



The State Bar *of California*

Q3 2021 Financial Statements Report, Investment Report, Client Security Fund Report

Aracely Montoya-Chico, Chief Financial Officer

Finance Committee Meeting, March 24, 2022

Quarterly Reports

- Quarterly reports include:
 - Q3 2021 Financial Statements (Balance Sheet and Income Statement)
 - Q3 2021 Investment Report
 - Q3 2021 Client Security Fund Report



Q3 2021 Financial Statement Highlights

ASSETS AND LIABILITIES: YEAR-OVER-YEAR COMPARISON				
Financial Statement Category	Sept 30, 2021 (in \$M)	Sept 30, 2020 (in \$M)	Changes (in \$M)	Changes (in %)
Total Assets	\$284.8	\$257.9	\$26.9	10.4%
Cash	121.6	80.7	40.9	50.7%
Investments	40.8	50.7	(9.9)	-19.5%
Accounts Receivable	4.7	4.8	(0.1)	-2.1%
Total Liabilities	\$154.7	\$110.8	\$43.9	39.6%
Accounts Payable & Accrued Liabilities	28.7	25.8	2.9	11.2%
Loan Payable	34.0	20.3	13.7	67.5%
OPEB Liabilities (Investment)	11.6	(10.2)	21.8	-213.7%
Pension Liability	77.7	67.2	10.5	15.6%
Net Position	\$130.1	\$147.1	(\$17.0)	-11.6%



Q3 2021 Financial Variance Analysis

- Assets
 - Cash increase of \$40.9M due to new loan obtained in August 2021, investments maturing
 - Investments decrease of \$9.9M due to investment settlements
- Liabilities
 - Other post-employment benefits (OPEB) liabilities increase of \$21.8M due to one-time change of OPEB from asset to a liability
 - Loan payable increased \$13.7M due to new loan obtained in August 2021
 - Net pension liability increase of \$10.5M based on actuarially determined valuation resulting in higher service cost and interest



Q3 2021 Financial Statement Highlights – Revenue

YTD ACTUAL REVENUE BY FUND COMPARED TO YTD BUDGET (IN \$MILLIONS)				
Financial Statement Category	Sept 30, 2021 Actual (in \$M)	Sept 30, 2021 Budget (in \$M)	Changes (in \$M)	Changes (in %)
Operating Revenue	\$178.5	\$191.0	(\$12.5)	-6.5%
General Fund	87.3	84.4	2.9	3.4%
Legal Services Trust Fund, Equal Access Fund, and Homeless Prevention II Program	57.6	74.2	(16.6)	-22.4%
Admissions Fund	19.0	18.0	1.0	5.6%
Client Security Fund	8.1	7.9	0.2	2.5%
Other Funds	6.5	6.5	0.0	0.0%

- General Fund increase due to increase in mandatory fees due to underbudgeting by three basis points
- Legal Services Trust (LSTF), Equal Access, and Grant (includes Homeless Prevention (HP) II) Funds
 - Decrease in Grants Fund revenue of \$20.6M offset by increase in Equal Access Fund revenue of \$2.2M
 - Reflect allocation of expenses for multiyear grants; will self-correct by end of year
 - Increase in LSTF of \$1.8M due to number of lawyers' trust accounts and average balance on those accounts
- Admissions Fund higher than budget due to exam fee and moral character fees
 - Exam fees were higher due to broader pool of applicants from online exam availability
 - Moral character fees higher due to reduced passing score, ability to sit for exam online and addition of the Provisional Licensed Lawyers (PLL) program
- Client Security Fund in line with budget with slight \$0.2M increase



Q3 2021 Financial Statement Highlights – Expenses

YTD ACTUAL EXPENSE BY FUND COMPARED TO YTD BUDGET (IN \$MILLIONS)				
Financial Statement Category	Sept 30, 2021 Actual (in \$M)	Sept 30, 2021 Budget (in \$M)	Changes (in \$M)	Changes (in %)
Operating Expenses	\$142.7	\$148.3	(\$5.6)	-3.8%
General Fund	62.1	66.9	(4.8)	-7.2%
Bank Settlement Fund	2.4	2.4	0.0	0.0%
Equal Access Fund	25.5	19.1	6.4	33.5%
HP II Program	9.9	10.1	(0.2)	-2.0%
Legal Services Trust Fund	19.8	19.4	0.4	2.1%
Admissions Fund	14.5	18.9	(4.4)	-23.3%
Client Security Fund	4.5	6.2	(1.7)	-27.4%
Other Funds	4.0	5.3	(1.3)	-24.5%

- General Fund variance of \$6.6M due to personnel savings from staff vacancies offset by \$1.6M increase building improvement expenditures incurred but not budgeted in 2021
- Equal Access expenses higher than budget by \$6.4M
 - 2020 expenses paid in 2021 due to delayed Judicial Council funding
 - 2020 unused HP I Grant funds returned by grantees and redistributed in 2021 to other grantees
- Legal Services Trust (LSTF) expenses higher than budget by \$0.4M
 - \$0.6M of variance from Provisionally Licensed Lawyers (PLL) program offset by \$0.2M in savings across other expense categories



Q3 2021 Financial Statement Highlights – Expenses contd...

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Admissions Fund	14.5	18.9	(4.4)	-23.3%
Client Security Fund	4.5	6.2	(1.7)	-27.4%
Other Funds	4.0	5.3	(1.3)	-24.5%

- Admissions Fund expenses lower than budget due to exam expenses and personnel cost savings
 - Exam expenses savings due to remote exam format and net effect of aggressive budgeting for new applicants and conservative budgeting for attorney applicants
 - Personnel savings of \$0.9M
- Client Security Fund expenses lower than budget by \$1.7M due to less payments made as fewer applications were processed than anticipated.



Q3 2021 Investment Report Highlights

- Highlights:
 - Wells Fargo highly rated securities
 - Commercial paper, government bonds, corporate bonds
 - In compliance with policy
 - Total market value \$131.3M compared to \$104.5M as of September 30, 2020
 - Local Agency Investment Fund (LAIF) rate decreased to 0.22 percent compared to 0.80% in 2020
 - market value \$75.2M
 - part of California's pooled money investment account



Q3 2021 Investment Report

<u>Asset Group</u>	<u>Original Cost</u>	<u>Market Value</u>	<u>Portfolio Percentage</u>	<u>Weighted Average Yield</u>
Wells Fargo Custody Account:				
- Commercial Paper Discount	19,980,450	19,998,400	15.2%	0.14%
- Government Bonds	13,872,669	14,103,247	10.7%	2.70%
- Corporate Bonds	6,261,498	6,464,516	4.9%	2.57%
- Common Stock-Metlife Inc.	-	193,270	0.1%	N/A
Subtotal-Securities, Bonds and Notes	40,114,617	40,759,434	31.1%	
Interest Receivable	-	107,837	0.1%	0.22%
Local Agency Investment Fund	75,210,923	75,210,923	57.3%	0.22%
Bank of New York Mellon Trust Company, N.A. Investment	15,175,688	15,176,431	11.6%	0.01%
Total	\$ 130,501,228	\$ 131,254,625	100.0%	0.98%

Unrealized Gain/(Loss):

Market Value of Portfolio -Securities, Bonds and Notes	\$ 40,759,434
Original Cost of Portfolio -Securities, Bonds and Notes	40,114,617
Unrealized Gain/(Loss)	<u>\$ 644,817</u>



Q3 2021 Client Security Fund Highlights

- Highlights for the nine months ended September 30, 2021:
 - Total payouts were \$4.1M
 - 489 new applications in the amount of \$20M were filed
 - increase of 100% from last year
 - 734 applications processed for approximately \$18.3M
 - increase of 14.4%
 - 1,365 applications pending for processing in the amount of \$37.5M
 - decrease of 10.5%
 - Estimated application payout were \$13.3M, a decrease of \$3.7M compared to \$17M last year



Q3 2021 Client Security Fund Summary

(\$ in millions)					
Key Indicator Descriptions	2021 Sept YTD	2020 Sept YTD	# Change	% Change	Attachment
New Applications Received #	489	387	102	26.4%	1
New Applications Received \$	\$20.0	\$10.0	\$10.0	100.0%	
Total Applications Processed #	734	867	(133)	-15.3%	2
Total Applications Processed \$	\$18.3	\$16.0	\$2.3	14.4%	
% of Paid Applications in # to total in process [1]	11.0%	21.1%			1
% of Paid Applications in \$ to total in process [2]	7.4%	12.7%			
Total Payouts \$	\$4.1	\$7.4	(\$3.3)	(44.6%)	2
Total Applications Pending for Processing #	1,365	1,901	(536)	-28.2%	2
Total Applications Pending for Processing \$	\$37.5	\$41.9	(\$4.4)	-10.5%	
24-month Rolling Average Payout Ratio	35.5%	40.6%			4
Estimated CSF Application Payouts	\$13.3	\$17.0	(\$3.7)	(21.8%)	2
Cash and Investments Available for Payouts	\$5.8	\$7.1	(\$1.3)	(18.3%)	3

1. # of total in process represents pending application from prior year plus additional applications filed in current fiscal year.

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

