



The State Bar of California

OPEN SESSION AGENDA ITEM 701 JULY 2023 FINANCE COMMITTEE III.C

DATE: July 20, 2023

TO: Members, Finance Committee
Members, Board of Trustees

FROM: Aracely Montoya-Chico, Chief Financial Officer

SUBJECT: Approval of 2023 Quarter One Financial Statements

EXECUTIVE SUMMARY

This agenda item presents unaudited financial statement results for the three months ended March 31, 2023.

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 results for the first quarter of 2023 are detailed in the Financial Statement Report. The results are presented at the fund level by operating revenues and expenses compared to budget for the same time period. This agenda item and the accompanying reports will also be presented at the Board of Trustees July 2023 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 approves the 2023 Quarter One Financial Statements in the form presented this day before the Board, for the three months ended March 31, 2023.

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 2023 Quarter One Financial Statements in the form presented this day before the Board, for the three months ended March 31, 2023.

ATTACHMENT LIST

- A. Q1 2023 Financial Statements



The State Bar of California

ATTACHMENT A

Date: July 20, 2023

To: Members, Finance Committee
Members, Board of Trustees

From: Aracely Montoya-Chico, Chief Financial Officer

Subject: Financial Statements for Three Months as of March 31, 2023

This memo outlines the State Bar's three-months operating results as of March 31, 2023, 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.

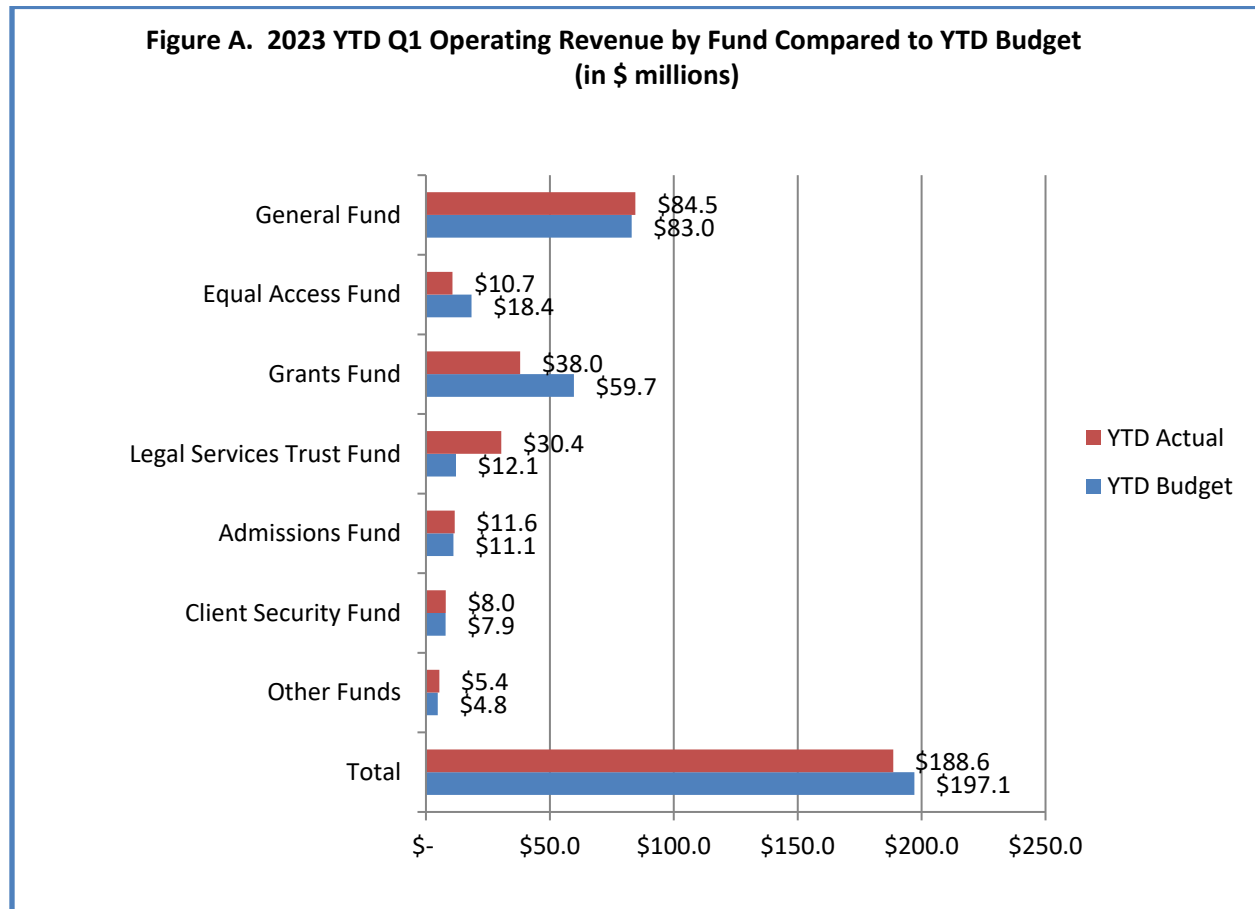
Table 1. YTD Budget-to-Actual Variance Analysis ¹

Financial Statement Category	Mar 31, 2023 Actual (in \$M)	Mar 31, 2023 Budget (in \$M)	Changes (in \$M)	Changes (in %)
Operating Revenue	\$188.6	\$197.1	(\$8.5)	-4%
Licensing Fees & Donations	102.0	96.3	5.7	6%
Trust Account Revenue	23.3	9.7	13.6	141%
Exam Application Fees	11.1	10.3	0.8	8%
Grant Revenue	48.7	78.1	(29.5)	-38%
Operating Expenses	\$89.9	\$111.2	(21.2)	-19%
Access & Inclusion	62.4	81.9	(19.4)	-24%
Admissions	5.5	6.1	(0.6)	-10%
Chief Trial Counsel	15.1	15.2	(0.1)	-1%
Client Security Fund	0.9	1.5	(0.6)	-42%

REVENUE

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

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



Overall, operating revenue totaled \$188.6 million for the three months ended March 31, 2023, \$8.5 million less than budgeted operating revenue of \$197.1 million. The main drivers of the variance are Grant and Trust Account Revenue.

Operating revenue for the General Fund totaled \$84.5 million, \$1.5 million more than the budgeted revenue of \$83.0 million. The primary driver is Mandatory Fees, accounting for \$0.7 million of the variance as more licensee payments were received than anticipated in 2023. In addition, \$0.7 million of the favorable variance is attributable to passthrough revenue accounts. Pass through revenue for insurance commissions was received towards the end of the quarter but and was not disbursed third parties until Q2 2023.

Operating revenue for the Equal Access Fund totaled \$10.7 million, \$7.7 million less than budgeted revenue of \$18.4 million. The variance is due to delay in the receipt of grant revenues from the California State Controller's Office. A portion of the revenue was received in Q2

whereas the budget assumed all grant revenues would be received in Q1. This variance will correct in Q2.

Operating revenue for the Grants Fund totaled \$38.0 million, \$21.7 million less than the budgeted revenue of \$59.7 million. The variance is due to timing of grant revenue received compared to the budget allocation. This variance will resolve in the second quarter. The Grants Fund is comprised of Homeless Prevention (HP) II, HP III, HP 4, CARE Court, CalHFA grant revenue and grant administrative cost reimbursements.

Operating revenue for the Legal Services Trust Fund (LSTF) totaled \$30.4 million, \$18.3 million more than budgeted revenue of \$12.1 million. Interest on Lawyers' Trust Accounts (IOLTA) revenue accounts for \$13.6 million of the variance due to larger account balances and higher interest rates than estimated 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 \$1.7 billion. The actual average daily balance was approximately \$4.8 billion. The budget also assumed the top 10 banks would have an average interest rate of 1.87 percent. Instead, the rate has increased to 3.4 percent as of March, reflecting the impact of the continued Federal Reserve interest rate hikes since April of last year. The remaining \$4.7 million variance is due to the difference in voluntary fees budget allocation compared to actuals. Revenue was straight-lined monthly in the budget, however, a majority of the revenue was received in Q1. Staff will adjust the future monthly budget allocation to align with updated actuals.

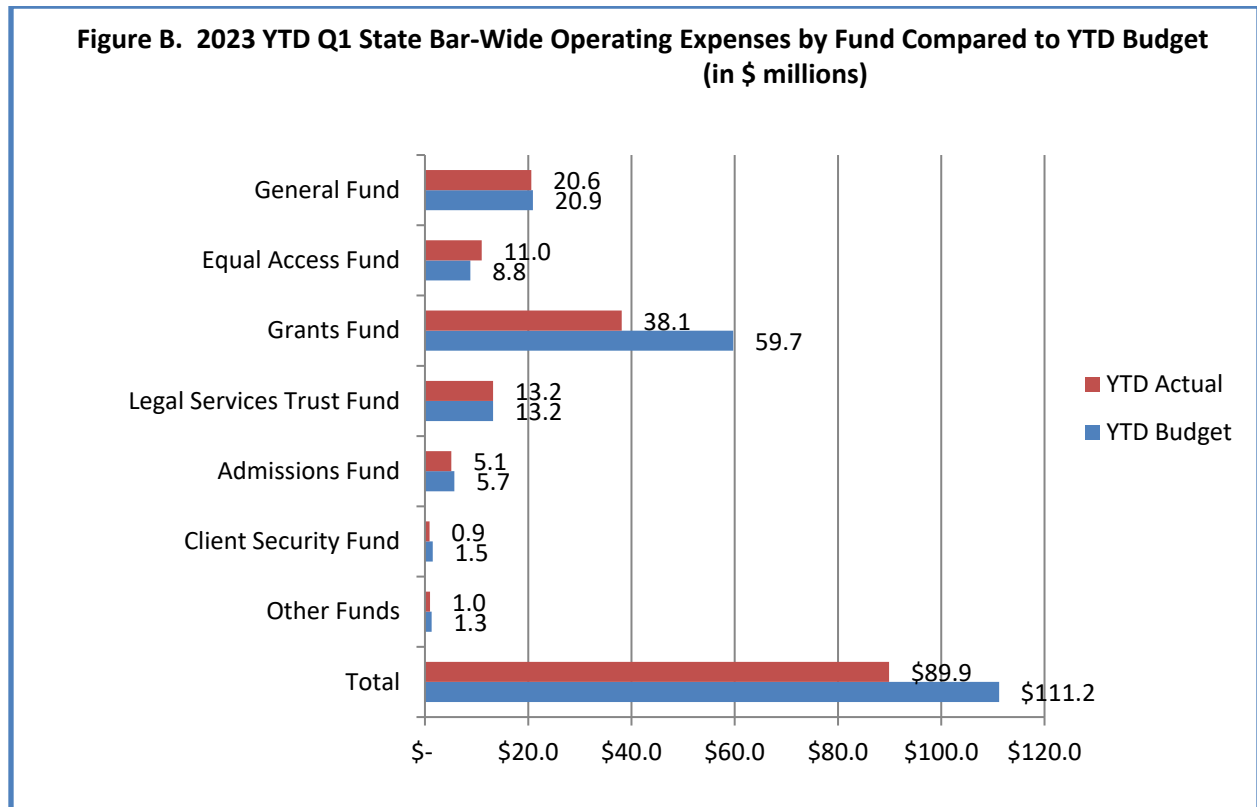
The Admissions Fund revenue totaled \$11.6 million, \$0.5 million more than budgeted revenues of \$11.1 million. February exam fees were better than budget by \$1.0 million due to conservative budgeting in number of applicants, while MJP Annual Renewals and Moral Character Determination fees were below budget by \$0.4 million and \$0.1 million, respectively, due to fewer applicants than budgeted.

The Client Security Fund revenue total, which is funded by mandatory licensing fees, is in line with budget revenues of \$7.9 million and a \$0.1 million variance higher than budget.

Other Funds' revenues totaled \$5.4 million, \$0.6 million more than budgeted revenues of \$4.8 million. The favorable variance is due to higher revenues earned in the Elimination of Bias and Justice Gap funds. The favorability is offset by a shortfall of revenue in the Legislative Activities Fund. This fee was changed from an 'opt-out' to an 'opt-in' in 2023, which negatively impacted revenue received. Actual revenue generated in 2023 was \$0.1 million, \$0.4 million less than budgeted revenues of \$0.5 million.

EXPENSES

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



The State Bar's total operating expenses for the three months ended March 31, 2023, totaled \$89.9 million, \$21.3 million less than the budget of \$111.2 million.

General Fund expenses totaled \$20.6 million, \$0.3 million less than budgeted expenses of \$20.6 million. The variance is mainly driven by \$0.6 million lower services expenses compared to budget, which was offset by \$0.3 million higher building operations expense.

Equal Access Fund expenses totaled \$11.0 million, \$2.2 million more than budgeted expenses of \$8.8 million. The variance is due to earlier than expected grant disbursements in Q1.

Grants Fund expenses totaled \$38.1 million, \$21.6 million less than budgeted expenses of \$59.7 million. The Grants Fund is comprised of HP II, HP III, HP IV, CARE Court, and CalHFA grants. The variance is driven primarily by the following:

1. HP III grant expenses were \$6.5 million, \$19.5 million less than budget of \$26.0 million, due to timing of expenses. HP III disbursements of \$26.0 million were budgeted 100

percent in March. However, full funding from the grantor was not received until April, which also delayed the disbursement of the grant until April.

2. HP IV grant expenses were \$16.8 million, \$2.2 million less than budget of \$19.0 million. The variance is due to a slight delay in the planned distribution schedule. \$16.8 million disbursed in Q1 with the remaining \$2.2 million to be distributed later this year.

Legal Services Trust Fund expenses were on budget at \$13.2 million.

Admissions Fund expenses totaled \$5.1 million, \$0.6 million less than budgeted expenses of \$5.7 million. A portion of the variance is due to lower-than-expected February exam room expenses by \$0.4 million. The remaining \$0.2 million is due to other exam-related expenses that were processed later than anticipated. The variance will be corrected in Q2 2023.

Client Security Fund expenses were \$0.9 million, or \$0.6 million less than the budget of \$1.5 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.

Other Funds' expenses totaled \$1.0 million, \$0.3 million more than budgeted revenues of \$1.3 million and in line with budget.

NONOPERATING REVENUES/EXPENSES

Nonoperating revenues/expenses consists of investment income, rental income, and interest expense on loans. Nonoperating revenue totaled \$2.1 million, \$1.3 million more than budgeted revenue of \$0.8 million. The variance is driven by \$1.2 million higher investment income than budgeted. Nonoperating expenses were \$1.4 million, \$0.1 million less than budgeted expense of \$1.5 million and in line with budget.

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 Three Months Ended March 31, 2023

	General Fund	Other Funds	2023 Actual	2023 Budget	Variance- 2023 Actual vs Budget
OPERATING REVENUE					
Affinity Insurance Revenue	402,940	-	402,940	(359,597)	762,537
Continuing Legal Education Fees	210,226	104	210,330	184,450	25,880
EAF AB 145 Filing Fee Revenue	-	2,898,500	2,898,500	2,786,034	112,466
Exam App. & Moral Char. Fees	-	11,071,666	11,071,666	10,286,734	784,932
Grant Revenue	-	45,768,673	45,768,673	75,337,571	(29,568,898)
Law Corporation Registration Fees	639,011	-	639,011	620,755	18,256
Legal Specialization Fees	-	1,766,965	1,766,965	1,794,099	(27,134)
Licensing Fees and Donations	83,035,385	18,655,601	101,690,986	95,594,132	6,096,854
Multi-Jurisdictional Practice Fees	-	308,771	308,771	670,250	(361,479)
Other Revenue	264,845	232,230	497,075	453,865	43,210
Trust Account Revenue	-	23,331,570	23,331,570	9,697,296	13,634,274
Total Operating Revenue	84,552,407	104,034,081	188,586,488	197,065,589	(8,479,101)
OPERATING EXPENSES					
Access & Inclusion	27,366	62,399,504	62,426,870	81,866,227	(19,439,357)
Admissions	12,657	5,467,726	5,480,383	6,089,828	(609,445)
Regulation	1,240,901	-	1,240,901	1,236,277	4,624
Chief Trial Counsel	15,102,900	-	15,102,900	15,203,779	(100,880)
Client Security Fund	-	865,830	865,830	1,503,046	(637,216)
General & Administrative	(2,119,781)	-	(2,119,781)	(2,031,437)	(88,344)
Governance	1,746,616	59,186	1,805,802	1,851,851	(46,049)
Lawyers Assistance Program	-	343,775	343,775	433,297	(89,521)
Depreciation	-	-	-	-	-
Probation	433,717	-	433,717	437,883	(4,166)
Professional Competence	1,059,645	177,527	1,237,172	1,385,775	(148,603)
State Bar Court	3,122,573	-	3,122,573	3,182,022	(59,449)
Total Operating Expenses	20,626,594	69,313,549	89,940,143	111,158,548	(21,218,405)
OPERATING INCOME/(LOSS)	63,925,813	34,720,532	98,646,345	85,907,041	12,739,304

NON-OPERATING

Interest and Investment Income	696,370	696,494	1,392,864	199,323	1,193,541
Rental Income	703,400	-	703,400	590,138	113,262
Interest Expense on Loans and Leases	(184,629)	-	(184,629)	(289,667)	105,038
Principal Expense on Loans	(1,185,873)	-	(1,185,873)	(1,187,400)	1,527
52908-Interest earned on fac. Fees	-	-	-	-	-
Total Non-Operating	29,268	696,494	725,762	(687,606)	1,413,368

INCOME/(LOSS) BEFORE TRANSFERS	63,955,081	35,417,026	99,372,108	85,219,435	14,152,673
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TRANSFERS

49110-Transfer In From General Fund	-	-	-	400,000	(400,000)
69228-Transfer Out To LSTF	-	-	-	(400,000)	400,000
TOTAL TRANSFERS	-	-	-	-	-

CHANGE IN NET POSITION	63,955,081	35,417,026	99,372,108	-	-
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Net Position at beginning of year	28,580,160	85,467,917	114,048,077	-	-
NET POSITION AT March 31	92,535,242	120,884,943	213,420,184	-	-

The State Bar of California
Statement of Assets, Liabilities & Net Position
Bar Wide as of March 31, 2023

	General Fund	Other Funds	2023 Actual	Variance- 2023 vs. 2022
ASSETS & DEFERRED OUTFLOWS				
Cash	161,644,596	-	161,644,596	(118,501,517)
Investments	86,948,185	-	86,948,185	66,514,508
Accounts Receivable (net of allowances)	1,705,944	844,292	2,550,236	(11,634,343)
Lease receivable	15,164,375	-	15,164,375	(2,893,736)
Interfund Rec(Pay)	(165,408,362)	165,408,362	-	-
Other Assets	10,383,116	16,967	10,400,083	85,550,550
Capital Assets (net of depreciation)	99,136,637	-	99,136,637	(4,610,106)
Deferred Outflows	37,885,114	-	37,885,114	25,721,401
Total Assets & Deferred Outflows	247,459,605	166,269,620	413,729,225	40,146,757
LIABILITIES & DEFERRED INFLOWS				
Accounts Payable and Accrued Liabilities	11,382,451	2,423,499	13,805,950	(82,158)
Lease liabilities	791,906	-	791,906	(494,665)
Unearned Income	1,264,700	42,961,179	44,225,879	(5,842,580)
Loan Payable	31,008,989	-	31,008,989	(2,718,584)
Deferred Inflows	21,733,662	-	21,733,662	(38,632,679)
OPEB Liability	7,393,303	-	7,393,303	(223,707)
Pension Liability	81,349,352	-	81,349,352	60,005,553
Total Liabilities & Deferred Inflows	154,924,364	45,384,678	200,309,041	12,011,180
NET POSITION				
Net Position at Beginning of Year	28,580,160	85,467,917	114,048,077	7,277,319
Change in Net Position	63,955,081	35,417,026	99,372,108	20,858,258
Total Net Position	92,535,242	120,884,943	213,420,184	28,135,577
Total Liabilities & Net Position	247,459,605	166,269,620	413,729,225	40,146,757