



# The State Bar of California

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## **OPEN SESSION**

### **AGENDA ITEM**

**50-5 NOVEMBER 2022**

### **FINANCE COMMITTEE IV.C**

**DATE:** November 17, 2022

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

**FROM:** Aracely Montoya-Chico, Chief Financial Officer

**SUBJECT:** Approval of 2022 Quarter Three Financial Statements Report and Investment Report

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## **EXECUTIVE SUMMARY**

This agenda item presents unaudited financial reports for the nine months ended September 30, 2022. These reports include the Financial Statements Report and the Investment Report.

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## **BACKGROUND**

The charter of the Finance Committee directs the committee to thoroughly examine the State Bar's finances on a quarterly basis to ensure a "functional and detailed understanding of the State Bar's revenue streams, expenditures, and overall fiscal conditions and issues." This agenda item provides the Finance Committee with the reports it needs to fulfill these responsibilities.

## **DISCUSSION**

The Financial Report is composed of multiple attachments, including the Financial Statement Report and the Investment Report for the nine months ended September 30, 2022. This agenda item and the accompanying reports will also be on consent for the Board of Trustees meeting on November 18, 2022.

## **FISCAL/PERSONNEL IMPACT**

None

## **AMENDMENTS TO RULES**

None

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

None

## **STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS**

None – compliance

## **RECOMMENDATIONS**

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

**RESOLVED**, that the Finance Committee recommends that the Board of Trustees approves the 2022 Third Quarter Financial Statements and Investment Report in the form presented this day before the Board, for the nine months ended September 30, 2022, as certified by the chief financial officer and filed with the San Francisco office of the State Bar.

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

**RESOLVED**, that upon recommendation of the Finance Committee, the Board of Trustees approves the 2022 Three Quarter Financial Statements and Investment Report in the form presented this day before the Board, for the nine months ended September 30, 2022, as certified by the chief financial officer and filed with the San Francisco office of the State Bar.

## **ATTACHMENTS LIST**

- A.** Financial Statements for the Nine Months Ended September 30, 2022
- B.** Investment Report for the Nine Months Ended September 30, 2022



# The State Bar of California

Date: November 17, 2022

To: Members, Finance Committee  
Members, Board of Trustees

From: Aracely Montoya-Chico, Chief Financial Officer

Subject: Financial Statements for Nine Months as of September 30, 2022

This memo outlines the State Bar's nine-months operating results as of September 30, 2022, with information and comparative analysis regarding revenue and expenses.

## FINANCIAL HIGHLIGHTS – REVENUES AND EXPENSES

Table 1 below provides year-to-date budget-to-actual variance highlights for select revenue and expense categories.

**Table 1. YTD Budget-to-Actual Variance Analysis <sup>1</sup>**

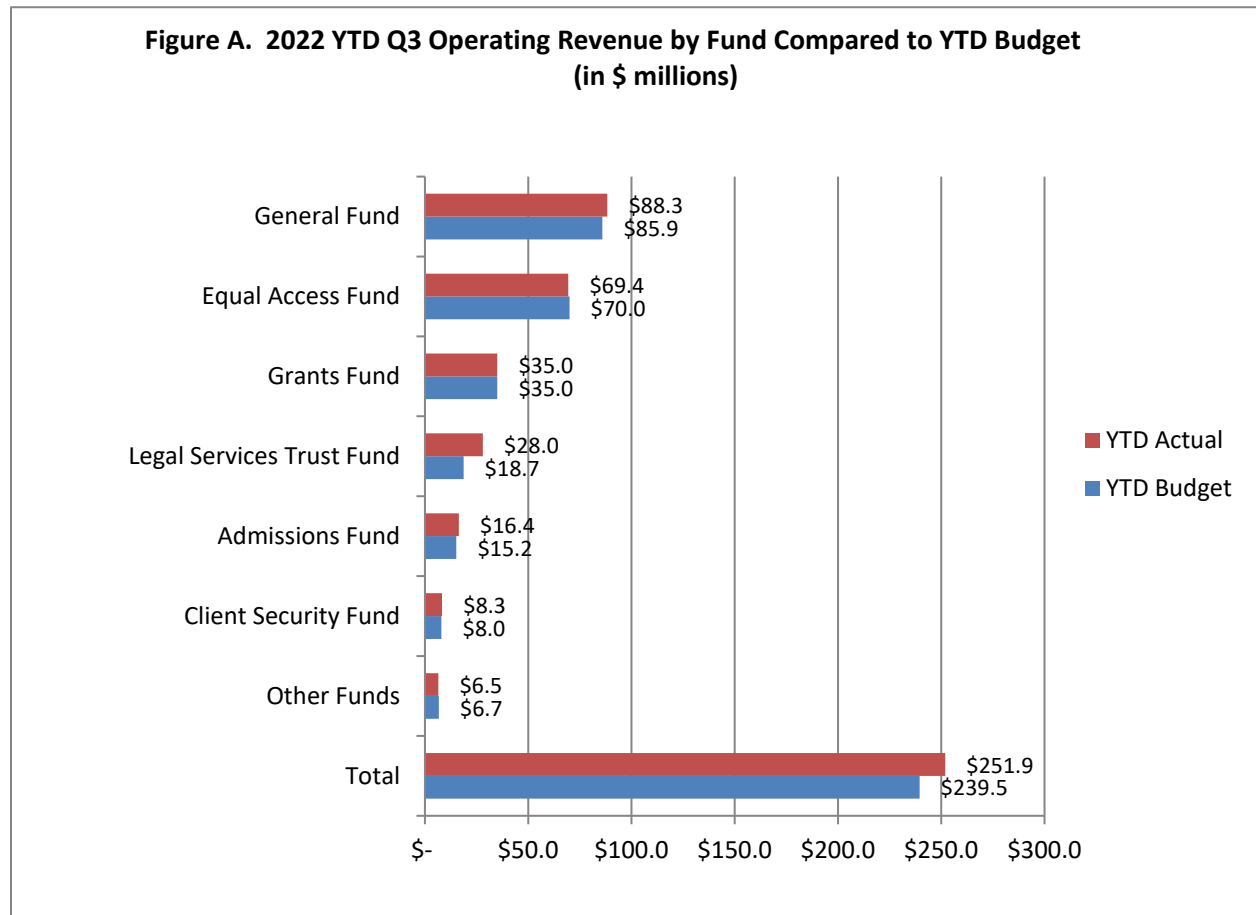
Financial Statement Category	Sep 30, 2022 Actual (in \$M)	Sep 30, 2022 Budget (in \$M)	Changes (in \$M)	Changes (in %)	Refer to Attachment
<b>Operating Revenue</b>	<b>\$251.9</b>	<b>\$239.5</b>	<b>\$12.4</b>	<b>5.2%</b>	<b>1</b>
Licensing Fees & Donations	105.2	103.3	1.9	1.8%	1
Trust Account Revenue	20.8	11.8	9.0	76.3%	1
Exam App & Moral Character Fees	15.1	13.9	1.2	8.6%	1
Grant Revenue	92.9	93.5	(0.6)	(0.6%)	1
<b>Operating Expenses</b>	<b>\$220.0</b>	<b>\$226.7</b>	<b>(\$6.7)</b>	<b>(3.0%)</b>	<b>1</b>
Access & Inclusion	127.6	127.9	(0.3)	(0.2%)	1
Admissions	21.4	22.4	(1.0)	(4.5%)	1
Chief Trial Counsel	44.2	45.5	(1.3)	(2.9%)	1
Client Security Fund	3.4	7.4	(4.0)	(54.1%)	1

<sup>1</sup> Table displays total operating revenue and expense, followed by the largest revenue and expense categories. For a complete list, please refer to Attachment 1.

See Attachments 1 and 2 for more detailed comparisons of the State Bar's financial results for the nine months ended September 30, 2022.

## REVENUE

Figure A. comparison of budgeted operating revenue versus actuals at the fund level.



Overall, operating revenues totaled \$251.9 million for the nine months ended September 30, 2022, \$12.4 million more than budgeted operating revenue of \$239.5 million. The main drivers of the favorable variance are Interest on Lawyers' Trust Accounts (IOLTA) revenue, Licensing Fees, and Exam Fees.

Operating revenue for the General Fund totaled \$88.3 million, \$2.4 million more than the budgeted revenue of \$85.9 million. The primary driver is Mandatory Fees, accounting for \$1.6 million of the variance as more licensee payments were received than anticipated through the third quarter. In addition, \$0.2 million of the favorable variance was attributable to Law Corporation Fees and \$0.2 million due to the LegalMatch.com settlement.

Operating revenue for the Equal Access Fund totaled \$69.4 million, \$0.6 million less than budgeted revenue of \$70.0 million. The variance is due to delayed requests in administrative cost reimbursements. However, the budgeted reimbursements are projected to be realized by the end of the year.

Operating revenue for the Grants Fund is on budget at \$35.0 million. The Grants Fund is comprised of Homeless Prevention (HP) II, HP III, CalHFA grant revenue and administrative cost reimbursements.

Operating revenue for the Legal Services Trust Fund totaled \$28.0 million, \$9.3 million more than budgeted revenue of \$18.7 million. IOLTA revenues account for \$9.0 million of the variance due to larger account balances than were assumed in the budget. The budget assumed the top 10 banks, which contribute 90 percent of IOLTA revenue, would have a total average daily balance of \$3.4 billion. Actual average daily balance was \$4.2 billion. The budget also assumed the top 10 banks would have an average interest rate of 0.68 percent. The rate has increased each month, landing at 1.42 percent in August, reflecting the impact of the Federal Reserve interest rate hikes this year. The remaining \$0.3 million of the variance is from voluntary fees, the result of more paying attorneys than were assumed in the budget.

The Admissions Fund revenue totaled \$16.4 million, which is \$1.2 million more than budgeted revenues of \$15.2 million. February exam fees were better than budget by \$1.5 million due to conservative budgeting in number of applicants, while Moral Character Determination fees were below budget by \$0.2 million due to fewer applicants than budgeted. July exam fees were slightly below budget by \$0.1 million due to the ExamSoft refunds.

Client Security Fund revenue, which is funded by mandatory licensing fees, is in line with budgeted amount at a \$0.3 million variance, or 4 percent higher than budget.

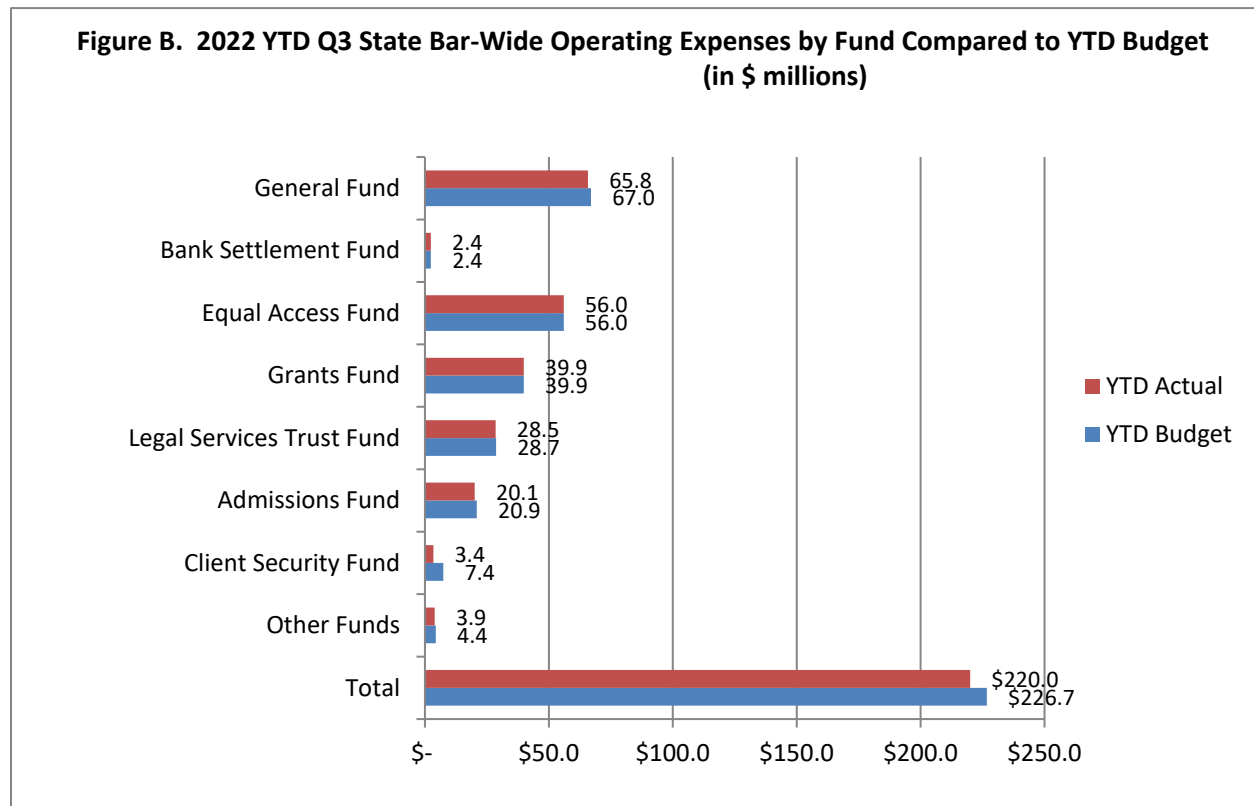
Other Funds' revenues were in line with the budgeted amount with an immaterial \$0.2 million variance, or 3 percent below budget.

### **NONOPERATING REVENUES/EXPENSES**

Nonoperating revenues/expenses consists of investment income, rental income, and interest expense on loans. Nonoperating revenue/expenses resulted in net expenses of \$0.9 million, or \$0.8 million lower than budget, mostly due to unrealized investment losses.

## EXPENSES

Figure B. comparison of budgeted operating expenses versus actuals at the fund level.



The State Bar's total operating expenses for the nine months ended September 2022 were \$220.0 million, \$6.7 million less than the budget of \$226.7 million. The key drivers of expense savings are Client Security Fund application payments, personnel and building operations.

General Fund expenses totaled \$65.8 million, \$1.2 million less than budgeted expenses of \$67.0 million, largely made up of savings in personnel expenses due to staff vacancies and building operations due to lower occupancy.

Bank Settlement Fund expenses were on budget at \$2.4 million.

Equal Access Fund expenses were on budget at \$56.0 million.

Grants Fund expenses were on budget at \$39.9 million. Grants Fund is comprised of HP II, HP III and CalHFA grant disbursements.

Legal Services Trust Fund expenses were in line with the budget with a variance of \$0.2 million or less than 1 percent.

Admissions Fund expenses were \$20.1 million, \$0.8 million less than budgeted expenses of \$20.9 million. Most of the savings were from professional services and personnel expenses, offset by higher laptop license expenses. \$0.4 million savings were due to a refund from PSI related to the July 2022 exam proctor shortage and an additional \$0.2 million savings budgeted to develop an exam preparation program for first-year law students will not be spent. Personnel expense savings were \$0.2 million below budget due to staff vacancies. The offset for laptop license (\$0.5 million) higher than budget was due to the July 2021 ExamSoft invoice that was paid in 2022 per the settlement agreement.

Client Security Fund expenses were \$3.4 million, or \$4.0 million less than the budget of \$7.4 million. Most of the variance is due to high level of claims in the current case inventory deemed ineligible for payment, resulting in lower payouts than anticipated.

**ATTACHMENTS:**

- Attachment 1 – Operating Revenue, Operating Expenses, and Changes in Net Position (State Bar-wide)
- Attachment 2 – Assets, Liabilities, and Net Position (State Bar-wide)

The State Bar of California  
Statement of Operating Revenue, Operating Expenses & Changes in Net Position - Bar Wide  
for Nine Months Ended September 30, 2022

	General Fund	Other Funds	2022 Actual	2022 Budget	Variance- 2022 Actual vs Budget
<b>OPERATING REVENUE</b>					
Affinity Insurance Revenue	(251,667)	-	(251,667)	(250,009)	(1,658)
Continuing Legal Education Fees	534,189	5,392	539,581	503,175	36,406
EAF AB 145 Filing Fee Revenue	-	11,583,621	11,583,621	11,583,020	601
Exam App. & Moral Char. Fees	-	15,055,717	15,055,717	13,902,553	1,153,164
Grant Revenue	-	92,889,500	92,889,500	93,496,294	(606,794)
Law Corporation Registration Fees	1,571,575	-	1,571,575	1,429,119	142,456
Legal Specialization Fees	-	2,044,951	2,044,951	1,968,194	76,757
Licensing Fees and Donations	85,464,948	19,720,775	105,185,723	103,290,891	1,894,832
Multi-Jurisdictional Practice Fees	-	863,134	863,134	814,700	48,434
Other Revenue	1,002,476	628,119	1,630,595	972,286	658,309
Trust Account Revenue	-	20,822,505	20,822,505	11,812,500	9,010,005
<b>Total Operating Revenue</b>	<b>88,321,521</b>	<b>163,613,714</b>	<b>251,935,235</b>	<b>239,522,723</b>	<b>12,412,512</b>
<b>OPERATING EXPENSES</b>					
Access & Inclusion	425,794	127,213,712	127,639,506	127,961,295	(321,789)
Admissions	-	21,429,732	21,429,732	22,460,127	(1,030,395)
Attorney Regulation and Consumer Resources	4,699,203	-	4,699,203	5,022,786	(323,583)



	General Fund	Other Funds	2022 Actual	2022 Budget	Variance- 2022 Actual vs Budget
Chief Trial Counsel	44,170,874	-	44,170,874	45,533,119	(1,362,245)
Client Security Fund	-	3,385,693	3,385,693	7,400,264	(4,014,571)
General & Administrative	(1,677,742)	-	(1,677,742)	(3,794,845)	2,117,103
Governance	4,077,293	464,736	4,542,029	5,118,496	(576,467)
Lawyers Assistance Program	-	1,711,382	1,711,382	1,928,970	(217,588)
Probation	1,292,527	-	1,292,527	1,383,833	(91,306)
Professional Competence	2,626,462	-	2,626,462	3,085,376	(458,914)
State Bar Court	10,205,427	-	10,205,427	10,572,730	(367,303)
<b>Total Operating Expenses</b>	<b>65,819,838</b>	<b>154,205,255</b>	<b>220,025,093</b>	<b>226,672,151</b>	<b>(6,647,058)</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>22,501,683</b>	<b>9,408,459</b>	<b>31,910,142</b>	<b>12,850,572</b>	<b>19,059,570</b>
<b>NON-OPERATING</b>					
Investment Income	(336,127)	44,595	(291,532)	407,538	(699,070)
Rental Income	2,483,349	-	2,483,349	2,739,186	(255,837)
Interest Expense on Loans	(590,729)	-	(590,729)	(717,066)	126,337
Principal Expense on Loans	(2,513,584)	-	(2,513,584)	(2,513,500)	(84)
<b>Total Non-Operating</b>	<b>(957,091)</b>	<b>44,595</b>	<b>(912,496)</b>	<b>(83,842)</b>	<b>(828,654)</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>21,544,592</b>	<b>9,453,054</b>	<b>30,997,646</b>	<b>12,766,730</b>	<b>18,230,916</b>

	General Fund	Other Funds	2022 Actual	2022 Budget	Variance- 2022 Actual vs Budget
<b>TRANSFERS</b>					
49231-Transfer In From IT Spec. Fund	6,225	-	6,225	-	6,225
49314-Transfer In From Admissions Fund	-	100,000	100,000	100,000	-
49410-Interfund Transaction-Revenue	56,699	6,875	63,574	-	63,574
69119-Trsf. Out To Tech Improv. Fund	-	(6,225)	(6,225)	-	(6,225)
69224-Trsf Out To Legal Spec. Fund	-	(100,000)	(100,000)	(100,000)	-
69410-Interfund Transaction-Expenses	(60,203)	(3,371)	(63,574)	-	(63,574)
<b>TOTAL TRANSFERS</b>	2,721	(2,721)	-	-	-
<b>CHANGE IN NET POSITION</b>					
	21,547,313	9,450,333	30,997,646	12,766,730	18,230,916
Net Position at beginning of year	40,569,371	65,497,107	106,066,478	-	-
<b>NET POSITION AT September 30</b>	62,116,684	74,947,440	137,064,124	-	-

**The State Bar of California**  
**Statement of Assets, Liabilities & Net Position**  
**Bar Wide as of September 30, 2022**

	<b>General Fund</b>	<b>Other Funds</b>	<b>2022 Actual</b>	<b>2021 Actual</b>	<b>Variance- 2022 v. 2021</b>
<b>ASSETS &amp; DEFERRED OUTFLOWS</b>					
Cash	154,670,556	-	154,670,556	151,617,268	3,053,288
Investments	3,022,299	-	3,022,299	40,759,434	(37,737,135)
Accounts Receivable (net of allowances)	757,157	1,703,534	2,460,691	4,670,214	(2,209,523)
Interfund Rec(Pay)	(105,745,508)	105,745,508	-	-	-
Other Assets	9,974,098	16,967	9,991,065	(29,472,570)	39,463,635
Capital Assets (net of depreciation)	102,290,824	-	102,290,824	98,167,601	4,123,223
Deferred Outflows	12,163,713	-	12,163,713	14,705,033	(2,541,320)
<b>Total Assets &amp; Deferred Outflows</b>	<b>177,133,139</b>	<b>107,466,009</b>	<b>284,599,148</b>	<b>280,446,980</b>	<b>4,152,168</b>
<b>LIABILITIES &amp; DEFERRED INFLOWS</b>					
Accounts Payable and Accrued Liabilities	9,398,051	32,518,569	41,916,620	28,948,229	12,968,391
Unearned Income	-	-	-	-	-
Loan Payable	33,727,573	-	33,727,573	33,960,226	(232,653)
Deferred Inflows	42,930,022	-	42,930,022	2,676,079	40,253,943
OPEB Liability	7,617,010	-	7,617,010	11,616,834	(3,999,824)
Pension Liability	21,343,799	-	21,343,799	77,697,797	(56,353,998)
<b>Total Liabilities &amp; Deferred Inflows</b>	<b>115,016,455</b>	<b>32,518,569</b>	<b>147,535,024</b>	<b>154,899,165</b>	<b>(7,364,141)</b>
<b>NET POSITION</b>					
Net Position at Beginning of Year	40,569,371	65,497,107	106,066,478	92,476,753	13,589,725
Change in Net Position	21,547,313	9,450,333	30,997,646	33,071,062	(2,073,416)
<b>Total Net Position</b>	<b>62,116,684</b>	<b>74,947,440</b>	<b>137,064,124</b>	<b>125,547,815</b>	<b>11,516,309</b>
<b>Total Liabilities &amp; Net Position</b>	<b>177,133,139</b>	<b>107,466,009</b>	<b>284,599,148</b>	<b>280,446,980</b>	<b>4,152,168</b>

**The State Bar of California Investment Report**  
**Summary As of September 30, 2022**

<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	\$ 1,250,000	\$ 1,214,075	1.3%	1.98%
- Corporate Bonds	1,607,793	1,618,224	1.7%	2.70%
- Common Stock-Metlife Inc.	-	190,000	0.2%	N/A
Subtotal-Securities, Bonds and Notes	2,857,793	3,022,299	3.3%	
Interest Receivable	-	13,877	0.0%	1.29%
Local Agency Investment Fund	74,274,577	74,274,577	80.3%	1.29%
Bank of New York Mellon Trust Company, N.A. Investment	15,238,078	15,238,078	16.5%	2.64%
<b>Total</b>	<b>\$ 92,370,448</b>	<b>\$ 92,548,831</b>	<b>100.0%</b>	1.98%

**Unrealized Gain/(Loss):**

Market Value of Portfolio -Securities, Bonds and Notes	\$ 3,022,299	
Original Cost of Portfolio -Securities, Bonds and Notes	2,857,793	
Unrealized Gain/(Loss)	<u>\$ 164,506</u>	Gain

**State Bar of California**  
**Investment Month End Report - Wells Fargo Custody Account**  
**Balance as of September 30, 2022**

<u>Issuer</u>	<u>CUSIP #</u>	<u>S&amp;P Rating</u>	<u>Type</u>	<u>Par Value</u>	<u>Cost</u>	<u>Mkt Value</u>	<u>Interest Receivable</u>	<u>Unrealized Gain/(Loss)</u>	<u>Yield</u>	<u>Pur Date</u>	<u>Maturity Date</u>
RIVERSIDE CA UNIF SCH DIST	769059A22	AA-	Municipal Bond	1,250,000	1,250,000	1,214,075	4,127	(35,925)	1.981%	12/17/19	02/01/24
<b>TOTAL MUNICIPAL BONDS AND NOTES:</b>				<b>1,250,000</b>	<b>1,250,000</b>	<b>1,214,075</b>	<b>4,127</b>	<b>(35,925)</b>	<b>1.981%</b>		
TOYOTA MOTOR CREDIT CORP	89236TEL5	A+	Corporate Bond	1,625,000	1,607,793	1,618,224	9,750	10,431	2.700%	01/11/18	01/11/23
<b>TOTAL CORPORATE BONDS :</b>				<b>1,625,000</b>	<b>1,607,793</b>	<b>1,618,224</b>	<b>9,750</b>	<b>10,431</b>	<b>2.700%</b>		
BRIGHTHOUSE FINANCIAL INC	10922N103	N/A	Common Stock	-	-	11,550	-	11,550			
METLIFE INC	59156R108	N/A	Common Stock	-	-	178,450	-	178,450			
<b>TOTAL COMMON STOCKS:</b>				<b>-</b>	<b>-</b>	<b>190,000</b>	<b>-</b>	<b>190,000</b>			
<b>TOTAL INVESTMENT HELD BY WELLS FARGO:</b>				<b>2,875,000</b>	<b>2,857,793</b>	<b>3,022,299</b>	<b>13,877</b>	<b>164,506</b>			



# The State Bar of California

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ATTACHMENT B

Date: November 17, 2022

To: Members, Finance Committee  
Members, Board of Trustees

From: Aracely Montoya-Chico, Chief Financial Officer

Subject: Investment Report for the Third Quarter Ended September 30, 2022

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Attached is the quarterly Investment Report for the State Bar of California as of September 30, 2022. The report is presented in a format that conforms to the investment policy adopted by the Board of Trustees. The State Bar's investment portfolio consists of fixed income securities and deposits with Wells Fargo Bank, with the State Treasurer's Local Agency Investment Fund (LAIF), and with the Bank of New York Mellon Trust Company. As of September 30, 2022, the market value of the investment portfolio was \$92.5 million, compared to \$131.3 million as of September 30, 2021.

The quarterly rate of return of the investment portfolio for this quarter is 1.98 percent. Interest rates are higher in comparison to the year prior 0.98 percent. The quarterly interest rate on deposits in the LAIF increased from 0.22 percent for the quarter ended September 30, 2021, to 1.29 percent for the quarter ended September 30, 2022. As of September 30, 2022, the daily rate at LAIF was 1.63 percent. Year-to-date actual investment earnings decreased from a \$0.3 million gain in 2021 to \$0.3 million loss in 2022.

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