



# The State Bar of California

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## **OPEN SESSION AGENDA ITEM 712 MAY 2023 FINANCE COMMITTEE IV.A**

**DATE:** May 18, 2023

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

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

**SUBJECT:** Approval of 2022 Quarter Four Financial Statements and Investment Report and  
2023 Quarter One Investment Report

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### **EXECUTIVE SUMMARY**

This agenda item presents unaudited financial reports for the twelve months ended December 2022 and the investment report for the three months ended March 31, 2023. These reports include the 2022 Quarter Four Financial Statements Report and Investment Report, and the 2023 Quarter One 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 Committee with the reports it needs to fulfill these responsibilities.

### **DISCUSSION**

The reports for financial review by the committee include the financial statement report for twelve months ended December 31, 2022, the investment report for three months ended December 31, 2022, and the investment report for the three months ended March 31, 2023. These reports provide the Committee with an understanding of the State Bar's revenue streams, expenditures, and overall fiscal condition.

The Q1 2023 financial statements are normally presented at the committee's May meeting. However, due to several circumstances, Office of Finance staff was unable to produce the Q1 2023 financial statement report for presentation at this meeting. The Office of Finance is experiencing reduced personnel due to unforeseen circumstances in addition to issues with the budget system used to produce the quarterly financial reports. The state audit and internal control review, both of which occurred in Q1 2023, put additional strain on the workload and with the already reduced personnel, Finance staff was unable to meet the reporting deadline. The Q1 2023 financial statement report will be presented at the committee's July meeting.

## **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 approve the 2022 Fourth Quarter Financial Statements for the twelve months ended December 31, 2022, and the Fourth Quarter Investment Report for the three months ended December 31, 2022, in the form presented this day before the Board.

**FURTHER RESOLVED**, that the Finance Committee recommends that the Board of Trustees approve the Investment Report for the three months ended March 31, 2023, in the form presented this day before the Board.

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

**RESOLVED**, that the Board of Trustees, upon recommendation of the Finance Committee, approve the 2022 Fourth Quarter Financial Statements for the twelve months ended December 31, 2022, and the Fourth Quarter Investment Report for the

three months ended December 31, 2022, in the form presented this day before the Board.

**FURTHER RESOLVED**, that the Board of Trustees, upon recommendations of the Finance Committee, approve the Investment Report for the three months ended March 31, 2023, in the form presented this day before the Board.

#### **ATTACHMENTS LIST**

- A.** Quarter Four Financial Statements for the Twelve Months Ended December 31, 2022
- B.** Investment Report for the Fourth Quarter Ended December 31, 2022
- C.** Investment Report for the First Quarter Ended March 31, 2023



# The State Bar of California

Date: May 18, 2023

To: Members, Finance Committee  
Members, Board of Trustees

From: Aracely Montoya-Chico, Chief Financial Officer

Subject: Financial Statements for Twelve Months as of December 31, 2022

This memo outlines the State Bar's twelve-months operating results as of December 31, 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.

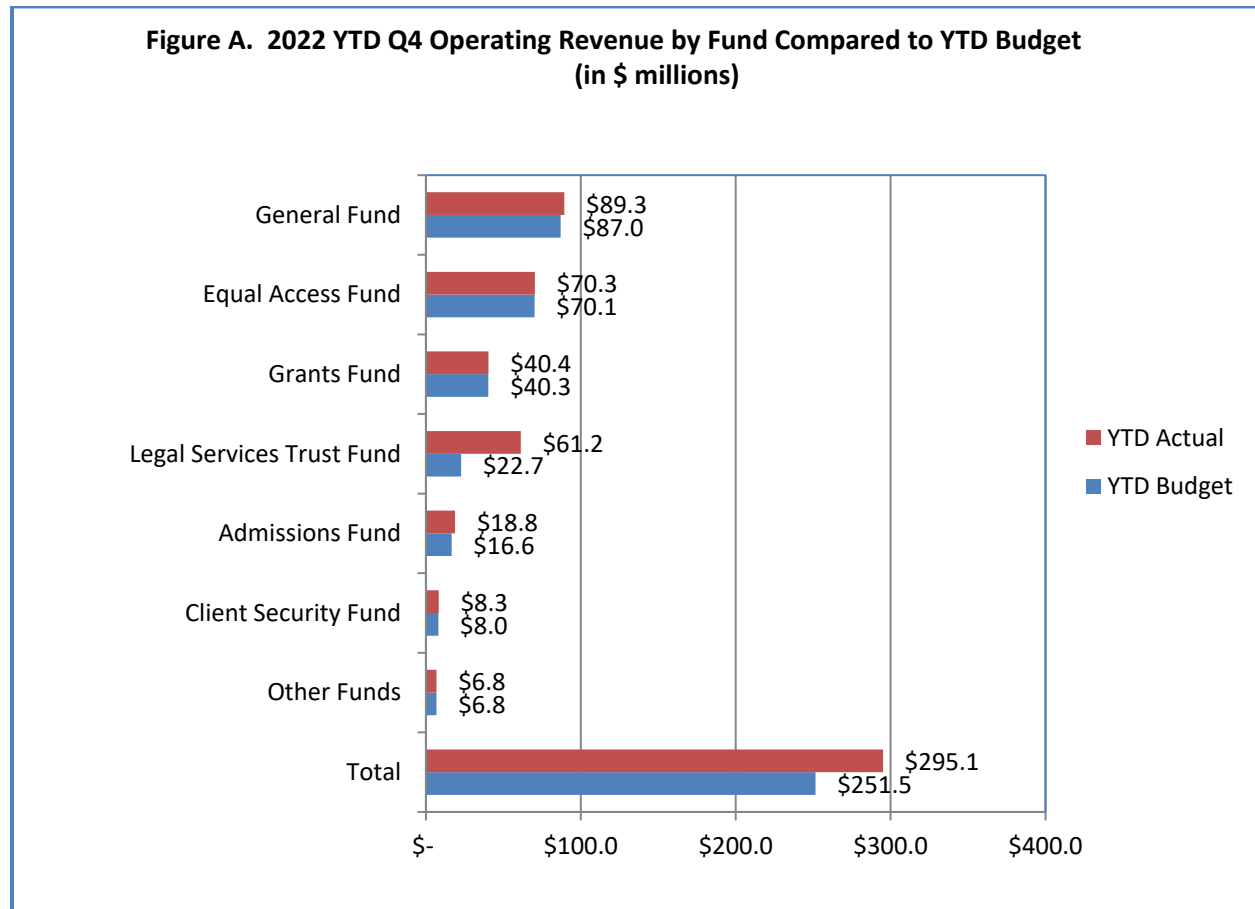
**Table 1. YTD Budget-to-Actual Variance Analysis <sup>1</sup>**

Financial Statement Category	Dec 31, 2022 Actual (in \$M)	Dec 31, 2022 Budget (in \$M)	Changes (in \$M)	Changes (in %)
<b>Operating Revenue</b>	<b>\$295.1</b>	<b>\$251.5</b>	<b>\$43.6</b>	<b>17%</b>
Licensing Fees & Donations	106.6	104.5	2.1	2%
Trust Account Revenue	54.1	15.8	38.3	242%
Exam Application Fees	17.1	15.1	2.0	13%
Grant Revenue	105.5	105.6	(0.1)	0%
<b>Operating Expenses</b>	<b>\$290.6</b>	<b>\$284.1</b>	<b>6.5</b>	<b>2%</b>
Access & Inclusion	147.6	148.1	(0.5)	0%
Admissions	25.4	25.5	(0.1)	0%
Chief Trial Counsel	64.2	61.6	2.6	4%
Client Security Fund	4.9	9.9	(5.0)	-51%

## REVENUE

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

<sup>1</sup> Table displays total operating revenue and expense, followed by the largest revenue and expense categories only.



Overall, operating revenues totaled \$295.1 million for the twelve months ended December 31, 2022, \$43.6 million more than budgeted operating revenue of \$251.5 million. The main drivers of the favorable variance are Trust Account Revenue, Licensing Fees, and Exam Fees.

Operating revenue for the General Fund totaled \$89.3 million, \$2.3 million more than the budgeted revenue of \$87.0 million. The primary driver is Mandatory Fees, accounting for \$1.5 million of the variance as more licensee payments were received than anticipated in 2022. 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 \$70.3 million, \$0.2 million more than budgeted revenue of \$70.1 million. The variance is due to increased reimbursements for grant administrative costs.

Operating revenue for the Grants Fund is on budget at \$40.4 million. The Grants Fund is comprised of Homeless Prevention (HP) II, HP III, CalHFA grant revenue and grant administrative cost reimbursements.

Operating revenue for the Legal Services Trust Fund totaled \$61.2 million, \$38.5 million more than budgeted revenue of \$22.7 million. Interest on Lawyers' Trust Accounts (IOLTA) revenues account for \$38.3 million of the variance due to larger account balances and higher interest rates 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. The 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. Instead, the rate has increased each month, ending at 2.0 percent in December, reflecting the impact of the Federal Reserve interest rate hikes this year. The remaining \$0.2 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 \$18.8 million, \$2.2 million more than budgeted revenues of \$16.6 million. February and July exam fees were better than budget by \$1.9 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.

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.

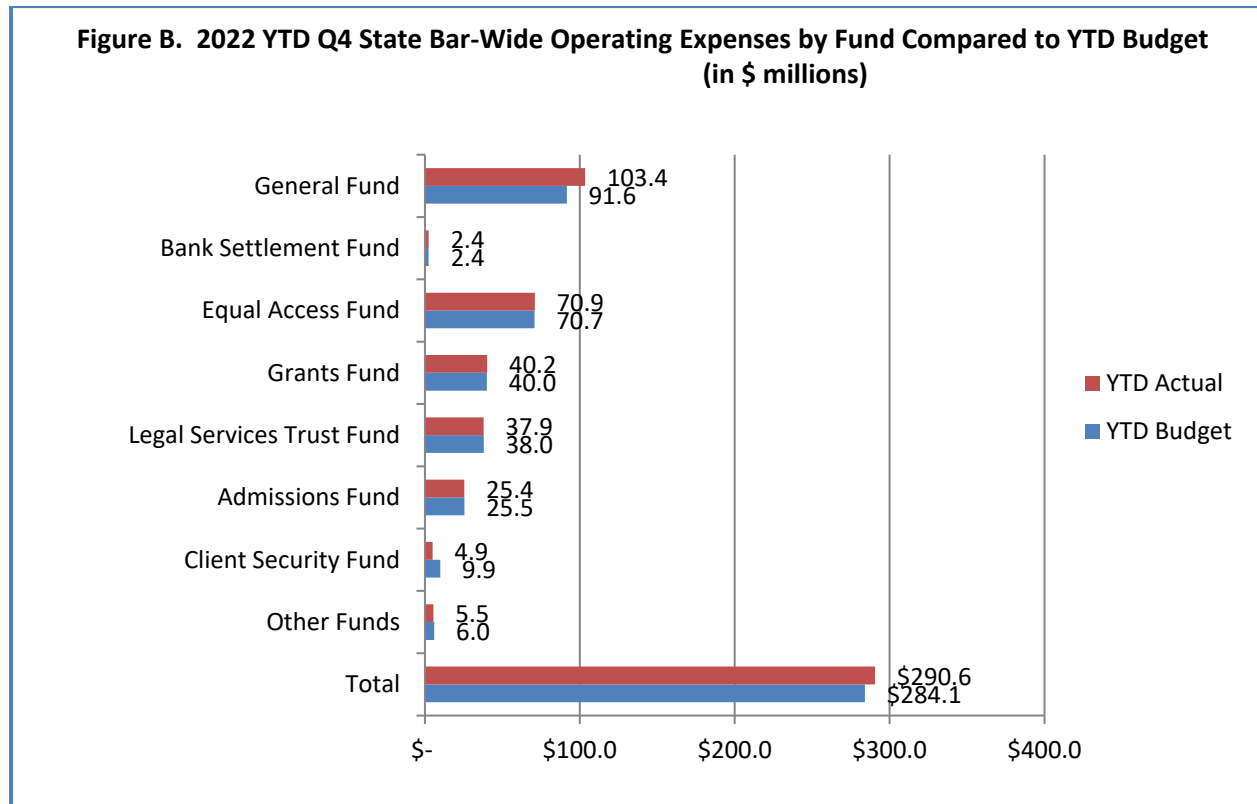
Other Funds' revenues were in line with the budgeted amount.

#### **NONOPERATING REVENUES/EXPENSES**

Nonoperating revenues/expenses consists of investment income, rental income, and interest expense on loans. Nonoperating revenue/expenses resulted in net revenue of \$2.3 million, \$1.6 million higher than budget, primarily due to the accounting transaction of removing the principal expense on loans.

## EXPENSES

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



The State Bar's total operating expenses for the twelve months ended December 31, 2022, were \$290.6 million, \$6.5 million more than the budget of \$284.1 million.

General Fund expenses totaled \$103.4 million, \$11.8 million<sup>2</sup> more than budgeted expenses of \$91.6 million, largely made up of \$4.5 million in unbudgeted vacation and sick accrual expenses and \$7.1 million unbudgeted depreciation expense that are recorded annually at year-end.

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

Equal Access Fund expenses were nearly on budget at \$70.9 million in expenses, with a variance less than 1 percent.

<sup>2</sup> Budgeted General Fund expenses do not include any accounting adjustments (i.e., depreciation, vacation/sick accruals, etc.) necessary for financial reporting purposes at year-end. Given these adjustments, actual results are significantly higher than budget. Staff will present actual versus budget results, excluding unbudgeted adjustments, for a more accurate representation of General Fund results at the Finance Committee meeting.

Grants Fund expenses aligned with the budget with a variance of \$0.2 million or less than 1 percent. Grants Fund is comprised of HP II, HP III and CalHFA grant disbursements.

Legal Services Trust Fund expenses were \$37.9 million, \$0.1 million less than budgeted expense of \$38.0 million.

Admissions Fund expenses were nearly on budget at \$25.4 million, with a variance of less than 1%. However, the fund's results is a deficit of \$6.7M, which is less than the budgeted deficit of \$8.9 million for 2022.

Client Security Fund expenses were \$4.9 million, or \$5.0 million less than the budget of \$9.9 million. Most of the variance is due to the high level of claims in the current case inventory deemed ineligible for payment, resulting in lower payouts than anticipated and increased cost recovery.





# The State Bar *of California*

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**ATTACHMENT B**

Date: May 18, 2023

To: Members, Finance Committee  
Members, Board of Trustees

From: Aracely Montoya-Chico, Chief Financial Officer

Subject: Investment Report for the Fourth Quarter Ended December 31, 2022

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Attached is the quarterly Investment Report for the State Bar of California as of December 31, 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 Principal Custody Solutions, Wells Fargo Bank, the State Treasurer's Local Agency Investment Fund (LAIF), and the Bank of New York Mellon Trust Company. As of December 31, 2022, the market value of the investment portfolio is \$116.5 million, compared to \$110.8 million as of December 31, 2021.

The average quarterly rate of return of the investment portfolio for this quarter is 2.55 percent. Interest rates are higher in comparison to the prior year at 1.14 percent. The quarterly interest rate on deposits in the LAIF increased from 0.21 percent for the quarter ended December 31, 2021, to 1.98 percent for the quarter ended December 31, 2022. As of December 31, 2022, the LAIF daily rate is 2.29 percent. Year-to-date actual investment earnings resulted in a \$54,000 loss in 2022, a decreased from the \$8,000 gain in 2021.

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 financial statements.

**The State Bar of California Investment Report**  
**Summary as of December 31, 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>
Principal Custody Account:				
- Government Bonds	1,250,000	1,216,000	1.0%	1.98%
- Corporate Bonds	1,607,793	1,624,204	1.4%	2.70%
- Common Stock-Metlife Inc.	-	226,116	0.2%	N/A
	<u>2,857,793</u>	<u>3,066,320</u>	<u>2.6%</u>	
Wells Fargo Safekeeping Investment Account:				
- Commercial Paper	15,361,054	15,465,437	13.3%	4.47%
- Government Bonds and Notes	14,638,946	14,630,230	12.6%	4.66%
Subtotal-Securities, Bonds, CP and Notes	<u>30,000,000</u>	<u>30,095,667</u>	<u>25.8%</u>	
Interest Receivable	-	31,036	0.0%	N/A
Local Agency Investment Fund	73,995,648	73,995,648	63.5%	1.98%
Bank of New York Mellon Trust Company, N.A. Investment	9,287,909	9,287,909	8.0%	0.04%
<b>Total</b>	<b><u>116,141,350</u></b>	<b><u>116,476,580</u></b>	<b><u>100.0%</u></b>	2.55%

**Unrealized Gain/(Loss):**

Market Value of Portfolio -Securities, Bonds, CP and Notes	33,161,987	
Original Cost of Portfolio -Securities, Bonds, CP and Notes	<u>32,857,793</u>	
Unrealized Gain/(Loss)	<u>304,194</u>	Gain

**State Bar of California**  
**Investment Quarter End Report - Principal Custody and Wells Fargo Safekeeping Accounts**  
**Balance as of December 31, 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	1,216,000	10,318	(34,000)	1.98%	12/17/19	02/01/24
<b>TOTAL MUNICIPAL BONDS AND NOTES:</b>				<b>1,250,000</b>	<b>1,250,000</b>	<b>1,216,000</b>	<b>10,318</b>	<b>(34,000)</b>	<b>1.98%</b>		
FEDERAL HOME LOAN BANK	313384LT4	AA+	Government Agency	5,000,000	4,829,375	4,844,159	-	14,784	4.69%	12/16/22	09/15/23
FED HOME LN DISCOUNT NT	313384QN2	AA+	Government Agency	5,000,000	4,775,028	4,790,793	-	15,765	4.67%	12/16/22	12/15/23
FED HOME LN DISCOUNT NT	3130ATUQ8	AA+	Government Agency	5,000,000	5,034,543	4,995,278	-	(39,265)	4.64%	12/16/22	03/08/24
<b>TOTAL FEDERAL BONDS AND NOTES:</b>				<b>15,000,000</b>	<b>14,638,946</b>	<b>14,630,230</b>	<b>-</b>	<b>(8,716)</b>	<b>4.66%</b>		
TOYOTA MOTOR CREDIT CORP	89236TEL5	A+	Corporate Bond	1,625,000	1,607,793	1,624,204	20,719	16,411	2.70%	01/11/18	01/11/23
<b>TOTAL CORPORATE BONDS :</b>				<b>1,625,000</b>	<b>1,607,793</b>	<b>1,624,204</b>	<b>20,719</b>	<b>16,411</b>	<b>2.70%</b>		
SE STATE ST US GOVT FD OPPTY	85749T517	N/A	Cash Equivalent	5,000,000	5,540,532	5,625,803	-	85,271	3.92%	11/02/22	N/A
MUFG BANK LTD/NY DISCOUNTED COMMERCIAL PAPER	62479MQG1	A-1	Commercial Paper	5,000,000	4,943,625	4,953,081	-	9,456	4.56%	12/16/22	03/16/23
MUFG BANK LTD/NY DISCOUNTED COMMERCIAL PAPER	62479MTG8	A-1	Commercial Paper	5,000,000	4,876,897	4,886,553	-	9,656	4.99%	12/16/22	06/16/23
<b>TOTAL COMMERCIAL PAPER :</b>				<b>15,000,000</b>	<b>15,361,054</b>	<b>15,465,437</b>	<b>-</b>	<b>104,383</b>	<b>4.47%</b>		
BRIGHTHOUSE FINANCIAL INC	10922N103	N/A	Common Stock	-	-	13,638	-	13,638			
METLIFE INC	59156R108	N/A	Common Stock	-	-	212,478	-	212,478			
<b>TOTAL COMMON STOCKS:</b>				<b>-</b>	<b>-</b>	<b>226,116</b>	<b>-</b>	<b>226,116</b>			
<b>TOTAL INVESTMENT HELD BY WELLS FARGO/PRINCIPAL:</b>				<b>32,875,000</b>	<b>32,857,793</b>	<b>33,161,987</b>	<b>31,036</b>	<b>304,194</b>			



# The State Bar *of California*

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ATTACHMENT C

Date: May 18, 2023

To: Members, Finance Committee  
Members, Board of Trustees

From: Aracely Montoya-Chico, Chief Financial Officer

Subject: Investment Report for the First Quarter Ended March 31, 2023

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Attached is the quarterly Investment Report for the State Bar of California as of March 31, 2023. 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 Principal Custody Solutions, Wells Fargo Bank, the State Treasurer's Local Agency Investment Fund (LAIF), and the Bank of New York Mellon Trust Company. As of March 31, 2023, the market value of the investment portfolio was \$170.9 million, compared to \$109.9 million as of March 31, 2022.

The quarterly rate of return of the investment portfolio for this quarter is 3.74 percent. Interest rates are higher in comparison to the prior year at 1.18 percent. The quarterly interest rate on deposits in the LAIF increased from 0.29 percent for the quarter ended March 31, 2022, to 2.63 percent for the quarter ended March 31, 2023. As of March 31, 2023, the daily rate at LAIF is 2.87 percent. Year-to-date actual investment earnings resulted in a \$1.4 million gain in 2023, an increase from the \$0.6 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.

**The State Bar of California Investment Report**  
**Summary as of March 31, 2023**

<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>
Principal Custody Account:				
- Government Bonds	1,250,000	1,220,925	0.7%	1.98%
- Common Stock-Metlife Inc.	-	181,845	0.1%	N/A
	1,250,000	1,402,770	0.8%	
Wells Fargo Safekeeping Investment Account:				
- Commercial Paper	10,684,118	11,266,084	6.6%	4.64%
- Government Bonds and Notes	74,715,987	74,279,331	43.4%	4.83%
Subtotal-Securities, Bonds, CP and Notes	85,400,104	85,545,415	50.0%	
Interest Receivable	-	141,192	0.1%	N/A
Local Agency Investment Fund	74,473,491	74,473,491	43.6%	2.63%
Bank of New York Mellon Trust Company, N.A. Investment	9,391,316	9,391,316	5.5%	4.61%
<b>Total</b>	<b>170,514,912</b>	<b>170,954,184</b>	<b>100.0%</b>	<b>3.74%</b>

**Unrealized Gain/(Loss):**

Market Value of Portfolio -Securities, Bonds, CP and Notes	86,948,185	
Original Cost of Portfolio -Securities, Bonds, CP and Notes	86,650,104	
Unrealized Gain/(Loss)	298,080	Gain

**State Bar of California**  
**Investment Quarter End Report - Principal Custody and Wells Fargo Safekeeping Accounts**  
**Balance as of March 31, 2023**

<u>Issuer</u>	<u>CUSIP #</u>	<u>S&amp;P Rating</u>	<u>Type</u>	<u>Par Value</u>	<u>Ending Cost</u>	<u>Mkt Value</u>	<u>Interest Receivable</u>	<u>Unrealized Gain/(Loss)</u>	<u>Yield</u>	<u>Settlement Date</u>	<u>Maturity Date</u>
RIVERSIDE CA UNIF SCH DIST	769059A22	AA-	Municipal Bond	1,250,000	1,250,000	1,220,925	4,127	(29,075)	1.98%	12/17/19	02/01/24
<b>TOTAL MUNICIPAL BONDS AND NOTES:</b>				<b>1,250,000</b>	<b>1,250,000</b>	<b>1,220,925</b>	<b>4,127</b>	<b>(29,075)</b>	<b>1.98%</b>		
FED HOME LN DISCOUNT NT	313384GN3	AA+	Government Agency	55,000,000	55,000,000	54,543,118	-	(456,882)	4.86%	03/17/23	06/06/23
<b>TOTAL FEDERAL BONDS (LSTF):</b>				<b>55,000,000</b>	<b>55,000,000</b>	<b>54,543,118</b>	<b>-</b>	<b>(456,882)</b>	<b>4.86%</b>		
FEDERAL HOME LOAN BANK	313384LT4	AA+	Government Agency	5,000,000	4,867,632	4,893,084	-	25,452	4.69%	12/16/22	09/15/23
FED HOME LN DISCOUNT NT	313384QN2	AA+	Government Agency	5,000,000	4,803,769	4,832,010	-	28,240	4.67%	12/16/22	12/15/23
FED HOME LN DISCOUNT NT	3130ATUQ8	AA+	Government Agency	5,000,000	5,054,701	4,993,944	-	(60,756)	4.75%	12/16/22	03/08/24
FEDERAL HOME LOAN BANK	3130ATVC8	AA+	Government Agency	5,000,000	4,989,884	5,017,175	-	27,290	4.88%	03/17/23	06/14/24
<b>TOTAL FEDERAL BONDS AND NOTES:</b>				<b>20,000,000</b>	<b>19,715,987</b>	<b>19,736,213</b>	<b>-</b>	<b>20,226</b>	<b>4.75%</b>		
SE STATE ST US GOVT FD OPPTY	85749T517	N/A	Cash Equivalent	5,000,000	5,756,478	6,319,866	-	563,388	4.34%	11/02/22	N/A
MUFG BANK LTD/NY DISCOUNTED COMMERCIAL PAPER	62479MTG8	A-1	Commercial Paper	5,000,000	4,927,640	4,946,218	-	18,578	4.99%	12/16/22	06/16/23
<b>TOTAL COMMERCIAL PAPER :</b>				<b>10,000,000</b>	<b>10,684,118</b>	<b>11,266,084</b>	<b>-</b>	<b>581,966</b>	<b>4.64%</b>		
BRIGHTHOUSE FINANCIAL INC	10922N103	N/A	Common Stock	-	-	11,733	-	11,733			
METLIFE INC	59156R108	N/A	Common Stock	-	-	170,112	-	170,112			
<b>TOTAL COMMON STOCKS:</b>				<b>-</b>	<b>-</b>	<b>181,845</b>	<b>-</b>	<b>181,845</b>			
<b>TOTAL INVESTMENT HELD BY WELLS FARGO/PRINCIPAL:</b>				<b>86,250,000</b>	<b>86,650,104</b>	<b>86,948,185</b>	<b>4,127</b>	<b>298,080</b>			