	2.547%	02/28/18	06/14/22
TOYOTA MOTOR CREDIT CORP	89236TEC5	AA-	Corporate Bond	1,500,000	1,452,690.00	1,430,550.00	10,122.92	(22,140.00)	2.900%	02/28/18	09/08/22
TOYOTA MOTOR CREDIT CORP	89236TEL5	AA-	Corporate Bond	1,625,000	1,607,792.88	1,582,100.00	20,718.75	(25,692.88)	2.935%	02/28/18	01/11/23
FED HOME LN BK	313383VN8		Government Agency	3,000,000	2,994,696.00	2,984,130.00	18,000.00	(10,566.00)	2.000%	04/04/18	09/13/19
FED HOME LN BK	3130ADUY6		Government Agency	3,000,000	3,007,116.00	2,985,810.00	20,416.67	(21,306.00)	2.450%	04/04/18	09/21/20
FED HOME LN BK	3130ADW32		Government Agency	3,500,000	3,506,636.00	3,485,545.00	22,152.08	(21,091.00)	2.530%	04/13/18	09/28/20
FED HOME LN BK	3130ADXP2		Government Agency	3,000,000	3,005,430.00	2,984,700.00	16,741.67	(20,730.00)	2.450%	04/04/18	10/09/20
FED HOME LN BK	313383WD9		Government Agency	3,000,000	3,070,491.00	3,034,260.00	29,166.66	(36,231.00)	3.125%	04/04/18	09/09/22
FED HOME LN BK	313383WD9		Government Agency	3,500,000	3,580,419.50	3,539,970.00	34,027.78	(40,449.50)	3.125%	04/04/18	09/09/22
FED HOME LN MTG CORP	3134GBA69		Government Agency	3,000,000	2,978,490.00	2,947,590.00	28,104.17	(30,900.00)	2.375%	04/04/18	08/09/22
<b>TOTAL GOVERNMENT BONDS AND NOTES:</b>				<b>90,000,000</b>	<b>89,725,514.91</b>	<b>89,123,601.15</b>	<b>453,479.85</b>	<b>(601,913.76)</b>	<b>0.02</b>		
<b>TOTAL CORPORATE BONDS :</b>				<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>		
BRIGHTHOUSE FINANCIAL INC	10922N103	N/A	Common Stock	-	-	10,658.62	-	10,658.62			N/A
METLIFE INC	59156R108	N/A	Common Stock	-	-	128,009.60	-	128,009.60			N/A
<b>TOTAL COMMON STOCKS:</b>				<b>-</b>	<b>-</b>	<b>138,668.22</b>	<b>-</b>	<b>138,668.22</b>			
<b>TOTAL CASH:</b>				<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>				
<b>TOTAL INVESTMENT HELD BY WELLS FARGO</b>				<b>90,000,000</b>	<b>89,725,514.91</b>	<b>89,262,269.37</b>	<b>453,479.85</b>	<b>(463,245.54)</b>			



# THE STATE BAR OF CALIFORNIA

OFFICE OF FINANCE

180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

## MEMORANDUM

**DATE:** September 13, 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 Quarter Ended June 30, 2018

Attached for your review are a series of reports for the applications activity within the Client Security Fund for the quarter ended June 30, 2018. These reports include:

- Status on Applications Activity for the quarter ended June 30, 2018
- 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 June 30, a total of 583 new applications in the amount of \$14.1 million were filed. The number of applications filed increased by 32.2% compared to 441 applications filed last year. The application amount increased by \$6.0 million, or 74.1% compared to \$8.1 million filed in 2017.

For the quarter ended June 30, 2018, total applications processed are 750 for approximately \$12.4 million. Total payouts for 2018 are \$3.9 million, up by \$1.9 million compared to \$2.0 million last year. The CSF total budget for reimbursements was increased to \$8.5 million in 2018. As a result of the increased budget, CSF was able to pay more applications in 2018 Q2 as compared to 2017 Q2. Total applications pending for processing as of June 30, 2018, are 3,264 in the amount of \$54.4 million, and for the same period in 2017, there were 3,703 pending applications in the amount of \$51.6 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 39.4%. Total applications outstanding as of June 30, 2018 are 3,264 for \$54.4 million. Applying the rolling average applications payout ratio to the outstanding application amounts, the estimated application payout as of June 30, 2018 is \$21.4 million; a decrease of \$1.6 million or 7.0% compared to

\$23.0 million last year. As of June 30, 2018, cash and investments available for applications reimbursement in the CSF are approximately \$6.3 million compared to \$8.0 million last year.

Below are some key indicators for the CSF application process as of June 30, 2018 compared to 2017:

<b>Key Indicator Descriptions</b>	<b>2018 Q2</b>	<b>2017 Q2</b>	<b>Attachment</b>
New Applications Received # / \$ (in million)	583/\$14.1	441/\$8.1	1
Total Applications Processed # / \$ (in million)	750/\$12.4	991/\$7.5	2
% of Paid Applications in # to total in process <sup>1</sup>	10.0%	9.0%	1
% of Paid Applications in \$ to total in process <sup>2</sup>	5.9%	3.4%	1
Total Payouts \$ (in million)	\$ 3.9	\$ 2.0	2
Total Applications Pending for Processing # / \$ (in million)	3,264/\$54.4	3,703/\$51.6	2
24-month Rolling Average Payout Ratio	39.40%	44.63%	4
Estimated CSF Application Liabilities (in million)	\$21.4	\$23.0	2
Net Assets as of December 31 (in million)	\$6.3	\$8.0	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  
June 30, 2018  
YEAR TO DATE ACTIVITIES**

Attachment 1

	<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>			
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	(A)	(B)
<b>Prior Years' Applications</b>	619	1,067,367	1,180	4,506,290	697	5,056,855	450	7,443,327	156	5,543,861	44	2,275,000	285	26,804,810	3,431	52,697,510		
<b>New Applications</b>	94	145,283	122	469,048	111	852,340	94	1,616,986	44	1,520,079	21	703,800	97	8,805,186	583	14,112,722		
<b>Paid Applications</b>	(84)	(142,889)	(123)	(455,786)	(103)	(665,384)	(57)	(779,681)	(17)	(560,204)	(6)	(325,494)	(11)	(1,017,045)	(401)	(3,946,483)	10.0%	5.9%
<b>Rejected Applications</b>	(3)	(12,122)	(3)	(46,810)	(3)	(99,668)	(6)	(266,314)	(3)	(153,666)	(1)	(99,506)	(13)	(1,298,295)	(32)	(1,976,381)	0.8%	3.0%
<b>Withdrawn Applications</b>	(87)	(138,953)	(67)	(260,058)	(51)	(397,982)	(42)	(634,653)	(12)	(418,656)	(18)	(900,000)	(40)	(3,720,690)	(317)	(6,470,992)	7.9%	9.7%
<b>Applications Outstanding</b>	<b>539</b>	<b>\$ 918,686</b>	<b>1,109</b>	<b>\$ 4,212,684</b>	<b>651</b>	<b>\$ 4,746,161</b>	<b>439</b>	<b>\$ 7,379,665</b>	<b>168</b>	<b>\$ 5,931,414</b>	<b>40</b>	<b>\$ 1,653,800</b>	<b>318</b>	<b>\$ 29,573,966</b>	<b>3,264</b>	<b>\$ 54,416,376</b>		
<b>New applications % to total</b>	16.12%	1.03%	20.93%	3.32%	19.04%	6.04%	16.12%	11.46%	7.55%	10.77%	3.60%	4.99%	16.64%	62.39%	100.00%	100.00%		
<b>Applications paid % to total</b>	20.95%	3.62%	30.67%	11.55%	25.69%	16.86%	14.21%	19.76%	4.24%	14.20%	1.50%	8.25%	2.74%	25.77%	100.00%	100.00%		
<b>Applications rejected or withdrawn % to total</b>	25.79%	1.79%	20.06%	3.63%	15.47%	5.89%	13.75%	10.67%	4.30%	6.78%	5.44%	11.83%	15.19%	59.41%	100.00%	100.00%		
<b>Applications outstanding % to total</b>	16.51%	1.69%	33.98%	7.74%	19.94%	8.72%	13.45%	13.56%	5.15%	10.90%	1.23%	3.04%	9.74%	54.35%	100.00%	100.00%		

(A) % of # of paid applications, rejected applications and withdrawn applications to # of total applications in process in 2018 Q2.  
(B) % of paid applications, rejected applications and withdrawn applications in \$ to the total applications \$ in process in 2018 Q2.



THE STATE BAR OF CALIFORNIA

Attachment 2

CLIENT SECURITY FUND

APPLICATIONS AGING REPORT

AS OF JUNE 30, 2018

<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>
2010	8	89,553			(5)	(55,470)	(2)	(29,385)	(7)	(84,855)	1	4,698
2011	35	542,818			(10)	(48,555)	(10)	(47,149)	(20)	(95,704)	15	447,114
2012	110	1,054,877			(43)	(210,621)	(23)	(188,090)	(66)	(398,711)	44	656,166
2013	151	2,034,048			(28)	(316,565)	(14)	(286,408)	(42)	(602,973)	109	1,431,075
2014	610	9,272,981			(145)	(1,390,783)	(64)	(2,288,816)	(209)	(3,679,599)	401	5,593,382
2015	809	11,438,656			(164)	(1,806,123)	(33)	(808,215)	(197)	(2,614,338)	612	8,824,318
2016	893	12,957,913			(3)	(105,470)	(12)	(105,756)	(15)	(211,226)	878	12,746,687
2017	815	15,206,664			(2)	(4,850)	(118)	(2,495,624)	(120)	(2,500,474)	695	12,706,190
2018		100,000	583	14,112,722	(1)	(8,045)	(73)	(2,197,931)	(74)	(2,205,976)	509	12,006,746
<b>TOTAL</b>	<b>3,431</b>	<b>52,697,510</b>	<b>583</b>	<b>14,112,722</b>	<b>(401)</b>	<b>(3,946,482)</b>	<b>(349)</b>	<b>(8,447,374)</b>	<b>(750)</b>	<b>(12,393,856)</b>	<b>3,264</b>	<b>54,416,376</b>

Applications Outstanding **\$54,416,376**

Estimated Application Payout Ratio **39.40%**

Estimated Application Payouts **\$21,437,363**

THE STATE BAR OF CALIFORNIA

Attachment 3

CLIENT SECURITY FUND

CUMULATIVE APPLICATIONS AGING REPORT

AS OF JUNE 30, 2018

<u>Year Application</u> <u>Filed</u>	<u>Gross Applications</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>Applications Paid</u>		#	Amount	#	Amount	#	Amount
	#	Amount					#	Amount						
2010-2010	8	89,553			(5)	(55,470)	(2)	(29,385)	(7)	(84,855)	1	4,698		
2010-2011	43	632,371			(15)	(104,025)	(12)	(76,534)	(27)	(180,559)	16	451,812		
2010-2012	153	1,687,248			(58)	(314,646)	(35)	(264,624)	(93)	(579,270)	60	1,107,978		
2010-2013	304	3,721,296			(86)	(631,211)	(49)	(551,032)	(135)	(1,182,243)	169	2,539,053		
2010-2014	914	12,994,277			(231)	(2,021,994)	(113)	(2,839,848)	(344)	(4,861,842)	570	8,132,435		
2010-2015	1,723	24,432,933			(395)	(3,828,117)	(146)	(3,648,063)	(541)	(7,476,180)	1,182	16,956,753		
2010-2016	2,616	37,390,846			(398)	(3,933,587)	(158)	(3,753,819)	(556)	(7,687,406)	2,060	29,703,440		
2010-2017	3,431	52,597,510			(400)	(3,938,437)	(276)	(6,249,443)	(676)	(10,187,880)	2,755	42,409,630		
2010-2018			583	14,112,722	-	-	(349)	(8,447,374)	(750)	(12,393,856)	3,264	54,416,376		
	<b>3,431</b>	<b>52,597,510</b>	<b>583</b>	<b>14,112,722</b>	<b>(400)</b>	<b>(3,938,437)</b>	<b>(349)</b>	<b>(8,447,374)</b>	<b>(750)</b>	<b>(12,393,856)</b>	<b>3,264</b>	<b>54,416,376</b>		

Net Asset in Client Security Fund:

As of 6/30/2018 **\$6,324,955**

**THE STATE BAR OF CALIFORNIA**  
**CLIENT SECURITY FUND**  
**24 MONTH ROLLING AVERAGE APPLICATIONS PAIDOUT RATIO**  
**JULY 2016 THROUGH JUNE 18**

Attachment 4

Month Covered	<u>PAID APPLICATIONS</u>		<u>REJECTED/ WITHDRAWN APPLICATIONS</u>	<u>PROCESSED</u>
	Amount	Monthly Average Payout Ratio	Amount	Amount
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
Jan18	779,798	55.03%	637,128	1,416,926
Feb18	730,370	33.45%	2,350,278	3,080,648
Mar18	309,191	15.34%	1,706,040	2,015,231
APR18	486,908	30.10%	1,135,316	1,622,224
MAY18	555,611	21.38%	2,043,237	2,598,848
JUNE18	1,084,605	65.34%	575,374	1,659,979
Total:	<u>14,238,985</u>		<u>21,905,104</u>	<u>36,144,089</u>
24 Month Rolling Average PaidOut Ratio:			39.40%	

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

Attachment 5

**June 30, 2018**

	<u><b>1ST QTR</b></u>	<u><b>2ND QTR</b></u>
Beginning Balance	3,431	3,358
Add: Reinstated Applications and New Applications	287	296
Less: Paid / Rejected or Withdrawn	360	390
<b>TOTAL</b>	<b>3,358</b>	<b>3,264</b>
 <b>APPLICATIONS OUTSTANDING AMT.</b>	 <b>\$52,916,179</b>	 <b>\$54,416,376</b>
# Of Active Attorneys	190,017	190,686
Cost Per Active Attorney	\$278	\$285
 <b>ESTIMATED APPLICATIONS LIAB.</b>		
Applications Payout Ratio	40.88%	39.40%
Estimated Application Amount *	\$21,633,350	\$21,437,363
# of Active Attorneys	190,017	190,686
Cost per Active Attorney	\$114	\$112
 <b>APPLICATION ACTIVITIES IN %:</b>		
 <b>NEW APPLICATIONS - YTD</b>		
1 - 2,500	1.07%	1.03%
2,501 - 5,000	2.83%	3.32%
5,001 - 10,000	6.34%	6.04%
10,001 - 25,000	12.47%	11.46%
25,001 - 49,999	10.84%	10.77%
50,000	10.19%	4.99%
50,001 - 100,000	56.27%	62.39%
 <b>APPLICATIONS PAID - YTD</b>		
1 - 2,500	2.90%	3.62%
2,501 - 5,000	8.86%	11.55%
5,001 - 10,000	11.27%	16.86%
10,001 - 25,000	18.63%	19.76%
25,001 - 49,999	13.92%	14.20%
50,000	6.84%	8.25%
50,001 - 100,000	37.58%	25.77%
 <b>REJ./WDRAWN - YTD</b>		
1 - 2,500	2.25%	1.79%
2,501 - 5,000	3.49%	3.63%
5,001 - 10,000	5.55%	5.89%
10,001 - 25,000	10.89%	10.67%
25,001 - 49,999	6.84%	6.78%
50,000	6.94%	11.83%
50,001 - 100,000	64.03%	59.41%
 <b>APPLICATIONS O/S-CUM. - YTD</b>		
1 - 2,500	1.85%	1.69%
2,501 - 5,000	8.23%	7.74%
5,001 - 10,000	9.46%	8.72%
10,001 - 25,000	14.02%	13.56%
25,001 - 49,999	10.76%	10.90%
50,000	4.72%	3.04%
50,001 - 100,000	50.95%	54.35%
 <b>NET ASSET, END OF PERIOD</b>	 <b>\$ 8,106,505</b>	 <b>6,324,955</b>

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