

## **OPEN SESSION AGENDA ITEM**

### **54-141 NOVEMBER 2018 FINANCE AND PLANNING COMMITTEE ITEM III.C.**

**DATE:** November 15, 2018

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

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

**SUBJECT:** **2018 Q3 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 3rd quarter ended September 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 3rd quarter ended September 30, 2018 is composed of three separate reports: Financial Statement Report, Investment Report, and Client Security Fund Report.

The Financial Report is on the consent agenda for the Board's November 15, 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 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 Third Quarter Financial Report in the form this day before the Board, for the nine months ended September 30, 2018, as certified by the Chief Financial Officer, and on file with the San Francisco office of the State Bar.

## **ATTACHMENT(S) LIST**

- A.** Q3 - Financial Statement Report
- B.** Q3 - Investment Report
- C.** Q3 - Client Security Fund Report

# The State Bar of California

## Financial Report for the Third Quarter Ended September 30, 2018

This report outlines the State Bar's third quarter operating results and fiscal position as of September 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 September 30, 2018 were \$269.9 million, liabilities were \$106.7 million, and net position was \$163.1 million. For the year-to-date through September 30, 2018, total operating revenues were \$139.0 in 2018, 1.0% higher than \$137.5 million in 2017. Total operating expenses were \$122.8 million at 96.6% of the \$127.1 million adopted budget. Below is a summary of key financial highlights of the financial statements:

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

<b>ASSETS AND LIABILITIES YEAR OVER YEAR COMPARISON</b>					
<b>Financial Statement Category</b>	<b>Sept. 30, 2018 (in \$M)</b>	<b>Sept. 30, 2017 (in \$M)</b>	<b>Changes (in \$M)</b>	<b>Changes (in %)</b>	<b>Refer to Attachment</b>

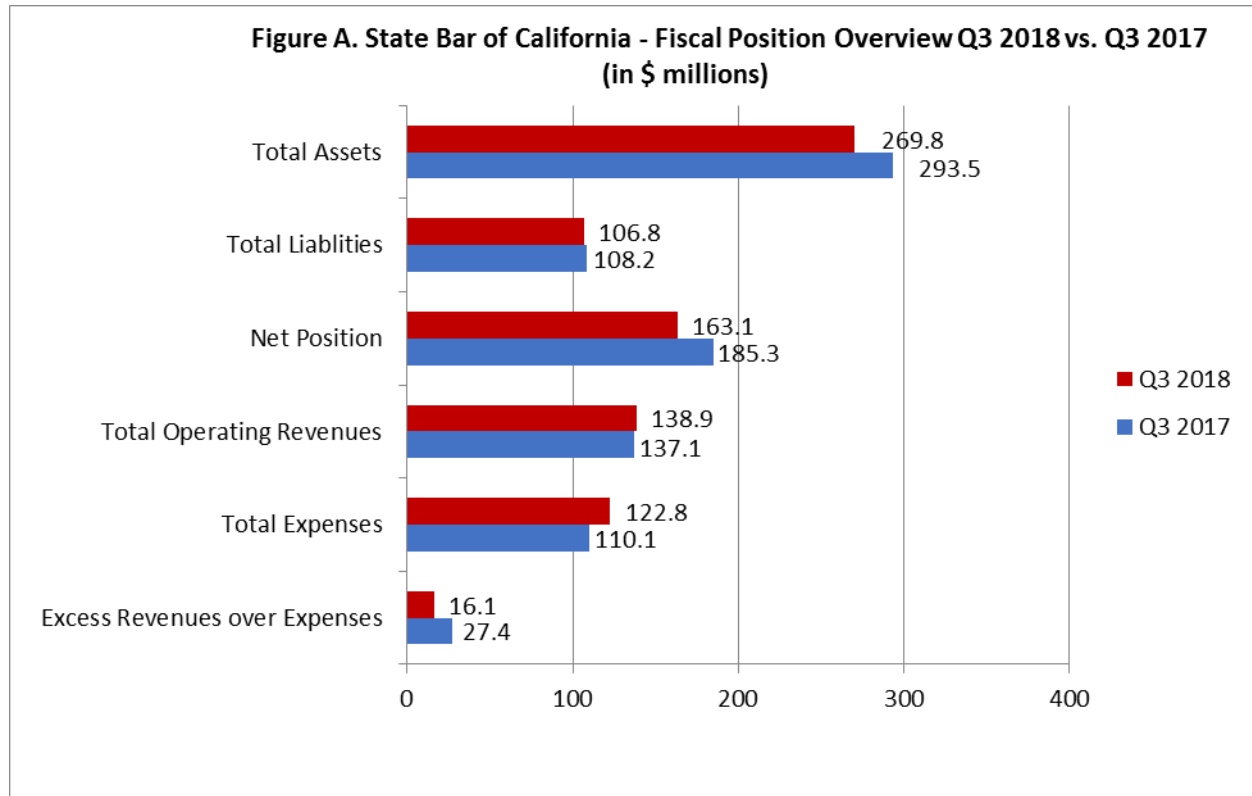
<b>Total Assets</b>	<b>269.9</b>	<b>293.5</b>	<b>(23.6)</b>	<b>-8.0%</b>	4&5
Cash & Investments	132.7	145.2	(12.5)	-8.6%	4&5
Deferred Outflows of Resources	24.6	33.2	(8.6)	-25.9%	4&5
<b>Total Liabilities</b>	<b>106.7</b>	<b>108.2</b>	<b>(1.5)</b>	<b>-1.4%</b>	4&5
Deferred Inflows of Resources	2.3	11.9	(9.6)	-80.7%	4&5
Net Pension Liabilities	73.7	59.9	13.8	23.0%	4&5
Loans Payable	25.4	27.6	(2.2)	-8.0%	4&5
<b>Net Position</b>	<b>163.1</b>	<b>185.3</b>	<b>(22.2)</b>	<b>-12.0%</b>	4&5

<b>OPERATING REVENUES AND EXPENSES ACTUAL TO BUDGET COMPARISON</b>					
<b>Financial Statement Category</b>	<b>2018 Q3 Actual (in \$M)</b>	<b>2018 Q3 Budget (in \$M)</b>	<b>Changes (in \$M)</b>	<b>Changes (in %)</b>	<b>Refer to Attachment</b>

<b>Operating Revenues</b>	<b>139.0</b>	<b>131.7</b>	<b>7.3</b>	<b>5.5%</b>	1,2,3
Licensee Fees	86.9	85.8	3.5	4.2%	1,2,3

<b>Operating Expenses</b>	<b>122.8</b>	<b>127.1</b>	<b>(4.3)</b>	<b>-3.4%</b>	1,2,3
General & Administrative	2.7	9.5	(6.8)	-71.6%	1,2,3
Chief Trial Counsel	33.1	35.9	(2.8)	-7.8%	1,2,3
Client Security Fund	7.0	6.9	0.1	1.4%	1,2,3
Admissions	14.8	16.4	(1.6)	-9.8%	1,2,3
Grant Expenses	34.9	34.9	0.0	0.0%	1,2,3

The State Bar's total assets decreased \$23.6 million from \$293.5 million at September 30, 2017 to \$269.9 million at September 30, 2018. Total liabilities decreased by \$1.5 million, from \$108.2 million in 2017 to \$106.7 million in 2018. Net position (total assets – total liabilities) at September 30, 2018 was \$163.1 million, a decrease of 12.0% compared to \$185.3 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 third 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 September 2018, the Bar's total assets were \$269.9 million, down \$23.6 million compared to \$293.5 million last year. Cash and investments decreased by \$12.5 million from \$145.2 million in 2017 to \$132.7 million in 2018 due to an increased use of cash for operating expenses. Deferred outflows totaled \$ 24.6 million at September 30, 2018, a decrease of \$8.6 million compared to last year. This decline is a result of 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 September 30, 2018, State Bar's total liabilities were \$ 106.7 million, down by \$1.5 million or 1.4% compared to \$108.2 million last year. This decrease is due primarily to decreases in Deferred Inflows of Resources, Accounts Payable and Accrued Liabilities, Loans Payable, Grants Payable, and Unearned Income totaling \$15.2 million offset by a \$13.7 million increase in pension liabilities. Pension liabilities and deferred inflows of resources changed due to updated estimates of pension assets and liabilities from our actuaries.

## Net Position

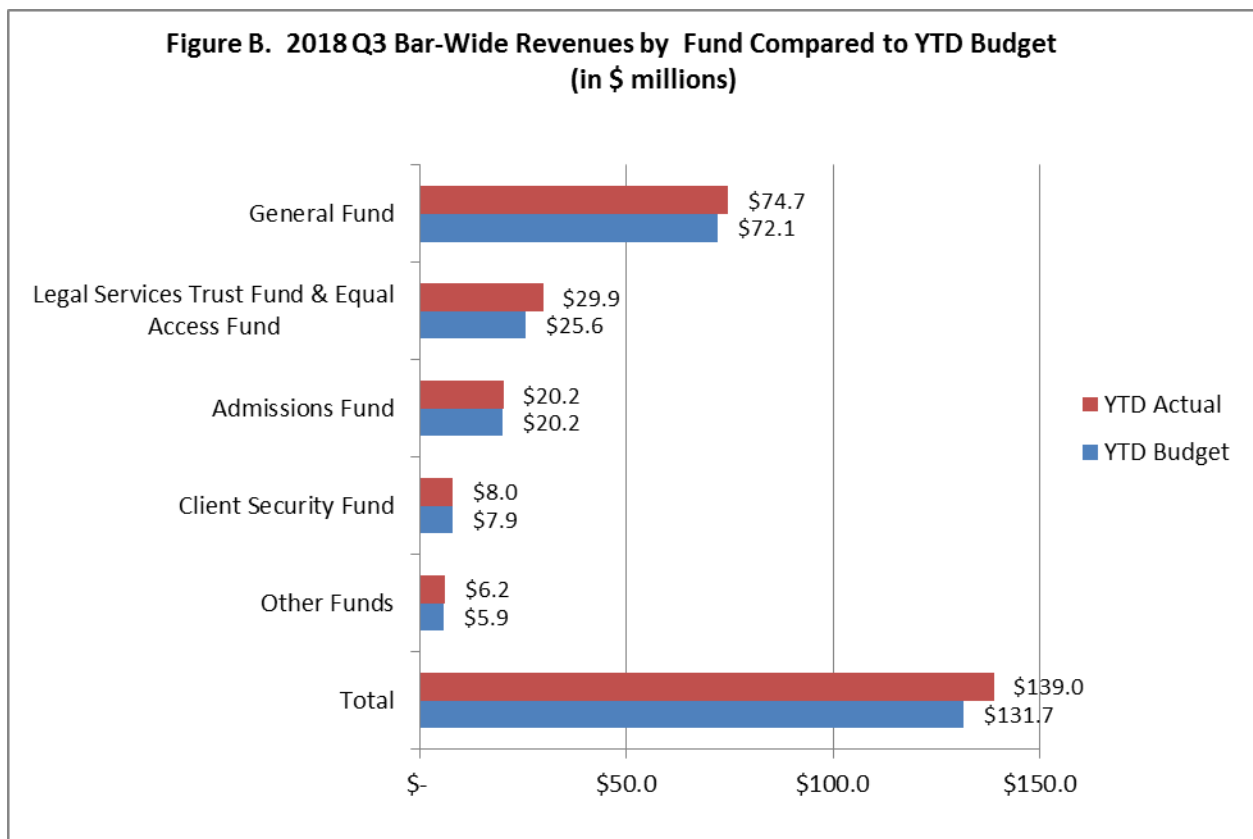
Net position consists of restricted and unrestricted net position and investment in capital assets. The State Bar's total net position (total assets – total liabilities) as of September 30, 2018 was \$ 163.1 million, down by \$22.2 million or 12.0% compared to \$185.3 million last year. This decline resulted from expenses exceeding revenues in the past 12 months and \$8.3 million payments to the California Lawyer's Association (CLA) as part of the Sections' separation.

## Revenues, Expenses & Changes in Net Position

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

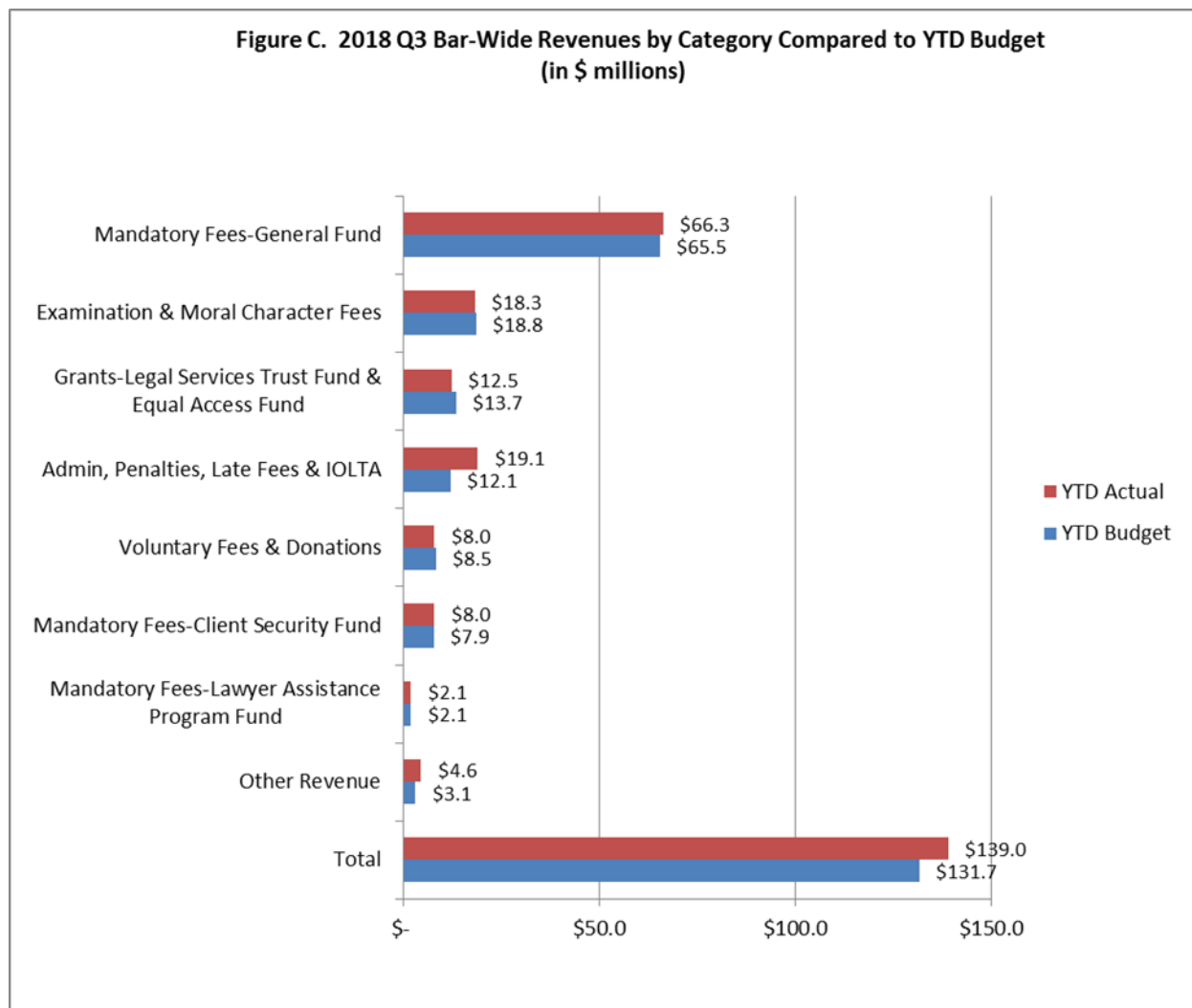
### Revenues

Operating revenues of \$139.0 million compare favorably with the 2018 budget of \$131.7 million. This represents a \$7.3 million or 5.5% favorable variance in the third quarter. Figures (B) and (C) summarize the State Bar's year-to-date operating revenues by fund and by category compared to the budget.



Licensing Fees and Donations of \$86.9 million compared favorably with the budget of \$85.8 million. This is due in part to year to date donations exceeding annual budget by \$0.2 for Justice Gap and \$0.3 for Legal Services. Justice Gap staff expects voluntary dues/donations to equal or exceed 2017 amounts of \$1.4 million.

Trust account revenues of \$11.3 million exceed the 2018 budget of \$4.8 million. The \$6.5 million increase is driven by rising interest rates combined with bank IOLTA recertification. The recertification process involves staff and consultant evaluation of bank products and the identification of the highest yielding comparable accounts. Equal Access Fund AB145 Filing Fee Revenue was \$3.3 million and \$1.2 million below the 2018 budget of \$4.5 million. The decrease from the AB145 Filing Fee Revenue in Equal Access Fund is caused by a timing issue as the full grant amount is anticipated but not yet received.

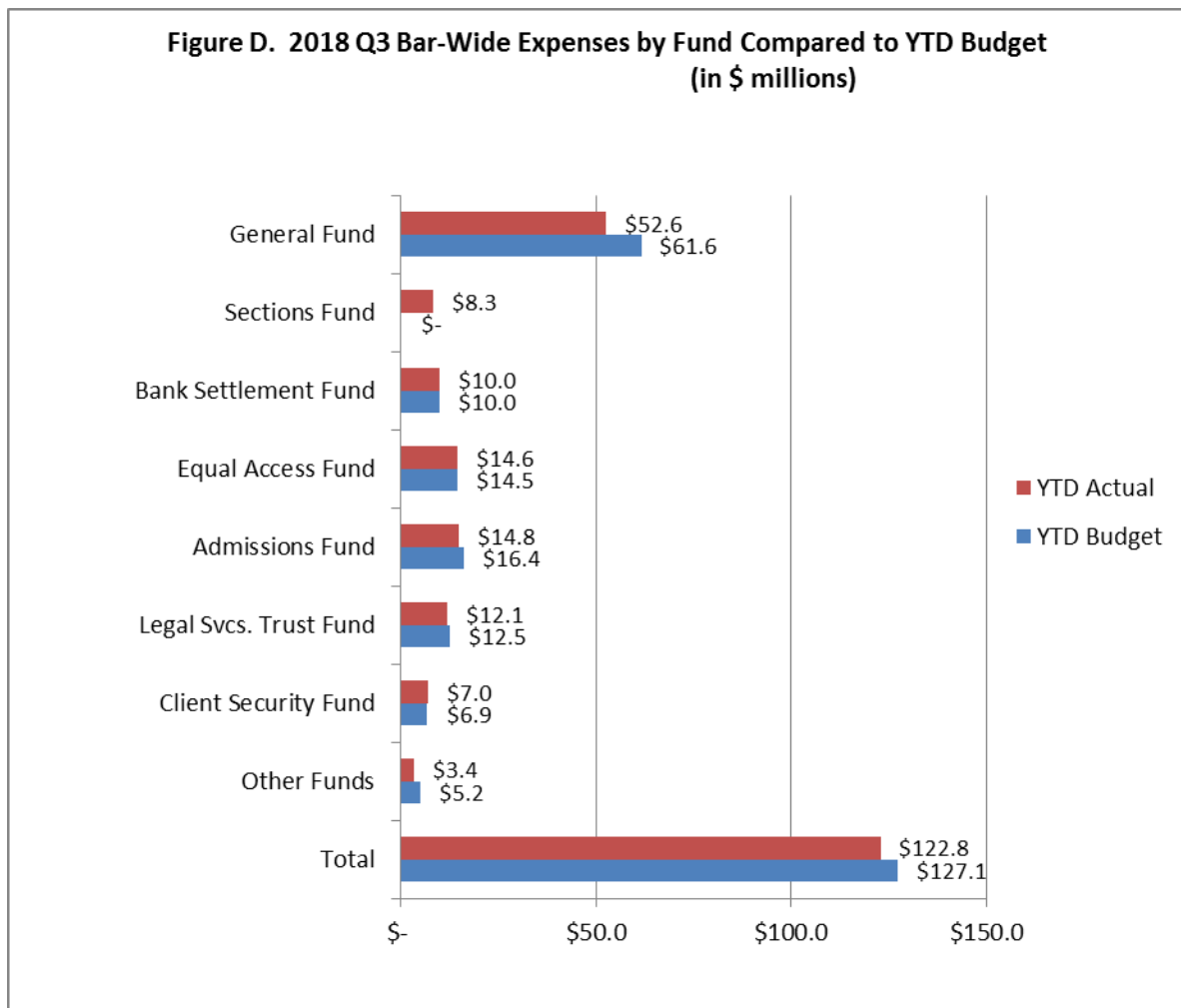


## Expenses

The State Bar's total 2018 operating expenses were \$122.8 million compared to the budget of \$127.1 million. This variance includes \$2.9 million for Chief Trial Counsel due to unfilled positions.

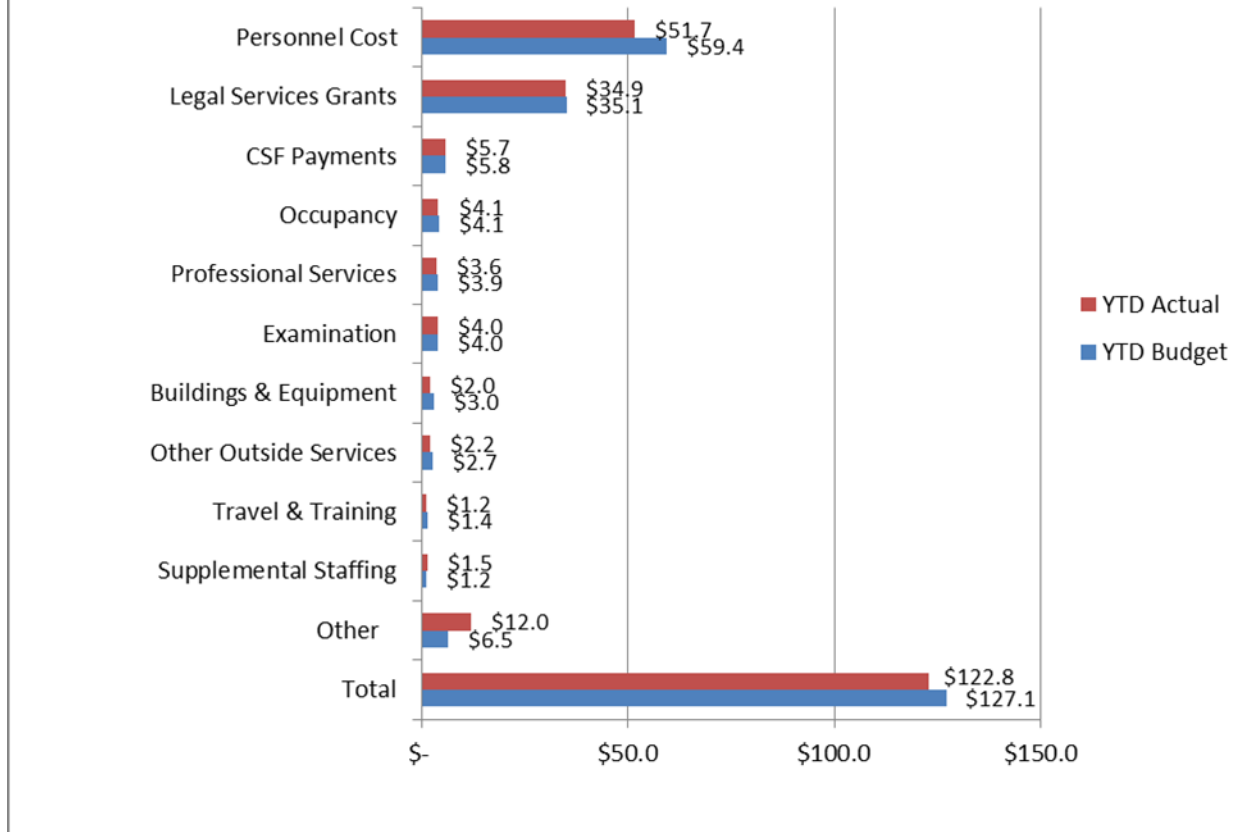
General and Administrative expenses were \$2.7 million, \$6.8 million below budget. The variance is due primarily to expenses lower than budgeted. For instance, \$1.4 million budgeted for computer hardware in the technology, \$1.3 million for AIMS related costs, \$0.9 million for infrastructure projects in the Building Fund, \$0.9 for professional services related to exam development in the Legal Specialization Fund, \$0.6 million for salaries and professional fees in the Support and Administration Fund. Admissions expenses were \$1.6 million below budget. This decrease in Admissions expenses is primarily composed of decreases in laptop licenses, personnel costs and professional services.

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





**Figure E. 2018 Q3 Bar-Wide Expenses by Category Compared to YTD Budget  
(in \$ millions)**



## Non-Operating Revenue

Non-operating revenue consists of investment income and rental income. Investment income for 2018 of \$2.4 million is \$2.0 million over budget due to increased investments and higher interest rates. The higher rate of return is due to higher interest rates on the deposit in the LAIF (Local Agency Investment Fund) increased from 1.07% for the quarter ended September 30, 2017 to 2.16% for the quarter ended September 30, 2018.

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

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

	General Fund	Other Funds	2018 Actual	2017 Actual	Variance- 2017 Actual vs 2018 Actual	2018 Budget	Variance-2018 Actual vs Budget
<b>OPERATING REVENUES</b>							
Licensing Fees and Donations	\$ 68,760,093	\$ 18,111,705	\$ 86,871,799	\$ 83,457,188	\$ 3,414,611	\$ 85,792,315	\$ 1,079,484
Multi-Jurisdictional Practice Fees	-	694,214	694,214	727,603	(33,389)	511,527	182,687
Exam Application & Moral Character Fees	-	18,764,641	18,764,641	18,762,009	2,632	19,267,500	(502,859)
Trust Account Revenue	-	11,260,714	11,260,714	5,072,165	6,188,549	4,829,881	6,430,833
Law Practices Sections Fees	-	-	-	6,013,818	(6,013,818)	-	-
Seminar/Workshop Revenue	36,741	-	36,741	961,458	(924,717)	19,870	16,871
Advertising Revenue	-	-	-	34,316	(34,316)	-	-
Convention Income	-	-	-	335,799	(335,799)	-	-
Legal Specialization Fees	-	2,084,494	2,084,494	471,320	1,613,174	1,935,627	148,867
Law Corporation Registration Fees	864,783	-	864,783	1,309,870	(445,087)	975,454	(110,671)
Continuing Legal Education Fees	755,079	10,584	765,663	675,765	89,898	784,066	(18,403)
Grant Revenue	-	9,181,400	9,181,400	13,152,776	(3,971,376)	9,160,420	20,980
EAF AB 145 Filing Fee Revenue	-	3,304,748	3,304,748	3,261,778	42,970	4,537,262	(1,232,514)
Settlement Grants	-	-	-	-	-	-	-
Affinity Insurance Revenue	1,227,134	-	1,227,134	1,243,268	(16,134)	357,053	870,081
Other Revenue	3,018,151	889,823	3,907,974	2,055,536	1,852,438	3,488,056	419,918
<b>Total Operating Revenues</b>	<b>74,661,982</b>	<b>64,302,322</b>	<b>138,964,304</b>	<b>137,534,669</b>	<b>1,429,635</b>	<b>131,659,031</b>	<b>7,305,273</b>
<b>OPERATING EXPENSES</b>							
Chief Trial Counsel	33,123,021	-	33,123,021	29,637,670	3,485,351	35,987,201	(2,864,180)
State Bar Court	8,952,528	-	8,952,528	9,019,352	(66,824)	9,685,171	(732,643)
Attorney Regulation and Consumer Resources	3,648,383	-	3,648,383	3,157,683	490,700	3,703,587	(55,204)
Professional Competence	1,867,627	-	1,867,627	1,677,611	190,016	1,948,276	(80,649)
Probation	1,038,232	-	1,038,232	985,669	52,563	1,052,686	(14,454)
Mandatory Fee Arbitration	150,505	-	150,505	526,028	(375,523)	93,018	57,487
Judicial Evaluation	525,164	-	525,164	509,962	15,202	531,999	(6,835)
Commission on Access to Justice	10,550	-	10,550	17,291	(6,741)	20,666	(10,116)
Access & Inclusion	964,330	-	964,330	1,107,998	(143,668)	1,210,827	(246,497)
California Young Lawyers Association	-	-	-	23,230	(23,230)	-	-
Communications	533,657	-	533,657	805,154	(271,497)	728,723	(195,066)
Governance	2,783,065	-	2,783,065	2,797,861	(14,796)	2,694,857	88,208
Lawyer Assistance Program	-	1,457,641	1,457,641	1,111,110	346,531	1,617,364	(159,723)
Client Security Fund	-	7,007,630	7,007,630	4,884,629	2,123,001	6,920,069	87,561
Admissions	-	14,837,627	14,837,627	15,132,910	(295,283)	16,396,774	(1,559,147)
Grant Expenses	-	34,912,537	34,912,537	30,538,417	4,374,120	34,943,161	(30,624)
Payment to Calif Lawyers Association	-	-	-	-	-	-	-
Sections	-	8,297,267	8,297,267	5,319,912	2,977,355	-	8,297,267
General and Administrative	(1,019,561)	3,717,894	2,698,333	2,806,008	(107,675)	9,582,439	(6,884,106)
<b>Total Operating Expenses</b>	<b>52,577,501</b>	<b>70,230,595</b>	<b>122,808,097</b>	<b>110,058,495</b>	<b>12,749,602</b>	<b>127,116,818</b>	<b>(4,308,721)</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>22,084,480</b>	<b>(5,928,273)</b>	<b>16,156,207</b>	<b>27,476,174</b>	<b>(11,319,967)</b>	<b>4,542,213</b>	<b>11,613,994</b>

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

**Attachment 1**

**Page 2 of 2**

	General Fund	Other Funds	2018 Actual	2017 Actual	Variance- 2017 Actual vs 2018 Actual	2018 Budget	Variance-2018 Actual vs Budget
<b>NON-OPERATING REVENUE</b>							
Investment Income	1,501,890	958,384	2,460,274	868,331	1,591,943	452,781	2,007,493
Rental Income	-	-	-	1,534,072	(1,534,072)	-	-
Interest Expense on Loan	(574,995)	(287,751)	(862,746)	(944,193)	81,447	-	(862,746)
<b>Total Non-Operating Revenue</b>	<b>926,895</b>	<b>670,634</b>	<b>1,597,529</b>	<b>1,458,210</b>	<b>139,319</b>	<b>452,781</b>	<b>1,144,748</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>23,011,376</b>	<b>(5,257,639)</b>	<b>17,753,736</b>	<b>28,934,384</b>	<b>(11,180,648)</b>	<b>4,994,994</b>	<b>12,758,742</b>
Transfer in From LAP Fund	-	250,000	250,000	-	-	-	250,000
Transfer In From Admin . & Discipline Fund	-	-	-	1,600,000	-	-	-
Transfer In From Sections Fund	-	-	-	217,766	-	-	-
Transfer In From Admissions Fund	1,000,000	100,000	1,100,000	-	-	-	1,100,000
Transfer In From IT Special Access Fund	1,217,000	-	1,217,000	-	-	-	1,217,000
Transfer In From General Fund	-	17,711	17,711	-	-	-	17,711
Transfer In From Legal Specialization Fund	-	1,000,000	1,000,000	-	-	-	1,000,000
Transfer Out To Sections Fund	-	-	-	(217,766)	-	-	-
Transfer Out To Tech Improvement Fund	-	(1,217,000)	(1,217,000)	-	-	-	(1,217,000)
Transfer Out To Legal Specialization Fund	-	(100,000)	(100,000)	-	-	-	(100,000)
Transfer Out To Admissions	-	(1,000,000)	(1,000,000)	-	-	-	(1,000,000)
Transfer Out to Client Security Fund	-	(250,000)	(250,000)	(1,600,000)	-	-	(250,000)
Transfer Out To Tech Fund	-	(1,000,000)	(1,000,000)	-	-	-	(1,000,000)
Transfer Out To Annual Meeting Fund	(17,711)	-	(17,711)	-	-	-	(17,711)
Interfund Transaction - Revenue	42,890	6,050	48,940	451,794	-	-	48,940
Interfund Transaction - Expenses	(45,603)	(3,337)	(48,940)	(451,794)	-	-	(48,940)
<b>CHANGE IN NET POSITION</b>	<b>25,207,952</b>	<b>(7,454,216)</b>	<b>17,753,736</b>	<b>28,934,384</b>	<b>(11,180,648)</b>	<b>4,994,994</b>	<b>\$ 12,758,742</b>
Net Position at beginning of year	65,643,083	79,746,631	145,389,714	156,381,622	(10,991,908)	145,389,714	
<b>NET POSITION AT SEPTEMBER 30, 2018</b>	<b>\$ 90,851,035</b>	<b>\$ 72,292,415</b>	<b>\$ 163,143,450</b>	<b>\$ 185,316,006</b>	<b>\$ (22,172,556)</b>	<b>\$ 150,384,708</b>	

The State Bar of California  
Statement of Revenues, Expenses and Changes in Net Position - Non-General Funds  
For the Nine Months Ending September 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	7,995,278	315,264	-	(0)	950,175	2,096,023	736,530	6,018,435	-	-	-	-	-	-	(0)	\$ 18,111,705
Multi-Jurisdictional Practice	-	-	-	-	-	-	-	-	-	-	694,214	-	-	-	-	694,214
Exam Application & Moral Character Fees	-	-	-	-	-	-	-	-	-	-	18,764,641	-	-	-	-	18,764,641
Trust Account Revenue	-	-	-	-	-	-	-	11,260,714	-	-	-	-	-	-	-	11,260,714
Legal Specialization Fees	-	-	-	-	-	-	-	-	2,084,494	-	-	-	-	-	-	2,084,494
Continuing Legal Education Revenue	-	-	-	-	-	-	-	-	10,584	-	-	-	-	-	-	10,584
Grant Revenue	-	-	9,176,400	-	-	-	-	5,000	-	-	-	-	-	-	-	9,181,400
EAF AB145 Filing Fee Revenue	-	-	3,304,748	-	-	-	-	-	-	-	-	-	-	-	-	3,304,748
Other Revenue	8,250	2,959	15,268	-	-	-	-	93,460	13,302	-	760,085	-	(3,500)	-	-	889,823
<b>Total Operating Revenues</b>	<b>8,003,528</b>	<b>318,223</b>	<b>12,496,416</b>	<b>(0)</b>	<b>950,175</b>	<b>2,096,023</b>	<b>736,530</b>	<b>17,377,609</b>	<b>2,108,379</b>	<b>-</b>	<b>20,218,939</b>	<b>-</b>	<b>(3,500)</b>	<b>-</b>	<b>(0)</b>	<b>64,302,322</b>
<b>EXPENSES</b>																
Lawyer Assistance Program	-	-	-	-	-	1,457,641	-	-	-	-	-	-	-	-	-	1,457,641
Client Security Fund	7,007,630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,007,630
Admissions	-	-	-	-	-	-	-	-	-	-	14,837,627	-	-	-	-	14,837,627
Grant Expenses	-	-	14,515,071	-	-	-	-	10,506,177	-	9,891,289	-	-	-	-	-	34,912,537
Payment to Calif Lawyers Association	-	-	-	-	-	-	-	-	-	-	-	-	-	8,297,267	-	8,297,267
General and Administrative	-	169,138	86,529	0	5,414	-	446,391	1,610,936	1,332,117	64,798	-	-	2,571	-	-	3,717,894
<b>Total Operating Expenses</b>	<b>7,007,630</b>	<b>169,138</b>	<b>14,601,599</b>	<b>0</b>	<b>5,414</b>	<b>1,457,641</b>	<b>446,391</b>	<b>12,117,113</b>	<b>1,332,117</b>	<b>9,956,087</b>	<b>14,837,627</b>	<b>-</b>	<b>2,571</b>	<b>8,297,267</b>	<b>-</b>	<b>70,230,595</b>
<b>NON-OPERATING REVENUE</b>																
Investment Income	30,303	969	(38,471)	17,605	43,460	45,918	4,532	71,849	67,860	557,449	124,743	-	(0)	-	32,168	958,384
Rental Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense on Loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(287,751)	(287,751)
<b>Total Non-Operating Revenue</b>	<b>30,303</b>	<b>969</b>	<b>(38,471)</b>	<b>17,605</b>	<b>43,460</b>	<b>45,918</b>	<b>4,532</b>	<b>71,849</b>	<b>67,860</b>	<b>557,449</b>	<b>124,743</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>(255,583)</b>	<b>670,634</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>1,026,201</b>	<b>150,054</b>	<b>(2,143,655)</b>	<b>17,605</b>	<b>988,222</b>	<b>684,300</b>	<b>294,671</b>	<b>5,332,345</b>	<b>844,123</b>	<b>(9,398,639)</b>	<b>5,506,054</b>	<b>-</b>	<b>(6,071)</b>	<b>(8,297,267)</b>	<b>(255,583)</b>	<b>(5,257,639)</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
Transfer In From Admis. Fund	-	-	-	-	-	-	-	-	100,000	-	-	-	-	-	-	100,000
Transfer In From General Fund	-	-	-	-	-	-	-	-	-	-	-	17,711	-	-	-	17,711
Transfer In From Legal Special	-	-	-	-	-	-	-	-	-	-	1,000,000	-	-	-	-	1,000,000
Transfer Out To Tech Fund	-	-	-	-	-	-	-	-	-	-	(1,000,000)	-	-	-	-	(1,000,000)
Trsf Out To Admissions	-	-	-	-	-	-	-	-	(1,000,000)	-	-	-	-	-	-	(1,000,000)
Trsf Out To Legal Spec. Fund	-	-	-	-	-	-	-	-	-	-	(100,000)	-	-	-	-	(100,000)
Trsf. Out To Tech Improv. Fund	-	-	-	(1,217,000)	-	-	-	-	-	-	-	-	-	-	-	(1,217,000)
Interfund Transaction - Expense	(1,532)	-	(0)	(0)	(0)	-	(0)	(108)	(383)	(0)	(1,314)	(0)	(0)	-	(0)	(3,337)
<b>CHANGE IN NET POSITION</b>	<b>1,279,489</b>	<b>150,054</b>	<b>(2,143,655)</b>	<b>(1,199,395)</b>	<b>988,222</b>	<b>435,530</b>	<b>294,671</b>	<b>5,332,237</b>	<b>(56,260)</b>	<b>(9,398,639)</b>	<b>5,404,740</b>	<b>17,711</b>	<b>(6,071)</b>	<b>(8,297,267)</b>	<b>(255,583)</b>	<b>(7,454,216)</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>\$ 4,352,817</b>	<b>\$ 151,845</b>	<b>\$ 905,232</b>	<b>\$ 26,080</b>	<b>\$ 4,064,826</b>	<b>\$ 4,027,414</b>	<b>\$ 587,924</b>	<b>\$ 13,426,973</b>	<b>\$ 4,581,090</b>	<b>\$ 29,743,947</b>	<b>\$ 10,174,084</b>	<b>\$ 1</b>	<b>\$ 416,355</b>	<b>\$ 40,474</b>	<b>\$ (206,647)</b>	<b>\$ 72,292,415</b>

**The State Bar of California**  
**Statement of Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Nine Months Ending September 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	\$ 86,871,799	\$ 83,457,188	\$ 3,414,611	4.1%	(A)
Law Practices Sections Fees	-	6,013,818	(6,013,818)	(100.0%)	(B)
Trust Account Revenue	11,260,714	5,072,165	6,188,549	122.0%	(C)
EAF AB 145 Filing Fee Revenue	3,304,748	3,261,778	42,970	1.3%	
Grant Revenue	9,181,400	13,152,776	(3,971,376)	-30.2%	
Seminar/Workshop Revenue	36,741	961,458	(924,717)	(96.2%)	
Legal Specialization Fees	2,084,494	471,320	1,613,174	342.3%	(D)
Multi-Jurisdictional Practice Fees	694,214	727,603	(33,389)	-4.6%	
Exam Application & Moral Character Fees	18,764,641	18,762,009	2,632	0.0%	
Advertising Revenue	-	34,316	(34,316)	(100.0%)	
Convention Income	-	335,799	(335,799)	(100.0%)	
Law Corporation Registration Fees	864,783	1,309,870	(445,087)	(34.0%)	
Continuing Legal Education Fees	765,663	675,765	89,898	13.3%	
Settlement Grants	-	-	-	0.0%	
Affinity Insurance Revenue	1,227,134	1,243,268	(16,134)	(1.3%)	
Other Revenue	3,907,974	2,055,536	1,852,438	90.1%	(E)
<b>Total Operating Revenues</b>	<b>138,964,303</b>	<b>137,534,669</b>	<b>1,429,635</b>	<b>1.0%</b>	
<b>OPERATING EXPENSES</b>					
Sections	8,297,267	5,319,912	2,977,355	56.0%	(F)
General and Administrative	2,698,333	2,806,008	(107,675)	-3.8%	
Grant Expenses	34,912,537	30,538,417	4,374,120	14.3%	(H)
Chief Trial Counsel	33,123,021	29,637,670	3,485,351	11.8%	(I)
Client Security Fund	7,007,630	4,884,629	2,123,001	43.5%	(J)
Admissions	14,837,627	15,132,910	(295,283)	(2.0%)	
Communications	533,657	805,154	(271,497)	(33.7%)	
Lawyer Assistance Program	1,457,641	1,111,110	346,531	31.2%	
Attorney Regulation and Consumer Resources	3,648,383	3,157,683	490,700	15.5%	
Mandatory Fee Arbitration	150,505	526,028	(375,523)	(71.4%)	
State Bar Court	8,952,528	9,019,352	(66,824)	-0.7%	
Professional Competence	1,867,627	1,677,611	190,016	11.3%	
Probation	1,038,232	985,669	52,563	5.3%	
Judicial Evaluation	525,164	509,962	15,202	3.0%	

**The State Bar of California**  
**Statement of Revenues, Expenses and Changes in Net Position - Bar Wide**  
**For the Nine Months Ending September 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	10,550	17,291	(6,741)	(39.0%)	
Access & Inclusion	964,330	1,107,998	(143,668)	(13.0%)	
California Young Lawyers Association	-	23,230	(23,230)	(100.0%)	
Governance	2,783,065	2,797,861	(14,796)	-0.5%	
Payment to Calif Lawyers Association	-	-	-	100.0%	(F)
<b>Total Operating Expenses</b>	<b>122,808,097</b>	<b>110,058,495</b>	<b>5,505,802</b>	<b>5.0%</b>	
<b>OPERATING INCOME/(LOSS)</b>	<b>16,156,206</b>	<b>27,476,174</b>	<b>(4,076,167)</b>	<b>(14.8%)</b>	
<b>NON-OPERATING REVENUE</b>					
Investment Income	2,460,274	868,331	1,591,943	183.3%	
Rental Income	-	1,534,072	(1,534,072)	(100.0%)	
Interest Expense on Loan	(862,746)	(944,193)	81,447	(8.6%)	
<b>Total Non-Operating Revenue</b>	<b>1,597,529</b>	<b>1,458,210</b>	<b>139,319</b>	<b>9.6%</b>	
<b>CHANGE IN NET POSITION</b>	<b>17,753,735</b>	<b>28,934,384</b>	<b>(3,936,848)</b>	<b>(13.6%)</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>\$ 163,143,449</b>	<b>\$ 185,316,006</b>	<b>\$ (14,928,756)</b>	<b>(8.1%)</b>	

Note: See Attachment 3 page 2 for the Variances

**The State Bar of California**  
**Variance Analysis: Expenses and Changes in Net Position - Bar Wide**  
**For the Nine Months Ending September 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 \$86.9 million, 2017 Actual \$83.5 million. \$3.4 million increase.**

The \$3.4 million increase is due primarily to:

- (a) Reinstatement of the licensing fee from \$297 to \$315
- (b) Legal Specialization Fund (2018 Actual \$2.8 million, 2017 Actual \$0.4 million. \$1.6 million increase) - The annual fee legal specialists pay for certification, waived in 2017 as part of the fund's spend down plan, was reinstated for 2018.
- (c) Legislative Activities Fund (2018 Actual \$0.7 million, 2017 Actual \$0.2 million. \$0.5 million increase) - The Legislative Activities fee was made an opt-in fee of \$5 per attorney for 2017 but was made an opt-out fee of \$2.50 for 2018.

**(B) Law Practices Sections Fees - 2018 Actual \$0.0 million, 2017 \$6.0 million. \$6.0 million decrease.**

The \$6.0 million decrease is due to the Sections separation effective December 31, 2017.

**(C) Trust Account Revenue – 2018 Actual \$11.3 million, 2017 \$5.1 million. \$6.2 million increase.**

The \$6.2 million increase is driven by rising interest rates. This is interest income on IOLTA accounts.

**(D) Legal Specialization Fees - 2018 Actual \$2.1 million, 2017 \$0.5 million. \$1.6 million increase.**

Annual fee legal specialists pay for certification was reinstated in 2018.

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**(E) Other Revenue - 2018 Actual \$3.9 million, 2017 \$2.1 million. \$1.8 million increase.**

The \$1.8 increase is mainly due to \$0.8 million in CLA payroll payments and \$0.8 million in SF rental income.

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**EXPENSES: 2018 Actual vs 2017 Actual**

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**(F) Sections - 2018 Actual \$8.3 million, 2017 Actual \$5.3 million. \$3.0 million decrease.**

Sections expenses increased by \$3.0 million to pay off the Fund balance for spinning off Sections to the California Lawyers Association effective December 31, 2017. \$7.3 million was transferred to CLA in January 2018 representing most of the fund balance of the Sections funds; the remainder of \$0.9 million was paid in May 2018.

**(G) Grant Expenses - 2018 Actual \$34.9 million, 2017 Actual \$30.5 million. \$4.4 million increase.**

The \$4.4 million increase primarily represents increased use of Bank of America Settlement Funds.

**(H) Chief Trial Counsel – 2018 Actual \$33.1 million, 2017 Actual \$29.6 million. \$3.5 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).

**(I) Client Security Fund – 2018 Actual \$7.0 million, 2017 Actual \$4.9 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).

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

**Attachment 4**

	General Fund	Total Other Funds	September 2018 Balance	September 2017 Balance	Variance
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Cash, Restricted Cash and Investments	\$ 57,237,756	\$ 75,510,841	\$ 132,748,596	\$ 145,237,495	\$ (12,488,899)
Accounts Receivable (net of allowances)	1,887,925	1,615,810	3,503,735	8,073,336	(4,569,601)
Capital Assets (net of depreciation)	90,800,696	3,609,928	94,410,624	93,843,565	567,059
OPEB Investment	12,648,222	-	12,648,222	11,542,271	1,105,951
Other Assets	1,792,516	205,774	1,998,290	1,601,023	397,267
Deferred Outflows of Resources	24,566,049	-	24,566,049	33,237,651	(8,671,602)
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 188,933,165</b>	<b>\$ 80,942,352.260</b>	<b>\$ 269,875,517</b>	<b>\$ 293,535,341</b>	<b>\$ (23,659,824)</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Accounts Payable and Accrued Liabilities	\$ 4,674,719	\$ 660,945	\$ 5,335,663	\$ 8,616,015	\$ (3,280,352)
Unearned Income	-	-	-	80,703	(80,703)
Grants Payable	-	-	-	16,753	(16,753)
Loans Payable	17,438,436	7,988,993	25,427,429	27,618,099	(2,190,670)
Pension Liabilities	73,663,079	-	73,663,079	59,917,510	13,745,569
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>98,082,130</b>	<b>8,649,938</b>	<b>106,732,068</b>	<b>108,219,335</b>	<b>(1,487,267)</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	25,207,952	(7,454,216)	17,753,736	28,934,384	(11,180,648)
<b>TOTAL NET POSITION</b>	<b>90,851,035</b>	<b>72,292,414</b>	<b>163,143,449</b>	<b>185,316,006</b>	<b>(22,172,557)</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 188,933,165</b>	<b>\$ 80,942,351.670</b>	<b>\$ 269,875,517</b>	<b>\$ 293,535,341</b>	<b>\$ (23,659,824)</b>



The State Bar of California  
Assets, Liabilities and Net Position - Non General Funds  
September 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	\$ 4,455,013	\$ 151,844	\$ 133,960	\$ 26,079	\$ 4,064,826	\$ 4,060,599	\$ 587,924	\$ 12,746,225	\$ 4,620,179	\$ 29,743,947	\$ 10,292,692	\$ -	\$ 416,355	\$ 5,516	\$ 4,205,681	\$ 75,510,841
Accounts Receivable (net of allowances)	-	-	865,042	-	-	-	-	750,768	-	-	-	-	-	-	-	1,615,810
Capital Assets (net of depreciation)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,609,928	3,609,928
Other Assets	-	-	-	-	-	18,444	-	-	-	-	192,846	-	-	(5,516)	-	205,774
<b>TOTAL ASSETS</b>	<b>4,455,013</b>	<b>151,844</b>	<b>999,002</b>	<b>26,079</b>	<b>4,064,826</b>	<b>4,079,043</b>	<b>587,924</b>	<b>13,496,993</b>	<b>4,620,179</b>	<b>29,743,947</b>	<b>10,485,538</b>	<b>-</b>	<b>416,355</b>	<b>-</b>	<b>7,815,609</b>	<b>80,942,352</b>
<b>LIABILITIES</b>																
Accounts Payable and Accrued Liabilities	102,196	-	93,770	-	-	51,628	-	70,020	39,090	-	311,454	-	-	(40,474)	33,261	660,945
Grants Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,988,993	7,988,993
<b>TOTAL LIABILITIES</b>	<b>102,196</b>	<b>-</b>	<b>93,770</b>	<b>-</b>	<b>-</b>	<b>51,628</b>	<b>-</b>	<b>70,020</b>	<b>39,090</b>	<b>-</b>	<b>311,454</b>	<b>-</b>	<b>-</b>	<b>(40,474)</b>	<b>8,022,254</b>	<b>8,649,938</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	1,279,489	150,054	(2,143,655)	(1,199,395)	988,222	435,530	294,671	5,332,237	(56,260)	(9,398,639)	5,404,740	17,711	(6,071)	(8,297,267)	(255,583)	(7,454,216)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>4,352,817</b>	<b>151,845</b>	<b>905,232</b>	<b>26,080</b>	<b>4,064,826</b>	<b>4,027,414</b>	<b>587,924</b>	<b>13,426,973</b>	<b>4,581,090</b>	<b>29,743,947</b>	<b>10,174,084</b>	<b>1</b>	<b>416,355</b>	<b>40,474</b>	<b>(206,647)</b>	<b>72,292,415</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 4,455,013</b>	<b>\$ 151,845</b>	<b>\$ 999,001</b>	<b>\$ 26,080</b>	<b>\$ 4,064,826</b>	<b>\$ 4,079,043</b>	<b>\$ 587,924</b>	<b>\$ 13,496,993</b>	<b>\$ 4,620,179</b>	<b>\$ 29,743,947</b>	<b>\$ 10,485,538</b>	<b>\$ 1</b>	<b>\$ 416,355</b>	<b>\$ -</b>	<b>\$ 7,815,607</b>	<b>\$ 80,942,353</b>



# THE STATE BAR OF CALIFORNIA

OFFICE OF FINANCE

180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

## MEMORANDUM

**DATE:** November 15, 2018  
**TO:** Members, Finance and Planning Committee  
**FROM:** John Adams, Chief Financial Officer  
**SUBJECT:** Annual Investment Report as of September 30, 2018

Attached is the quarterly investment report for the State Bar of California as of September 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 September 30, 2018, the market value of the investment portfolio was \$99.6 million compared to \$123.8 million as of September 2017. This decrease is due to the use of LAIF funds to offset operating expenses during Q2 and Q3 of 2018.

The time-weighted average rate of return of the investment portfolio for the reported quarter is -2.71% compared to 0.89% in the comparable quarter of 2017. Actual investment earnings increased approximately 104% from \$868,331 last year to \$1.77 million in 2018. The increase in investment earnings is due to higher rates of return. For example, the quarterly interest rate on deposits in the Local Agency Investment Fund increased from 1.07% for the quarter ended September 30, 2017 to 2.16% for the quarter ended September 30, 2018.

Because rates have increased over the past year, the Market Value of the portfolio is less than the Original Cost. The State Bar's investment strategy is to purchase bonds and hold them until maturity to realize the full value of the investment. Unrealized gains or losses in the portfolio would only be recognized if a security was sold before maturity. Temporary price changes or market value fluctuations in the portfolio of held-to-maturity securities are not recorded in the Bar's quarterly financials.

**The State Bar of California  
Investment Report Summary  
September 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	60,003,329	\$	59,500,390	59.7%	2.16%
- Corporate Bonds	21,712,016		21,533,337	21.6%	2.64%
- Common Stock-Metlife Inc.	-		148,938	0.1%	N.A
Subtotal-Securities, Bonds and Notes	81,715,345		81,182,664	81.5%	
Interest Receivable	-		397,290	0.4%	N.A
Local Agency Investment Fund	18,045,073		18,045,073	18.1%	2.00%
<b>Total</b>	<b>\$ 99,760,418</b>	<b>\$</b>	<b>99,625,028</b>	<b>100.0%</b>	2.71%

**Unrealized Gain/(Loss):**

Market Value of Portfolio -Securities, Bonds and Notes	\$ 81,182,664
Original Cost of Portfolio -Securities, Bonds and Notes	81,715,345
Unrealized Gain/(Loss)	<u><u>\$ (532,681)</u></u>

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

Issuer	CUSIP #	S&P		Type	Par Value	Cost	Mkt Value	Interest	Unrealized	Yield	Trade/	Maturity
		Rating						Receivable	Gain/(Loss)		Purchase	
											Date	Date
FED FARM CREDIT BANK	3133EFX69	AA+		Government Agency	5,000,000	5,010,550	4,999,350	23,467	(11,200)	0.870%	05/17/16	10/05/18
FED FARM CREDIT BANK	3133EFX69	AA+		Government Agency	3,000,000	3,018,150	2,999,610	14,080	(18,540)	0.690%	06/29/16	10/05/18
FED HOME LN MTG CORP	3134G9HV2	AA+		Government Agency	2,000,000	2,000,000	1,996,260	6,944	(3,740)	1.000%	05/17/16	11/26/18
FANNIE MAE (FNMA)	3135G0H63	AA+		Government Agency	3,125,000	3,109,138	3,115,438	7,520	6,300	1.943%	02/28/18	01/28/19
FREDDIE MAC (FHLMC)	3134G3A91	AA+		Government Agency	3,125,000	3,094,563	3,091,625	4,740	(2,938)	2.075%	02/28/18	08/22/19
FANNIE MAE (FNMA)	3135G0R39	AA+		Government Agency	3,125,000	3,068,959	3,070,281	13,628	1,322	2.115%	02/28/18	10/24/19
FED FARM CREDIT BANK	3133EJCN7	AA+		Government Agency	3,125,000	3,117,269	3,096,656	8,445	(20,613)	2.200%	02/28/18	02/14/20
FED HOME LN BANK	313383HU8	AA+		Government Agency	3,125,000	3,091,484	3,068,563	16,558	(22,922)	2.235%	02/28/18	06/12/20
FED HOME LN BANK	313370US5	AA+		Government Agency	3,125,000	3,171,513	3,125,938	4,991	(45,575)	2.265%	02/28/18	09/11/20
FREDDIE MAC (FHLMC)	3134GSCP8	AA+		Government Agency	3,125,000	3,120,313	3,076,156	27,778	(44,156)	2.543%	02/28/18	11/23/21
STATE OF CALIFORNIA	13063DAD0	AA-		Municipal Bond	3,035,000	2,993,269	2,961,158	35,919	(32,110)	2.725%	02/28/18	04/01/22
FREDDIE MAC (FHLMC)	3134GBC83	AA+		Government Agency	3,125,000	3,064,844	3,024,500	19,227	(40,344)	2.547%	02/28/18	06/14/22
FED HOME LN BK	313383VN8	AA+		Government Agency	3,000,000	2,994,696	2,982,120	3,000	(12,576)	2.000%	04/04/18	09/13/19
FED HOME LN BK	3130ADUY6	AA+		Government Agency	3,000,000	3,007,116	2,977,530	2,042	(29,586)	2.450%	04/04/18	09/21/20
FED HOME LN BK	3130ADW32	AA+		Government Agency	3,500,000	3,506,636	3,473,400	715	(33,236)	2.530%	04/13/18	09/28/20
FED HOME LN BK	3130ADXP2	AA+		Government Agency	3,000,000	3,005,430	2,975,490	35,117	(29,940)	2.450%	04/04/18	10/09/20
FED HOME LN BK	313383WD9	AA+		Government Agency	3,000,000	3,070,491	3,013,890	5,729	(56,601)	3.125%	04/04/18	09/09/22
FED HOME LN BK	313383WD9	AA+		Government Agency	3,500,000	3,580,420	3,516,205	6,684	(64,215)	3.125%	04/04/18	09/09/22
FED HOME LN MTG CORP	3134GBA69	AA+		Government Agency	3,000,000	2,978,490	2,936,220	10,292	(42,270)	2.375%	04/04/18	08/09/22

TOTAL GOVERNMENT BONDS AND NOTES: 60,035,000 60,003,329 59,500,390 246,875 (502,939) 2.161%

Issuer	CUSIP #	S&P		Type	Par Value	Cost	Mkt Value	Interest	Unrealized	Yield	Trade/	Maturity
		Rating						Receivable	Gain/(Loss)		Purchase	
											Date	Date
WELLS FARGO BANK, NA	94988J5D5	A+		Corporate Bond	3,125,000	3,099,591	3,105,688	19,293	6,097	2.425%	02/28/18	05/24/19
MICROSOFT CORP	594918AH7	AAA		Corporate Bond	3,125,000	3,169,647	3,142,406	46,875	(27,241)	2.425%	02/28/18	10/01/20
APPLE INC	037833BS8	AA+		Corporate Bond	3,125,000	3,093,869	3,069,313	7,422	(24,556)	2.600%	02/28/18	02/23/21
CHEVRON CORP.	166764BG4	AA-		Corporate Bond	3,125,000	3,071,041	3,048,219	24,609	(22,822)	2.665%	02/28/18	05/16/21
MICROSOFT CORP	594918BP8	AAA		Corporate Bond	3,125,000	3,016,372	2,999,469	7,131	(16,903)	2.615%	02/28/18	08/08/21
APPLE INC	037833BF6	AA+		Corporate Bond	3,215,000	3,201,015	3,159,831	33,275	(41,184)	2.810%	02/28/18	05/13/22
TOYOTA MOTOR CREDIT CORP	89236TEC5	AA-		Corporate Bond	1,500,000	1,452,690	1,430,505	2,060	(22,185)	2.900%	02/28/18	09/08/22
TOYOTA MOTOR CREDIT CORP	89236TEL5	AA-		Corporate Bond	1,625,000	1,607,793	1,577,908	9,750	(29,885)	2.935%	02/28/18	01/11/23

TOTAL CORPORATE BONDS : 21,965,000 21,712,016 21,533,337 150,416 (178,680) 2.637%

Issuer	CUSIP #	S&P		Type	Par Value	Cost	Mkt Value	Interest	Unrealized	Yield	Trade/	Maturity
		Rating						Receivable	Gain/(Loss)		Purchase	
											Date	Date
BRIGHTHOUSE FINANCIAL INC	10922N103	N/A		Common Stock	-	-	11,768	-	11,768		08/07/17	N/A
METLIFE INC	59156R108	N/A		Common Stock	-	-	137,170	-	137,170			N/A

TOTAL COMMON STOCKS: - - 148,938 - 148,938

TOTAL INVESTMENT HELD BY WELLS FARGO: 82,000,000 81,715,345 81,182,664 397,290 (532,681)



# THE STATE BAR OF CALIFORNIA

OFFICE OF FINANCE

180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639

TEL (415) 538-2200

## MEMORANDUM

**DATE:** November 15, 2018  
**TO:** Members, Finance and Planning Committee  
Members, Board of Trustees  
**FROM:** John Adams, Chief Financial Officer  
**SUBJECT:** Client Security Fund Report for the Quarter Ended September 30, 2018

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

- Status on Applications Activity for the quarter ended September 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 September 30, a total of 809 new applications in the amount of \$20.1 million were filed. The number of applications filed increased by 15.7% compared to 699 applications filed last year. The application amount increased by \$6.9 million, or 52.3% compared to \$13.2 million filed in 2017.

For the quarter ended September 30, 2018, total applications processed are 1,176 for approximately \$17.8 million. Total payouts for 2018 are \$5.7 million, up by \$1.9 million compared to \$3.8 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 Q3 as compared to 2017 Q3. Total applications pending for processing as of September 30, 2018, are 3,064 in the amount of \$54.2 million. For the same period in 2017, there were 3,623 pending applications in the amount of \$52.9 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 37.5%. Total applications outstanding as of September 30, 2018 are 3,064 for \$54.2 million. Applying the rolling average applications payout ratio to the outstanding application amounts, the estimated application payout as of September 30, 2018 is \$20.3 million compared to \$23.2 million last year. This

represents a decrease of \$2.9 million or 12.5%. The decreased payout ratio is the result of an increase in applications deemed ineligible for reimbursement. As of September 30, 2018, cash and investments available for applications reimbursement in the CSF are approximately \$4.4 million compared to \$6.0 million last year.

Key indicators for the CSF application process as of September 30, 2018 and 2017 are shown below:

<b>Key Indicator Descriptions</b>	<b>2018 Q3</b>	<b>2017 Q3</b>	<b>Attachment</b>
New Applications Received # / \$ (in million)	809/\$20.1	699/\$13.2	1
Total Applications Processed # / \$ (in million)	1,176/\$17.8	1,329/\$11.4	2
% of Paid Applications in # to total in process <sup>1</sup>	15.2%	12.8%	1
% of Paid Applications in \$ to total in process <sup>2</sup>	7.9%	5.9%	1
Total Payouts \$ (in million)	\$ 5.7	\$ 3.8	2
Total Applications Pending for Processing # / \$ (in million)	3,064/\$54.2	3,623/\$52.9	2
24-month Rolling Average Payout Ratio	37.48%	43.89%	4
Estimated CSF Application Liabilities (in million)	\$20.3	\$23.2	2
Net Assets as of December 31 (in million)	\$4.4	\$6.0	3

<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  
September 30, 2018  
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	619	1,070,398	1,180	4,510,648	697	5,057,436	450	7,443,327	156	5,548,693	44	2,275,000	285	26,018,810	3,431	51,924,312		
New Applications	138	221,105	183	701,277	138	1,061,154	126	2,172,757	56	1,975,243	25	903,800	143	13,046,570	809	20,081,906		
Paid Applications	(126)	(212,020)	(243)	(896,148)	(146)	(951,794)	(77)	(1,052,694)	(30)	(945,169)	(8)	(373,937)	(14)	(1,243,112)	(644)	(5,674,874)	15.2%	7.9%
Rejected Applications	(8)	(24,123)	(10)	(91,855)	(6)	(136,118)	(9)	(374,225)	(8)	(418,584)	(2)	(201,062)	(16)	(1,632,928)	(59)	(2,878,895)	1.4%	4.0%
Withdrawn Applications	(121)	(195,175)	(106)	(412,740)	(85)	(642,947)	(56)	(856,532)	(27)	(929,545)	(19)	(950,000)	(59)	(5,291,908)	(473)	(9,278,847)	11.2%	12.9%
<b>Applications Outstanding</b>	<b>502</b>	<b>\$ 860,185</b>	<b>1,004</b>	<b>\$ 3,811,182</b>	<b>598</b>	<b>\$ 4,387,731</b>	<b>434</b>	<b>\$ 7,332,633</b>	<b>147</b>	<b>\$ 5,230,638</b>	<b>40</b>	<b>\$ 1,653,801</b>	<b>339</b>	<b>\$ 30,897,432</b>	<b>3,064</b>	<b>\$ 54,173,602</b>		
<b>New applications % to total</b>	17.06%	1.10%	22.62%	3.49%	17.06%	5.28%	15.57%	10.82%	6.92%	9.84%	3.09%	4.50%	17.68%	64.97%	100.00%	100.00%		
<b>Applications paid % to total</b>	19.57%	3.74%	37.73%	15.79%	22.67%	16.77%	11.96%	18.55%	4.66%	16.66%	1.24%	6.59%	2.17%	21.91%	100.00%	100.00%		
<b>Applications rejected or withdrawn % to total</b>	24.25%	1.80%	21.80%	4.15%	17.11%	6.41%	12.22%	10.12%	6.58%	11.09%	3.95%	9.47%	14.10%	56.96%	100.00%	100.00%		
<b>Applications outstanding % to total</b>	16.38%	1.59%	32.77%	7.04%	19.52%	8.10%	14.16%	13.54%	4.80%	9.66%	1.31%	3.05%	11.06%	57.03%	100.00%	100.00%		

(A) % of # of paid applications, rejected applications and withdrawn applications to # of total applications in process in 2018 Q3.

(B) % of paid applications, rejected applications and withdrawn applications in \$ to the total applications \$ in process in 2018 Q3.

THE STATE BAR OF CALIFORNIA

Attachment 2

CLIENT SECURITY FUND

APPLICATIONS AGING REPORT

AS OF SEPTEMBER 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)	(56,370)	(2)	(26,130)	(7)	(82,500)	1	7,053
2011	35	542,818			(12)	(50,129)	(11)	(242,464)	(23)	(292,593)	12	250,225
2012	110	1,054,877			(46)	(219,371)	(25)	(224,325)	(71)	(443,696)	39	611,181
2013	151	2,034,064			(38)	(377,198)	(19)	(263,894)	(57)	(641,092)	94	1,392,972
2014	610	8,487,779			(194)	(1,855,117)	(87)	(2,877,032)	(281)	(4,732,149)	329	3,755,630
2015	809	11,446,920			(334)	(2,960,527)	(68)	(1,481,081)	(402)	(4,441,608)	407	7,005,312
2016	893	12,957,913			(9)	(121,319)	(24)	(217,877)	(33)	(339,196)	860	12,618,717
2017	815	15,206,664			(2)	(4,850)	(139)	(2,793,436)	(141)	(2,798,286)	674	12,408,378
2018		103,724	809	20,081,906	(4)	(29,993)	(157)	(4,031,503)	(161)	(4,061,496)	648	16,124,134
<b>TOTAL</b>	<b>3,431</b>	<b>51,924,312</b>	<b>809</b>	<b>20,081,906</b>	<b>(644)</b>	<b>(5,674,874)</b>	<b>(532)</b>	<b>(12,157,742)</b>	<b>(1,176)</b>	<b>(17,832,616)</b>	<b>3,064</b>	<b>54,173,602</b>

Applications Outstanding **\$54,173,602**

Estimated Application Payout Ratio **37.48%**

Estimated Application Payouts **\$20,304,235**



THE STATE BAR OF CALIFORNIA

Attachment 3

CLIENT SECURITY FUND

CUMULATIVE APPLICATIONS AGING REPORT

AS OF SEPTEMBER 30, 2018

<u>Year Application</u> <u>Filed</u>	<u>Gross Applications</u>		<u>Current Year</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>										
2010-2010	8	89,553			(5)	(56,370)	(2)	(26,130)	(7)	(82,500)	1	7,053
2010-2011	43	632,371			(17)	(106,499)	(13)	(268,594)	(30)	(375,093)	13	257,278
2010-2012	153	1,687,248			(63)	(325,870)	(38)	(492,919)	(101)	(818,789)	52	868,459
2010-2013	304	3,721,312			(101)	(703,068)	(57)	(756,813)	(158)	(1,459,881)	146	2,261,431
2010-2014	914	12,209,091			(295)	(2,558,185)	(144)	(3,633,845)	(439)	(6,192,030)	475	6,017,061
2010-2015	1,723	23,656,011			(629)	(5,518,712)	(212)	(5,114,926)	(841)	(10,633,638)	882	13,022,373
2010-2016	2,616	36,613,924			(638)	(5,640,031)	(236)	(5,332,803)	(874)	(10,972,834)	1,742	25,641,090
2010-2017	3,431	51,820,588			(640)	(5,644,881)	(375)	(8,126,239)	(1,015)	(13,771,120)	2,416	38,049,468
2010-2018			809	20,081,906	-	-	(532)	(12,157,742)	(1,176)	(17,832,616)	3,064	54,173,602
	<b>3,431</b>	<b>51,820,588</b>	<b>809</b>	<b>20,081,906</b>	<b>(640)</b>	<b>(5,644,881)</b>	<b>(532)</b>	<b>(12,157,742)</b>	<b>(1,176)</b>	<b>(17,832,616)</b>	<b>3,064</b>	<b>54,173,602</b>

Net Asset in Client Security Fund:

As of 9/30/2018 **\$ 4,352,814**

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

Attachment 4

Month Covered	<u>PAID APPLICATIONS</u>		<u>REJECTED/ WITHDRAWN APPLICATIONS</u>	<u>PROCESSED</u>
	Amount	Monthly Average Payout Ratio	Amount	Amount
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
July18	233,352	15.31%	1,290,696	1,524,048
Aug18	843,046	35.92%	1,503,880	2,346,926
Sep18	651,994	41.59%	915,793	1,567,787
Total:	<u>14,505,036</u>		Total: <u>24,195,761</u>	<u>38,700,797</u>
24 Month Rolling Average PaidOut Ratio:			37.48%	

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

Attachment 5

September 30, 2018

	<u>1ST QTR</u>	<u>2ND QTR</u>	<u>3RD QTR</u>
Beginning Balance	3,431	3,358	3,264
Add: Reinstated Applications and New Applications	287	296	226
Less: Paid / Rejected or Withdrawn	360	390	426
TOTAL	3,358	3,264	3,064
APPLICATIONS OUTSTANDING AMT.	\$52,916,179	\$54,416,376	54,173,601
# Of Active Attorneys	190,017	190,686	190,595
Cost Per Active Attorney	\$278	\$285	\$284
ESTIMATED APPLICATIONS LIAB.			
Applications Payout Ratio	40.88%	39.40%	37.48%
Estimated Application Amount *	\$21,633,350	\$21,437,363	\$20,304,234
# of Active Attorneys	190,017	190,686	190,595
Cost per Active Attorney	\$114	\$112	\$107
APPLICATION ACTIVITIES IN %:			
NEW APPLICATIONS - YTD			
1 - 2,500	1.07%	1.03%	1.10%
2,501 - 5,000	2.83%	3.32%	3.49%
5,001 - 10,000	6.34%	6.04%	5.28%
10,001 - 25,000	12.47%	11.46%	10.82%
25,001 - 49,999	10.84%	10.77%	9.84%
50,000	10.19%	4.99%	4.50%
50,001 - 100,000	56.27%	62.39%	64.97%
APPLICATIONS PAID - YTD			
1 - 2,500	2.90%	3.62%	3.74%
2,501 - 5,000	8.86%	11.55%	15.79%
5,001 - 10,000	11.27%	16.86%	16.77%
10,001 - 25,000	18.63%	19.76%	18.55%
25,001 - 49,999	13.92%	14.20%	16.66%
50,000	6.84%	8.25%	6.59%
50,001 - 100,000	37.58%	25.77%	21.91%
REJ./WDRAWN - YTD			
1 - 2,500	2.25%	1.79%	1.80%
2,501 - 5,000	3.49%	3.63%	4.15%
5,001 - 10,000	5.55%	5.89%	6.41%
10,001 - 25,000	10.89%	10.67%	10.12%
25,001 - 49,999	6.84%	6.78%	11.09%
50,000	6.94%	11.83%	9.47%
50,001 - 100,000	64.03%	59.41%	56.96%
APPLICATIONS O/S-CUM. - YTD			
1 - 2,500	1.85%	1.69%	1.59%
2,501 - 5,000	8.23%	7.74%	7.04%
5,001 - 10,000	9.46%	8.72%	8.10%
10,001 - 25,000	14.02%	13.56%	13.54%
25,001 - 49,999	10.76%	10.90%	9.66%
50,000	4.72%	3.04%	3.05%
50,001 - 100,000	50.95%	54.35%	57.03%
NET ASSET, END OF PERIOD	\$ 8,106,505	\$ 6,324,955	\$ 4,352,814

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