



# The State Bar of California

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## **OPEN SESSION AGENDA ITEM 706 MARCH 2024 FINANCE COMMITTEE III.A**

**DATE:** March 21, 2024

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

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

**SUBJECT:** Approval of Quarter Four 2023 Financial Statements Report

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### **EXECUTIVE SUMMARY**

This agenda item presents the unaudited financial results for the twelve months ended December 31, 2023 for approval by the Finance Committee.

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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 report for review by the Committee in this agenda item are the Financial Statements for the twelve months ended December 31, 2023. This report provides 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 Fourth Quarter Financial Statements Report for the twelve months ended December 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 2023 Fourth Quarter Financial Statements Report for the twelve months ended December 31, 2023, in the form presented this day before the Board.

## **ATTACHMENT LIST**

- A.** Quarter Four Financial Statements for the Twelve Months Ended December 31, 2023



# The State Bar of California

ATTACHMENT A

Date: March 21, 2024

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, 2023

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

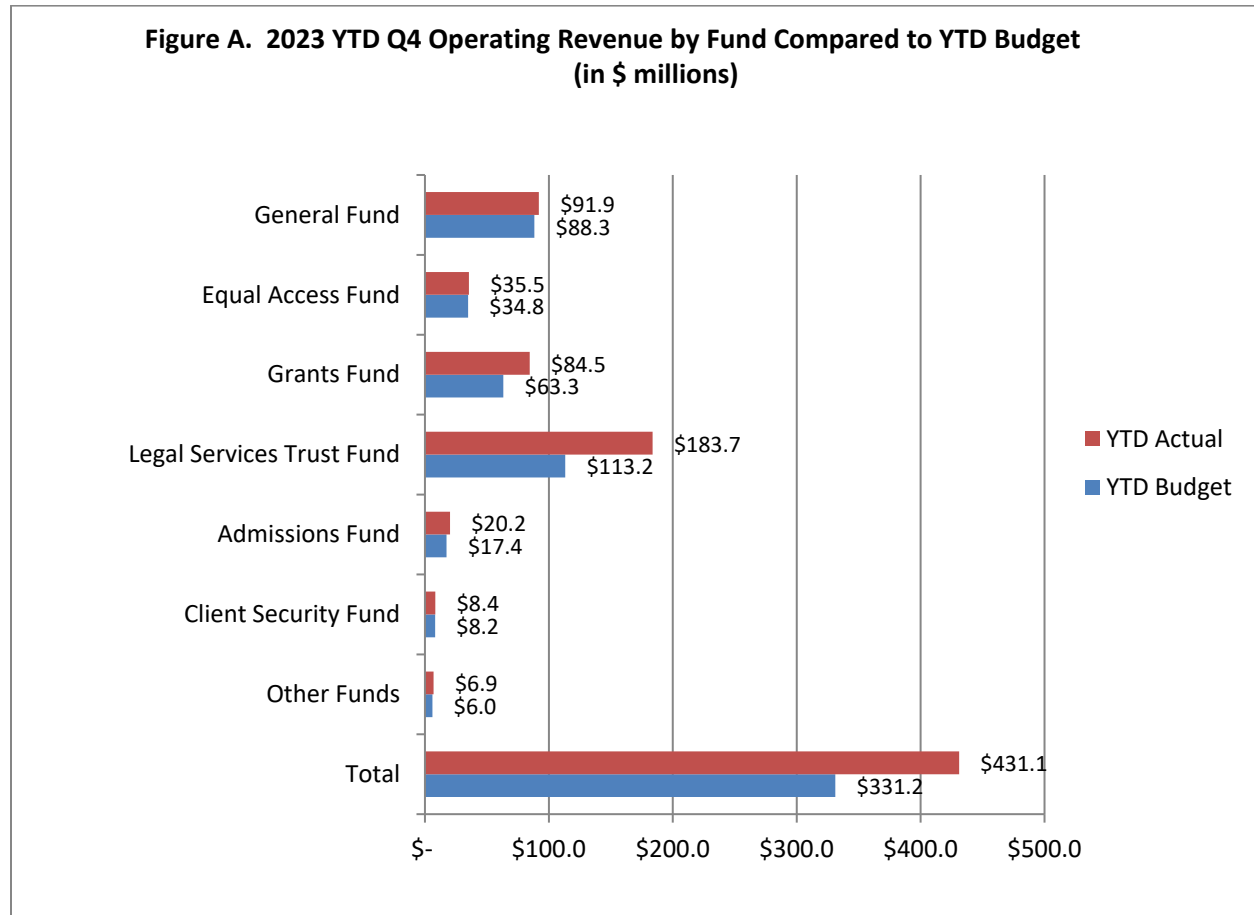
**Table 1. YTD Budget-to-Actual Variance Analysis <sup>1</sup>**

Financial Statement Category	Dec 31, 2023 Actual (in \$M)	Dec 31, 2023 Budget (in \$M)	Changes (in \$M)	Changes (in %)
<b>Operating Revenue</b>	<b>\$431.1</b>	<b>\$331.2</b>	<b>\$99.9</b>	<b>30%</b>
Licensing Fees & Donations	106.8	104.3	2.5	2%
Trust Account Revenue	176.4	106.1	70.3	66%
Exam Application Fees	18.6	16.0	2.6	16%
Grant Revenue	116.9	94.9	22.0	23%
<b>Operating Expenses</b>	<b>\$316.2</b>	<b>\$291.4</b>	<b>24.8</b>	<b>9%</b>
Access & Inclusion	174.9	152.7	22.2	15%
Admissions	26.6	26.3	0.3	1%
Chief Trial Counsel	68.0	68.2	(0.2)	0%
State Bar Court	13.6	14.0	(0.4)	-3%

<sup>1</sup> 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, State Bar-wide operating revenue for the twelve months ending December 31, 2023, totaled \$431.1 million, above budgeted operating revenue of \$331.2 million by \$99.9 million.

Operating revenue for the General Fund totaled \$91.9 million, \$3.6 million more than budgeted revenue of \$88.3 million. The primary drivers are \$1.6 million in Mandatory Fees as more licensee payments were received than anticipated in 2023, and \$1.9 million in Other Fees, comprised primarily of late compliance fees related to the new Client Trust Account Protection Program (CTAPP).

Operating revenue for the Equal Access Fund totaled \$35.5 million, which is \$0.7 million more than budgeted revenue of \$34.8 million. This variance is mostly due to unbudgeted \$0.6 million in grant administrative reimbursement costs. These reimbursements were recorded in December 2023 as a result of the new EAF 2023–2024 contract that was executed in the same month.

Operating revenue for the Grants Fund totaled \$84.5 million, which is \$21.2 million greater than budgeted revenue of \$63.3 million. The variance is primarily due to \$21.9 million of

funding received in November from the CARE Court grant, which was not known at budget adoption or the midyear budget amendment. In addition to CARE Court, the Grants Fund comprises Homeless Prevention (HP) II, HP III, HP IV, CalHFA, Consumer Debt and grant administrative cost reimbursements.

The Legal Services Trust Fund (LSTF) operating revenue of \$183.7 million exceeded budgeted revenue of \$113.2 million by \$70.5 million. The Interest on Lawyers' Trust Accounts (IOLTA) accounts for \$70.3 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 \$4.9 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 3.1 percent as of December, reflecting the impact of the Federal Reserve interest rate hikes.

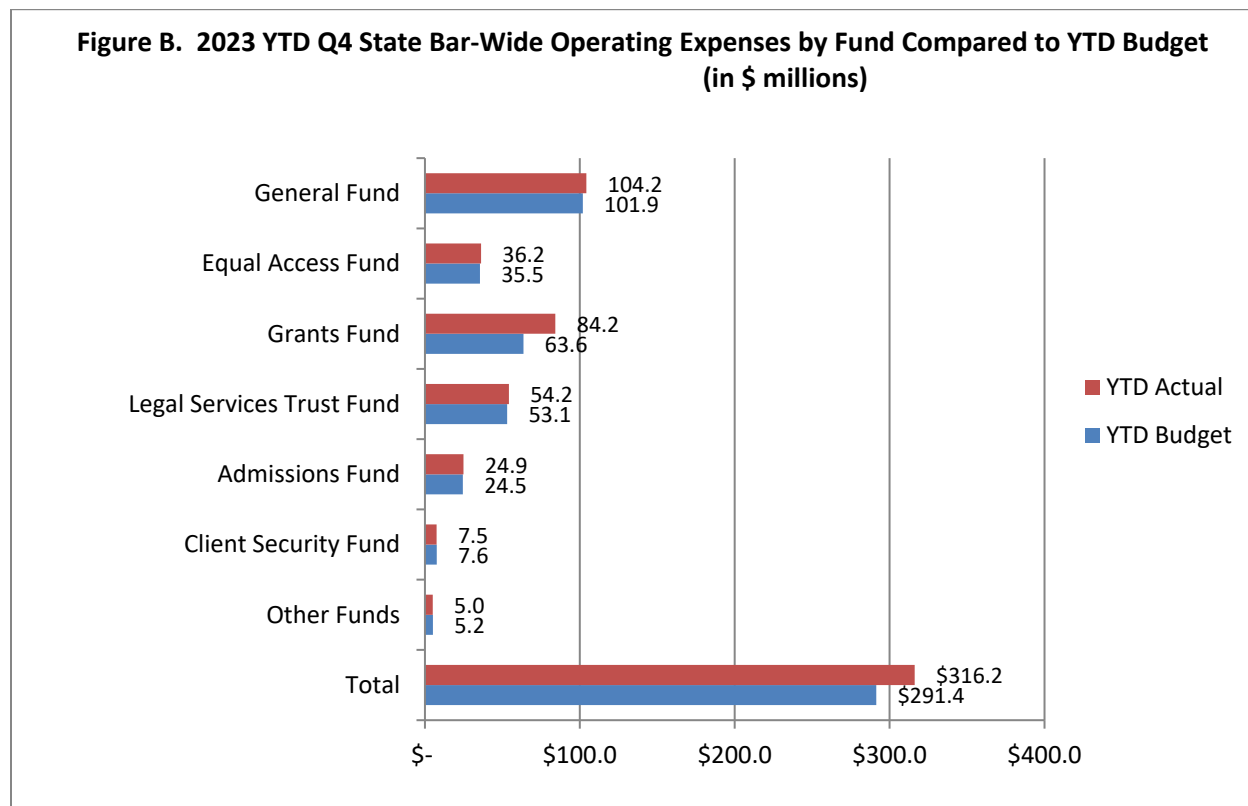
Admissions Fund revenue totaled \$20.2 million, exceeding budgeted revenues of \$17.4 million by \$2.8 million. February and July exam fee revenues exceeded the budget by \$1 million and \$0.8 million, respectively. The remaining variance consists of \$0.6 million in additional moral character determination and \$0.3 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 slightly by \$0.2 million.

Other Funds' revenues amounted to \$6.9 million, surpassing budgeted revenues of \$6.0 million by \$0.9 million. Most of the favorable variance can be attributed to \$0.7 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 twelve months ending December 31, 2023, totaled \$316.2 million, exceeding budgeted expenses of \$291.4 million by \$24.8 million.

General Fund expenses totaled \$104.2 million, which is \$2.3 million more than budgeted expenses of \$101.9 million. This variance is mainly driven by equipment expenses of \$2.9 million for elevator and generator projects. The elevator and generator projects are funded by loan proceeds and are therefore not budgeted. Savings of \$0.5 million in temporary helped offset some of the equipment expenditures.

Equal Access Fund expenses amounted to \$36.2 million, exceeding the budgeted expenses of \$35.5 million by \$0.7 million. Grant disbursements of \$0.6 million for Partner Grant AB 145 and AB 145 filing fees were not guaranteed at grant contract execution and were therefore not budgeted. The Judicial Council (grantor) confirmed in Q4 2023 that filing fee minimums were met and the additional grant disbursements were made in Q4.

Grants Fund expenses totaled \$84.2 million, exceeding the budgeted expenses of \$63.6 million by \$20.6 million. The variance is primarily due to \$21.7 million disbursement from the CARE Court grant, which was not known at budget adoption or the midyear budget amendment. The variance is partially offset by HP III grant, which underspent \$1.2 million due to a cancelled

grantee disbursements. In addition to these grants, the Grants Fund includes expenses related to HP II, HP IV, and CalHFA grants.

Legal Services Trust Fund expenses were \$54.2 million, \$1.1 million more than budgeted expenses of \$53.1 million. The variance is due to \$0.8 million in Law Student Fellowship grant expenses, which were not budgeted, and \$0.3 million overspending on personnel costs.

Admissions Fund expenses totaled \$24.9 million, \$0.4 million more than budgeted expenses of \$24.5 million. Most of the variance is attributed to software maintenance expenses on Salesforce and exam costs.

Client Security Fund expenses were \$7.5 million, and in line with budgeted expenses of \$7.6 million.

Other Funds' expenses totaled \$5.0 million, \$0.2 million less than budgeted revenues of \$5.2 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 \$14.1 million, exceeding the budgeted revenue of \$4.9 million by \$9.2 million. This variance is primarily due to investment income exceeding the budget by \$8.9 million and \$0.2 million more in rental income than budgeted.

#### **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)

**ATTACHMENT 1**

**The State Bar of California**  
**Statement of Operating Revenue, Operating Expenses & Changes in Net Position - Bar Wide**  
**for Twelve Months Ended December 31, 2023**

	<b>General Fund</b>	<b>Other Funds</b>	<b>2023 Actual</b>	<b>2023 Budget</b>	<b>Variance-2023 Actual vs Budget</b>
<b>OPERATING REVENUE</b>					
Affinity Insurance Revenue	30	-	30	-	30
Continuing Legal Education Fees	1,510,191	82	1,510,273	575,900	934,373
EAF AB 145 Filing Fee Revenue	-	3,236,000	3,236,000	3,236,034	(34)
Exam App. & Moral Char. Fees	-	18,673,814	18,673,814	16,027,373	2,646,441
Grant Revenue	-	116,858,128	116,858,128	94,875,694	21,982,434
Law Corporation Registration Fees	2,453,552	-	2,453,552	1,780,300	673,252
Legal Specialization Fees	137,750	2,180,545	2,318,295	2,065,000	253,295
Licensing Fees and Donations	86,749,657	20,074,011	106,823,668	104,333,500	2,490,168
Multi-Jurisdictional Practice Fees	-	847,006	847,006	865,000	(17,994)
Other Revenue	1,031,393	941,331	1,972,724	1,339,730	632,994
Trust Account Revenue	-	176,403,380	176,403,380	106,122,891	70,280,489
<b>Total Operating Revenue</b>	<b>91,882,573</b>	<b>339,214,297</b>	<b>431,096,870</b>	<b>331,221,422</b>	<b>99,875,448</b>
<b>OPERATING EXPENSES</b>					
Access & Inclusion	-	174,935,818	174,935,818	152,669,444	22,266,374
Admissions	-	26,640,757	26,640,757	26,292,145	348,612
Regulation	5,424,759	-	5,424,759	5,698,475	(273,716)
Chief Trial Counsel	67,996,530	-	67,996,530	68,214,436	(217,906)
Client Security Fund	-	7,490,427	7,490,427	7,646,513	(156,086)
General & Administrative	2,115,168	-	2,115,168	(1,816,112)	3,931,280
Governance	8,514,233	401,896	8,916,129	9,225,234	(309,105)
Lawyers Assistance Program	4,614	1,611,291	1,615,905	1,574,800	41,105
Probation	1,966,903	-	1,966,903	1,949,831	17,072
Professional Competence	4,531,600	945,232	5,476,832	5,914,726	(437,894)
State Bar Court	13,639,523	-	13,639,523	14,000,013	(360,490)
<b>Total Operating Expenses</b>	<b>104,193,330</b>	<b>212,025,421</b>	<b>316,218,751</b>	<b>291,369,505</b>	<b>24,849,246</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(12,310,757)</b>	<b>127,188,876</b>	<b>114,878,119</b>	<b>39,851,917</b>	<b>75,026,202</b>



**The State Bar of California**  
**Statement of Operating Revenue, Operating Expenses & Changes in Net Position - Bar Wide**  
**for Twelve Months Ended December 31, 2023**

	<b>General Fund</b>	<b>Other Funds</b>	<b>2023 Actual</b>	<b>2023 Budget</b>	<b>Variance- 2023 Actual vs Budget</b>
<b>NON-OPERATING</b>					
Interest and Investment Income	3,014,331	6,732,529	9,746,860	797,309	8,949,551
Rental Income	2,883,307	-	2,883,307	2,695,200	188,107
Interest Expense on Loans and Leases	(655,785)	-	(655,785)	(559,468)	(96,317)
Principal Expense on Loans	(2,789,746)	-	(2,789,746)	(2,080,700)	(709,046)
<b>Total Non-Operating</b>	<b>2,452,107</b>	<b>6,732,529</b>	<b>9,184,636</b>	<b>852,341</b>	<b>8,332,295</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>(9,858,650)</b>	<b>133,921,405</b>	<b>124,062,755</b>	<b>40,704,258</b>	<b>83,358,497</b>
<b>TRANSFERS</b>					
49110-Transfer In From General Fund	-	400,000	400,000	400,000	-
49232-Trsf In From Justice Gap Fund	-	1,000,000	1,000,000	1,000,000	-
49410-Interfund Transaction-Revenue	62,989	7,635	70,624	-	70,624
69228-Transfer Out To LSTF	(400,000)	(1,000,000)	(1,400,000)	(1,400,000)	-
69410-Interfund Transaction-Expenses	(67,122)	(3,502)	(70,624)	-	(70,624)
<b>Total Transfers</b>	<b>(404,133)</b>	<b>404,133</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>(10,262,783)</b>	<b>134,325,538</b>	<b>124,062,755</b>	<b>-</b>	<b>-</b>
Net Position at beginning of year	28,580,160	85,467,917	114,048,077	-	-
<b>Net Position at December 31</b>	<b>18,317,377</b>	<b>219,793,455</b>	<b>238,110,832</b>	<b>-</b>	<b>-</b>

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

	<b>General Fund</b>	<b>Other Funds</b>	<b>2023 Actual</b>	<b>Variance- 2023 vs. 2022</b>
<b>ASSETS &amp; DEFERRED OUTFLOWS</b>				
Cash	79,727,609	-	79,727,609	(43,380,067)
Investments	234,411,597	-	234,411,597	201,249,610
Accounts Receivable (net of allowances)	3,414,333	19,783,406	23,197,739	9,183,950
Lease receivable	15,164,375	-	15,164,375	-
Interfund Rec(Pay)	(250,366,203)	250,366,203	-	-
Other Assets	1,219,584	14,948	1,234,532	(9,660,785)
Capital Assets (net of depreciation)	99,136,637	-	99,136,637	-
Deferred Outflows	39,777,732	-	39,777,732	1,892,618
<b>Total Assets &amp; Deferred Outflows</b>	<b>222,485,664</b>	<b>270,164,557</b>	<b>492,650,221</b>	<b>159,285,326</b>
<b>LIABILITIES &amp; DEFERRED INFLOWS</b>				
Accounts Payable and Accrued Liabilities	11,952,532	2,616,305	14,568,837	(4,398,673)
Lease liabilities	791,906	-	791,906	-
Unearned Income	18,561,106	47,754,797	66,315,903	8,243,807
Loan Payable	14,385,746	-	14,385,746	(16,623,243)
Deferred Inflows	71,354,386	-	71,354,386	49,620,724
OPEB Liability	5,773,259	-	5,773,259	(1,620,044)
Pension Liability	81,349,352	-	81,349,352	-
<b>Total Liabilities &amp; Deferred Inflows</b>	<b>204,168,287</b>	<b>50,371,102</b>	<b>254,539,389</b>	<b>6,247,389</b>
<b>NET POSITION</b>				
Net Position at Beginning of Year	28,580,160	85,467,917	114,048,077	7,277,319
Change in Net Position	(10,262,783)	134,325,538	124,062,755	145,760,618
<b>Total Net Position</b>	<b>18,317,377</b>	<b>219,793,455</b>	<b>238,110,832</b>	<b>153,037,937</b>
<b>Total Liabilities &amp; Net Position</b>	<b>222,485,664</b>	<b>270,164,557</b>	<b>492,650,221</b>	<b>159,285,326</b>