



The State Bar of California

OPEN SESSION AGENDA ITEM 708 NOVEMBER 2023 FINANCE COMMITTEE IV.A

DATE: November 16, 2023

TO: Members, Finance Committee
Members, Board of Trustees

FROM: Aracely Montoya-Chico, Chief Financial Officer

SUBJECT: Approval of 2023 Quarter Three Financial Statements Report and Investment Report

EXECUTIVE SUMMARY

This agenda item presents unaudited financial results and the investment report for the nine months ended September 30, 2023. These reports include the Financial Statements Report and Investment Report.

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 reports for financial review by the committee include the Financial Statements Report and the Investment Report for the nine months ended September 30, 2023. These reports provide the committee with an understanding of the State Bar's revenue streams, expenditures and overall fiscal condition.

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 2023 Third Quarter Financial Statement Report and the Investment Report for the nine months ended September 30, 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 2023 Third Quarter Financial Statements and Investment Report for the nine months ended September 30, 2023, in the form presented this day before the Board.

ATTACHMENTS LIST

- A.** Quarter Three Financial Statements for the Nine Months Ended September 30, 2023
- B.** Investment Report for the Third Quarter Ended September 30, 2023



The State Bar of California

ATTACHMENT A

Date: November 16, 2023

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, 2023

This memo outlines the State Bar's nine-months operating results as of September 30, 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.

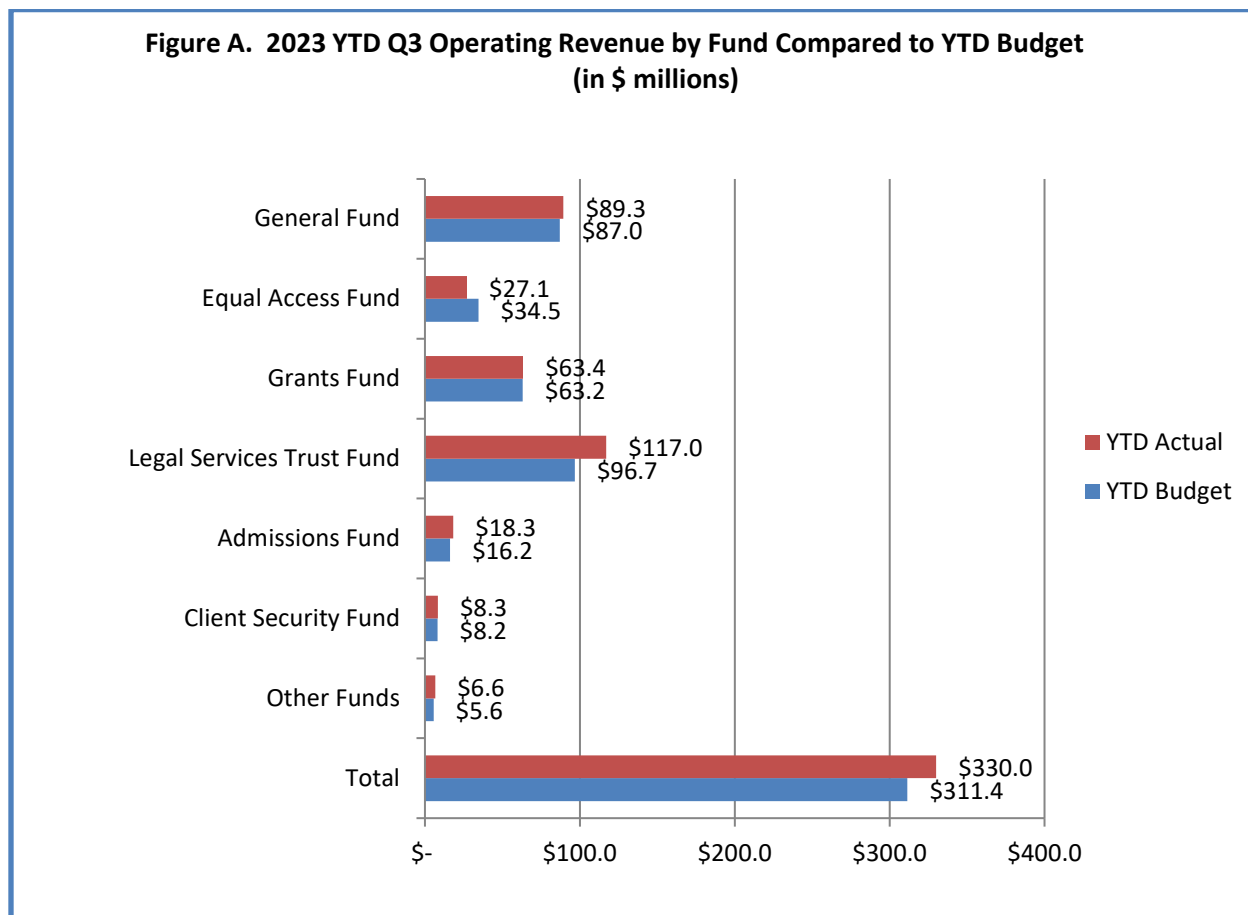
Table 1. YTD Budget-to-Actual Variance Analysis ¹

| Financial Statement Category | Sep 30, 2023 Actual (in \$M) | Sep 30, 2023 Budget (in \$M) | Changes (in \$M) | Changes (in %) |
|------------------------------|---------------------------------|---------------------------------|---------------------|-------------------|
| Operating Revenue | \$330.0 | \$311.4 | \$18.6 | 6% |
| Licensing Fees & Donations | 106.1 | 104.8 | 1.3 | 1% |
| Trust Account Revenue | 109.8 | 89.6 | 20.2 | 23% |
| Exam Application Fees | 17.1 | 15.0 | 2.1 | 14% |
| Grant Revenue | 90.5 | 97.7 | (7.2) | -7% |
| | | | | |
| Operating Expenses | \$246.3 | \$231.3 | 15.0 | 6% |
| Access & Inclusion | 144.7 | 130.1 | 14.6 | 11% |
| Admissions | 20.4 | 21.0 | (0.6) | -3% |
| Chief Trial Counsel | 50.5 | 49.9 | 0.6 | 1% |
| Client Security Fund | 4.2 | 4.8 | (0.6) | -13% |

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

REVENUE

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



Overall, bar-wide operating revenue for the nine months ending on September 30, 2023, totaled \$330 million and above budgeted operating revenue of \$311.4 million by \$18.6 million.

Operating revenue for the General Fund totaled \$89.3 million, \$2.3 million more than budgeted revenue of \$87 million. The primary drivers are \$0.5 million in Mandatory Fees as more licensee payments were received than anticipated in 2023, and \$0.6 million in Other Fees, comprised primarily of late compliance fees related to the new Client Trust Account Protection Program (CTAPP). In addition, \$1.1 million of the favorable variance is attributable to pass-through revenue accounts. Pass-through revenue for insurance commissions was received toward the end of the quarter and will be disbursed to third parties in Q4 2023.

Operating revenue for the Equal Access Fund totaled \$27.1 million, which is \$7.4 million less than budgeted revenue of \$34.5 million. This variance is due to the timing of the distribution of the funds and will resolve itself by the end of the year.

Operating revenue for the Grants Fund is on budget at \$63.4 million, \$0.2 million more than the budgeted revenue of \$63.2 million. The Grants Fund comprises Homeless Prevention (HP) II, HP III, HP IV, CARE Court, CalHFA, and grant administrative cost reimbursements.

The Legal Services Trust Fund (LSTF) operating revenue of \$117 million exceeded budgeted revenue of \$96.7 million by \$20.3 million. The interest on Lawyers' Trust Accounts (IOLTA) accounts for \$20.1 million of the variance due to larger account balances and higher interest rates than were 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. However, the actual average daily balance is 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 3.5 percent as of September, reflecting the impact of the continued Federal Reserve interest rate hikes.

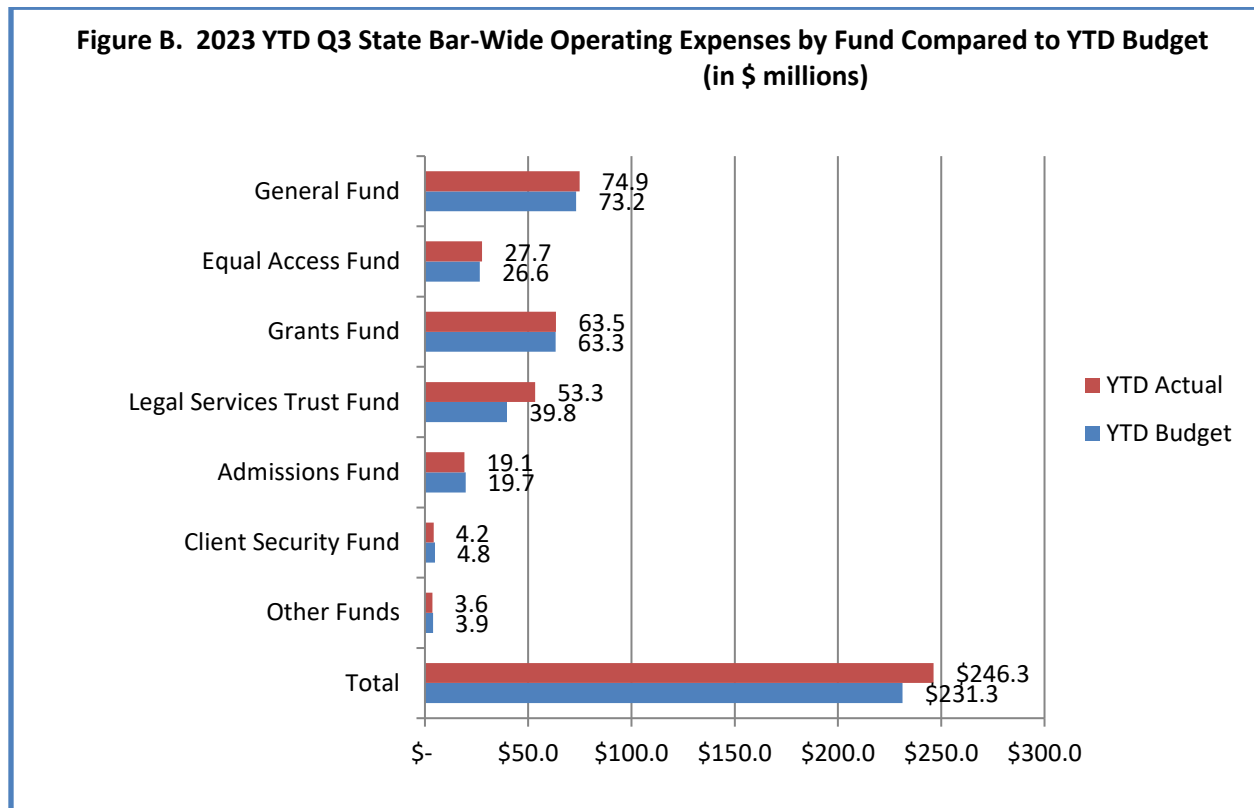
Admissions Fund revenue totaled \$18.3 million, exceeding budgeted revenues of \$16.2 million by \$2.1 million. February and July exam fee revenues exceeded the budget by \$1 million and \$0.8 million, respectively. The remaining variance consists of \$0.2 million in moral character determination fees and \$0.1 million in additional applicant registration fees.

Client Security Fund revenue, funded by mandatory licensing fees, aligned with the budgeted revenue of \$8.2 million, exceeding it by just \$0.1 million.

Other Funds' revenues amounted to \$6.6 million, surpassing budgeted revenues of \$5.6 million by \$1 million. Most of the favorable variance can be attributed to \$0.6 million higher revenues earned in the Justice Gap Fund from class-action suit settlements donated to this fund and \$0.2 million from the Legal Specialization Fund's exam registration fees.

EXPENSES

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



State Bar-wide operating expenses for the quarter ending on September 30, 2023, totaled \$246.3 million, exceeding budgeted expenses of \$231.3 million by \$15 million.

General Fund expenses totaled \$74.9 million, which is \$1.7 million more than budgeted expenses of \$73.2 million. This variance is mainly driven by equipment expenses of \$2.2 million for elevator and generator projects. The elevator and generator projects are funded by loan proceeds and are therefore not budgeted. This overage is offset by \$0.5 million in professional service savings due to the delayed receipt of the State Auditors invoice.

Equal Access Fund expenses amounted to \$27.7 million, exceeding the budgeted expenses of \$26.6 million by \$1.1 million. This discrepancy was caused by earlier-than-expected grant disbursements in Q3. The variance will resolve by the end of the year.

Grants Fund expenses totaled \$63.5 million and in line with budgeted expenses of \$63.3 million. The Grants Fund includes expenses related to HP II, HP III, HP IV, CARE Court, and CalHFA grants.

Legal Services Trust Fund expenses were \$53.3 million, \$13.5 million more than budgeted expenses of \$39.8 million. The variance is due to the timing of budgeted grant payments. Grant

disbursements were made in September, while the budget was in October. The variance will be resolved in Q4.

Admissions Fund expenses totaled \$19.1 million, \$0.6 million less than budgeted expenses of \$19.7 million. Most of the variance is attributed to a delay in invoiced expenses for graders and proctors for the July Bar Exam.

Client Security Fund expenses were \$4.2 million, \$0.6 million less than the budgeted \$4.8 million. The variance is due to the high level of ineligible claims in the current case inventory, resulting in lower payouts than anticipated, and increased cost recovery.

Other Funds' expenses totaled \$3.6 million, \$0.3 million less than budgeted revenues of \$3.9 million and in line with the budget.

NONOPERATING REVENUE/EXPENSES

Nonoperating revenues/expenses encompass investment income, rental income, transfers and interest expense on loans. Nonoperating revenue totaled \$6.1 million, exceeding the budgeted revenue of \$3.7 million by \$2.4 million. This variance is primarily due to investment income exceeding the budget by \$2.8 million, which is offset by a delay in executing the \$0.4 million transfer from the General Fund to the LSTF. The transfer is to support diversity, equity, and inclusion initiatives and is expected to be resolved by year-end.

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

ATTACHMENT B

Date: November 16, 2023

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, 2023

Attached is the quarterly Investment Report for the State Bar of California as of September 30, 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 with the Bank of New York Mellon Trust Company. As of September 30, 2023, the market value of the investment portfolio was \$222.5 million, compared to \$92.5 million as of September 30, 2022.

The quarterly rate of return of the investment portfolio for this quarter is 4.19 percent. Interest rates are higher in comparison to the prior year at 1.98 percent. The quarterly interest rate on deposits in the LAIF increased from 1.29 percent for the quarter ended September 30, 2022, to 3.42 percent for the quarter ended September 30, 2023. As of September 30, 2023, the daily rate at LAIF is 3.48 percent. Year-to-date actual investment earnings resulted in a \$3.4 million gain in 2023, an increase from the \$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.

The State Bar of California Investment Report
Summary as of September 30, 2023

| <u>Asset Group</u> | <u>Original Cost</u> | <u>Market Value</u> | <u>Portfolio Percentage</u> | <u>Weighted Average Yield</u> |
|--|---------------------------------|--------------------------------|--|--|
| Principal Custody Account: | | | | |
| - Government Bonds | 1,250,000 | 1,235,238 | 0.6% | 1.98% |
| - Common Stock-Metlife Inc. | - | 197,722 | 0.1% | N/A |
| | <u>1,250,000</u> | <u>1,432,959</u> | <u>0.7%</u> | |
| Wells Fargo Safekeeping Investment Account: | | | | |
| - Commercial Paper | 60,175,223 | 60,175,223 | 27.0% | 5.18% |
| - Government Bonds and Notes | 120,440,729 | 120,496,607 | 54.2% | 5.26% |
| Subtotal-Securities, Bonds, CP and Notes | <u>180,615,952</u> | <u>180,671,830</u> | <u>81.2%</u> | |
| Interest Receivable | - | 4,127 | 0.0% | N/A |
| Local Agency Investment Fund | 33,600,795 | 33,149,485 | 14.9% | 3.42% |
| Bank of New York Mellon Trust Company, N.A. Investment | 7,217,764 | 7,217,764 | 3.2% | 5.11% |
| Total | <u>222,684,512</u> | <u>222,476,166</u> | <u>100.0%</u> | 4.19% |

Unrealized Gain/(Loss):

| | | |
|--|--------------------|------|
| Market Value of Portfolio -Securities, Bonds, CP and Notes | 182,104,790 | |
| Cost of Portfolio -Securities, Bonds, CP and Notes | <u>181,865,952</u> | |
| Unrealized Gain/(Loss) | <u>238,837</u> | Gain |

State Bar of California
Investment Quarter End Report - Principal Custody and Wells Fargo Safekeeping Accounts
Balance as of September 30, 2023

| <u>Issuer</u> | <u>CUSIP #</u> | <u>S&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>Settlement Date</u> | <u>Maturity Date</u> |
|--|----------------|---------------------------|-------------------|--------------------|--------------------|--------------------|--------------------------------|-----------------------------------|--------------|----------------------------|--------------------------|
| RIVERSIDE CA UNIF SCH DIST | 769059A22 | AA- | Municipal Bond | 1,250,000 | 1,250,000 | 1,235,238 | 4,127 | (14,763) | 1.98% | 12/17/19 | 02/01/24 |
| TOTAL MUNICIPAL BONDS AND NOTES: | | | | 1,250,000 | 1,250,000 | 1,235,238 | 4,127 | (14,763) | 1.98% | | |
| FED HOME LN DISCOUNT NT | 313384QV4 | AA+ | Government Agency | 97,000,000 | 95,776,345 | 95,883,508 | - | 107,163 | 5.36% | 09/26/23 | 12/22/23 |
| TOTAL FEDERAL BONDS (LSTF): | | | | 97,000,000 | 95,776,345 | 95,883,508 | - | 107,163 | 5.36% | | |
| FED HOME LN DISCOUNT NT | 313384QN2 | AA+ | Government Agency | 5,000,000 | 4,775,028 | 4,947,396 | - | 172,368 | 4.67% | 12/16/22 | 09/15/23 |
| FEDERAL HOME LOAN BANK | 3130ATUQ8 | AA+ | Government Agency | 5,000,000 | 5,034,543 | 4,982,811 | - | (51,732) | 4.64% | 12/16/22 | 12/15/23 |
| FEDERAL HOME LOAN BANK | 3130ATVC8 | AA+ | Government Agency | 5,000,000 | 5,105,611 | 4,970,867 | - | (134,743) | 4.57% | 12/16/22 | 03/08/24 |
| UNITED STATES TREASURY NOTE | 91282CEX5 | AA+ | Government Agency | 5,000,000 | 4,965,216 | 4,909,180 | - | (56,036) | 5.15% | 03/17/23 | 06/14/24 |
| FED HOME LN DISCOUNT NT | 313384ZP7 | AA+ | Government Agency | 5,000,000 | 4,783,986 | 4,802,844 | - | 18,858 | 5.41% | 06/21/23 | 06/30/24 |
| TOTAL FEDERAL BONDS AND NOTES: | | | | 25,000,000 | 24,664,384 | 24,613,099 | - | (51,285) | 4.88% | | |
| TOTAL GOVERNMENT BONDS AND NOTES: | | | | 122,000,000 | 120,440,729 | 120,496,607 | - | 55,878 | 5.26% | | |
| SE STATE ST US GOVT FD OPPTY | 85749T517 | N/A | Cash Equivalent | 55,000,000 | 60,175,223 | 60,175,223 | - | | 5.18% | 11/02/22 | N/A |
| TOTAL COMMERCIAL PAPER : | | | | 55,000,000 | 60,175,223 | 60,175,223 | - | | 5.18% | | |
| BRIGHTHOUSE FINANCIAL INC | 10922N103 | N/A | Common Stock | - | | 13,018 | - | | | | |
| METLIFE INC | 59156R108 | N/A | Common Stock | - | | 184,704 | - | | | | |
| TOTAL COMMON STOCKS: | | | | - | | 197,722 | - | 197,722 | | | |
| TOTAL INVESTMENT HELD BY WELLS FARGO/PRINCIPAL: | | | | 178,250,000 | 181,865,952 | 182,104,790 | 4,127 | 238,837 | | | |

The State Bar of California
Statement of Operating Revenue, Operating Expenses & Changes in Net Position - Bar Wide
for Nine Months Ended September 30, 2023

| | General Fund | Other Funds | 2023 Actual | 2023 Budget | Variance- 2023 Actual vs Budget |
|------------------------------------|-------------------|--------------------|--------------------|--------------------|--|
| OPERATING REVENUE | | | | | |
| Affinity Insurance Revenue | 302,623 | - | 302,623 | (737,219) | 1,039,842 |
| Continuing Legal Education Fees | 1,321,171 | 82 | 1,321,253 | 506,369 | 814,884 |
| EAF AB 145 Filing Fee Revenue | - | 3,123,500 | 3,123,500 | 3,123,534 | (34) |
| Exam App. & Moral Char. Fees | - | 17,068,596 | 17,068,596 | 14,969,923 | 2,098,673 |
| Grant Revenue | - | 87,368,499 | 87,368,499 | 94,584,034 | (7,215,535) |
| Law Corporation Registration Fees | 1,438,915 | - | 1,438,915 | 1,548,759 | (109,844) |
| Legal Specialization Fees | 200 | 2,175,480 | 2,175,680 | 1,974,247 | 201,433 |
| Licensing Fees and Donations | 85,588,795 | 19,768,252 | 105,357,048 | 103,990,718 | 1,366,330 |
| Multi-Jurisdictional Practice Fees | - | 781,711 | 781,711 | 811,250 | (29,539) |
| Other Revenue | 704,424 | 651,621 | 1,356,044 | 1,055,712 | 300,332 |
| Trust Account Revenue | - | 109,768,770 | 109,768,770 | 89,597,039 | 20,171,731 |
| Total Operating Revenue | 89,356,128 | 240,706,511 | 330,062,639 | 311,424,366 | 18,638,273 |
| OPERATING EXPENSES | | | | | |
| Access & Inclusion | (2,476) | 144,696,130 | 144,693,654 | 130,082,982 | 14,610,672 |
| Admissions | 39,066 | 20,336,948 | 20,376,013 | 21,012,609 | (636,596) |
| Regulation | 4,013,279 | - | 4,013,279 | 4,192,564 | (179,285) |
| Chief Trial Counsel | 50,529,908 | - | 50,529,908 | 49,920,497 | 609,411 |
| Client Security Fund | - | 4,191,979 | 4,191,979 | 4,792,792 | (600,813) |
| General & Administrative | (653,319) | - | (653,319) | (2,791,494) | 2,138,175 |
| Governance | 5,763,161 | 298,028 | 6,061,189 | 6,841,083 | (779,894) |
| Lawyers Assistance Program | - | 1,156,095 | 1,156,095 | 1,197,119 | (41,024) |
| Depreciation | - | - | - | - | - |
| Probation | 1,466,763 | - | 1,466,763 | 1,428,056 | 38,707 |
| Professional Competence | 3,467,639 | 742,936 | 4,210,575 | 4,351,082 | (140,507) |
| State Bar Court | 10,233,235 | - | 10,233,235 | 10,266,155 | (32,921) |
| Total Operating Expenses | 74,857,255 | 171,422,116 | 246,279,371 | 231,293,445 | 14,985,926 |
| OPERATING INCOME/(LOSS) | 14,498,873 | 69,284,395 | 83,783,268 | 80,130,921 | 3,652,347 |

The State Bar of California
Statement of Operating Revenue, Operating Expenses & Changes in Net Position - Bar Wide
for Nine Months Ended September 30, 2023

| | General Fund | Other Funds | 2023 Actual | 2023 Budget | Variance- 2023 Actual vs Budget |
|--|-------------------|--------------------|--------------------|-------------------|--|
| NON-OPERATING | | | | | |
| Interest and Investment Income | 2,207,691 | 1,213,192 | 3,420,883 | 597,969 | 2,822,914 |
| Rental Income | 2,681,706 | - | 2,681,706 | 2,694,524 | (12,818) |
| Interest Expense on Loans and Leases | (537,654) | - | (537,654) | (537,654) | (0) |
| Principal Expense on Loans | (2,580,746) | - | (2,580,746) | (2,580,746) | (0) |
| 52908-Interest earned on fac. Fees | - | - | - | - | - |
| Total Non-Operating | 1,770,997 | 1,213,192 | 2,984,189 | 174,094 | 2,810,095 |
| INCOME/(LOSS) BEFORE TRANSFERS | 16,269,870 | 70,497,587 | 86,767,457 | 80,305,015 | 6,462,442 |
| TRANSFERS | | | | | |
| 49110-Transfer In From General Fund | - | - | - | 400,000 | (400,000) |
| 49231-Transfer In From IT Spec. Fund | - | - | - | - | - |
| 49314-Transfer In From Admissions Fund | - | - | - | - | - |
| 49410-Interfund Transaction-Revenue | - | - | - | - | - |
| 69119-Trsf. Out To Tech Improv. Fund | - | - | - | - | - |
| 69224-Trsf Out To Legal Spec. Fund | - | - | - | - | - |
| 69228-Transfer Out To LSTF | - | - | - | (400,000) | 400,000 |
| 69410-Interfund Transaction-Expenses | - | - | - | - | - |
| TOTAL TRANSFERS | - | - | - | - | - |
| CHANGE IN NET POSITION | 16,269,870 | 70,497,587 | 86,767,457 | - | - |
| Net Position at beginning of year | 28,580,160 | 85,467,917 | 114,048,077 | - | - |
| NET POSITION AT September 30 | 44,850,030 | 155,965,504 | 200,815,534 | - | - |

The State Bar of California
Statement of Assets, Liabilities & Net Position
Bar Wide as of September 30, 2023

| | General Fund | Other Funds | 2023 Actual | Variance- 2023 vs. 2022 |
|---|--------------------|--------------------|--------------------|-------------------------------|
| ASSETS & DEFERRED OUTFLOWS | | | | |
| Cash | 64,572,971 | - | 64,572,971 | (90,097,585) |
| Investments | 179,433,264 | - | 179,433,264 | 176,410,965 |
| Accounts Receivable (net of allowances) | 2,400,448 | 629,833 | 3,030,281 | 529,882 |
| Lease receivable | 15,164,375 | - | 15,164,375 | (2,893,736) |
| Interfund Rec(Pay) | (197,416,347) | 197,416,347 | - | - |
| Other Assets | (528,057) | 14,967 | (513,090) | (10,504,156) |
| Capital Assets (net of depreciation) | 99,136,637 | - | 99,136,637 | 360,626 |
| Deferred Outflows | 37,885,114 | - | 37,885,114 | 25,721,401 |
| Total Assets & Deferred Outflows | 200,648,406 | 198,061,146 | 398,709,552 | 99,527,397 |
| LIABILITIES & DEFERRED INFLOWS | | | | |
| Accounts Payable and Accrued Liabilities | 12,256,128 | 2,321,229 | 14,577,357 | 3,718,527 |
| Lease liabilities | 791,906 | - | 791,906 | (494,665) |
| Unearned Income | 1,265,036 | 39,774,413 | 41,039,449 | 9,973,778 |
| 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 | 155,798,376 | 42,095,643 | 197,894,018 | 31,628,223 |
| NET POSITION | | | | |
| Net Position at Beginning of Year | 28,580,160 | 85,467,917 | 114,048,077 | 7,292,376 |
| Change in Net Position | 16,269,870 | 70,497,587 | 86,767,457 | 60,606,799 |
| Total Net Position | 44,850,030 | 155,965,504 | 200,815,534 | 67,899,175 |
| Total Liabilities & Net Position | 200,648,406 | 198,061,146 | 398,709,552 | 99,527,397 |