

# State Bar of Texas

(A Component Unit of the State of Texas)

Financial Report  
May 31, 2018

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
State Bar of Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State Bar of Texas (the State Bar), a component unit of the State of Texas, as of and for the year ended May 31, 2018, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State Bar as of May 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

As described in Note 14 to the basic financial statements, the State Bar restated beginning net position of the governmental activities and beginning fund balance of the aggregate remaining funds to correct an error in the recognition of unearned revenue. Our opinion is not modified with respect to this matter.

**Other Matters*****Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, statement of revenues, expenditures and changes in fund balance—budget (GAAP basis) and actual—general fund, schedule of changes in State Bar's proportionate share of net pension liability and related ratios, schedule of employer contributions and related note to required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Supplemental Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's basic financial statements. The combining balance sheet—nonmajor governmental funds, combining statement of revenues, expenditures and changes in fund balances—nonmajor governmental funds and the combining statement of revenues, expenditures and changes in fund balances—governmental funds, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet—nonmajor governmental funds, combining statement of revenues, expenditures and changes in fund balances—nonmajor governmental funds and the combining statement of revenues, expenditures and changes in fund balances—governmental funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

*RSM US LLP*

Austin, Texas  
November 20, 2018

## State Bar of Texas

### Management's Discussion and Analysis (Unaudited) May 31, 2018

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This Management's Discussion and Analysis is provided by management of the State Bar of Texas (State Bar) to offer readers an overview and analysis of the financial activities of the State Bar for the fiscal year ended May 31, 2018. This section is only an introduction and should be read in conjunction with the State Bar's financial statements, which immediately follow this section.

#### Financial Highlights

- The State Bar is in a strong financial position with no debt carried on the balance sheet, strong and consistent revenues and controlled expenses.
- The assets of the State Bar were below its liabilities for fiscal year ended May 31, 2018 by \$10,264,896 (net position). This amount includes all State Bar-related assets, including the reserves, all capital assets, all assets related to the Law Practice Resource Management, previously known as TexasBarBook Fund, the Sections and all special revenue funds and capital project funds.
- The State Bar's total net position decreased by \$4,944,057 from the end of fiscal year 2017 to the end of fiscal year 2018. The decrease in net position was due to a \$4.4 million entry to pension expense.
- As of the close of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$32,495,360 an increase of \$257,361 in comparison with the prior year. This increase in fund balance is primarily due to the strong performance of TexasBarCLE, strong performance of investments and a savings in salaries and benefits due to higher than budgeted vacancy rate during the fiscal year. Of this amount, \$12,039,785 is reserved for ongoing expenses (unassigned fund balance), which primarily consists of the General Fund.
- At the end of the current fiscal year, the fund balance for the General Fund was \$15,708,250 or 38 percent of the total General Fund expenditures for the year ended May 31, 2018. Of this amount, \$3,154,677 are committed balances, which are subject to the Board of Director's (the Board) approval on how the funds may be used, and \$513,788 is nonspendable.

#### Overview of the Financial Statements

The State Bar's basic financial statements are comprised of the following components: (1) the government-wide financial statements, (2) the fund financial statements and (3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves. Each one is described below.

**Government-wide statements:** The government-wide financial statements are designed to provide readers with a broad overview of the State Bar's finances, in a manner similar to a private-sector business. The statements include all assets and liabilities using the accrual basis of accounting. The government-wide financial statements are made up of the statement of net position and the statement of activities. The government-wide financial statements can be found on pages 16 through 18 of this report.

The statement of net position presents information on all the State Bar's assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the State Bar is improving and deteriorating.

## State Bar of Texas

### Management's Discussion and Analysis (Unaudited) May 31, 2018

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The statement of activities presents information showing how the State Bar's net position changed during the most recent fiscal year. The statement of activities is presented on the full accrual basis. This means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., earned, but unused vacation leave).

Both government-wide financial statements distinguish functions of the State Bar that are principally supported by dues and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State Bar include general government, public services, member services and public protection. The business-type activities of the State Bar include the Law Practice Resource Management.

**Fund financial statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State Bar, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements are made up of a balance sheet and a statement of revenues, expenditures and changes in fund balances. The basic governmental fund financial statements can be found on pages 19 through 27 of this report. All the funds of the State Bar can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The State Bar has three types of funds:

- Governmental funds—Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State Bar maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Sections, both of which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. These ten funds are: Texas Board of Legal Specialization Fund, Texas Bar College, Annual Meeting, Client Security Fund, Texas Law Center, Technology Fund, Project Grants Fund, Hatton W. Sumners Grants Fund, Law Focused Education and Department of Public Service. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the other supplemental section of this report.

## State Bar of Texas

### Management's Discussion and Analysis (Unaudited) May 31, 2018

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The State Bar adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19 through 27 of this report.

- Proprietary funds—The Law Practice Resource Management is the State Bar's only proprietary fund. It is an enterprise fund. An enterprise fund is used to report an entity's business-type activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 23 through 25 of this report.
- Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State Bar's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary funds the State Bar has is an agency fund used to hold monies for donations received for access to justice and the State Bar of Texas Insurance Trust, included as a blended component unit. The basic fiduciary fund financial statement can be found on pages 26 through 27 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29 through 56 of this report.

**Required supplemental information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information. The State Bar adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. In addition, includes required supplemental information regarding the State Bar's changes in their proportionate share of net pension liability and related ratios and schedules of employer's contributions. Required supplemental information can be found on pages 58 through 64 of this report.

**Other supplemental information:** In addition to the basic financial statements, accompanying notes and required supplemental information this report also presents certain other supplemental information. The combining balance sheet—nonmajor governmental funds, combining statement of revenues, expenditures and changes in fund balances—nonmajor governmental funds are provided to give additional information for each nonmajor fund. The combining statement of revenues, expenditures and changes in fund balances—governmental funds is provided to give additional information by expenditure type. Other supplemental information is provided on pages 66 through 68.

## State Bar of Texas

### Management's Discussion and Analysis (Unaudited) May 31, 2018

#### Government-Wide Financial Analysis

**Net position:** The following table presents a summary of the State Bar's net position for the year ended May 31, 2018, with comparison totals as of May 31, 2017:

**Table A-1**  
**The State Bar's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 49,327,146	\$ 49,763,962	\$ 1,909,201	\$ 1,996,125	\$ 51,236,347	\$ 51,760,087
Capital assets, net	6,953,989	7,687,316	35,322	35,322	6,989,311	7,722,638
Total assets	\$ 56,281,135	\$ 57,451,278	\$ 1,944,523	\$ 2,031,447	\$ 58,225,658	\$ 59,482,725
Deferred outflows of resources	\$ 11,639,847	\$ 13,999,475	\$ 742,969	\$ 893,583	\$ 12,382,816	\$ 14,893,058
Current liabilities	\$ 17,456,478	\$ 17,985,418	\$ 129,406	\$ 74,027	\$ 17,585,884	\$ 18,059,445
Noncurrent liabilities	57,729,924	51,734,767	3,686,344	3,294,412	61,416,268	55,029,179
Total liabilities	\$ 75,186,402	\$ 69,720,185	\$ 3,815,750	\$ 3,368,439	\$ 79,002,152	\$ 73,088,624
Deferred inflows of resources	\$ 1,758,945	\$ 6,075,475	\$ 112,273	\$ 387,796	\$ 1,871,218	\$ 6,463,271
Net position:						
Net investment in capital assets	\$ 6,869,434	\$ 7,556,231	\$ 35,322	\$ 35,322	\$ 6,904,756	\$ 7,591,553
Unrestricted (deficit), as restated	(15,893,799)	(11,901,138)	(1,275,853)	(866,527)	(17,169,652)	(12,767,665)
Total net position	\$ (9,024,365)	\$ (4,344,907)	\$ (1,240,531)	\$ (831,205)	\$ (10,264,896)	\$ (5,176,112)

The State Bar's net position invested in capital assets, net of accumulated depreciation (e.g., land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding reflects \$6,904,756 of total net position. The State Bar uses these capital assets to provide services to members; consequently, these assets are not available for future spending. Although the State Bar's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Upon implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, the State Bar restated unrestricted net position and recognized a \$39 million net pension liability on the statement of net position beginning in fiscal year 2016. This liability is also reported on the State of Texas' Comprehensive Annual Financial Report. The contributions to the plan are set by the State of Texas' Legislature and are not under the financial purview of the State Bar.

**State Bar of Texas**

**Management's Discussion and Analysis (Unaudited)  
May 31, 2018**

**Changes in net position:** The following schedule shows the changes in net position for the year ended May 31, 2018 with comparison totals for the year ended May 31, 2017. The difference between revenues and expenditures represents the change in net position.

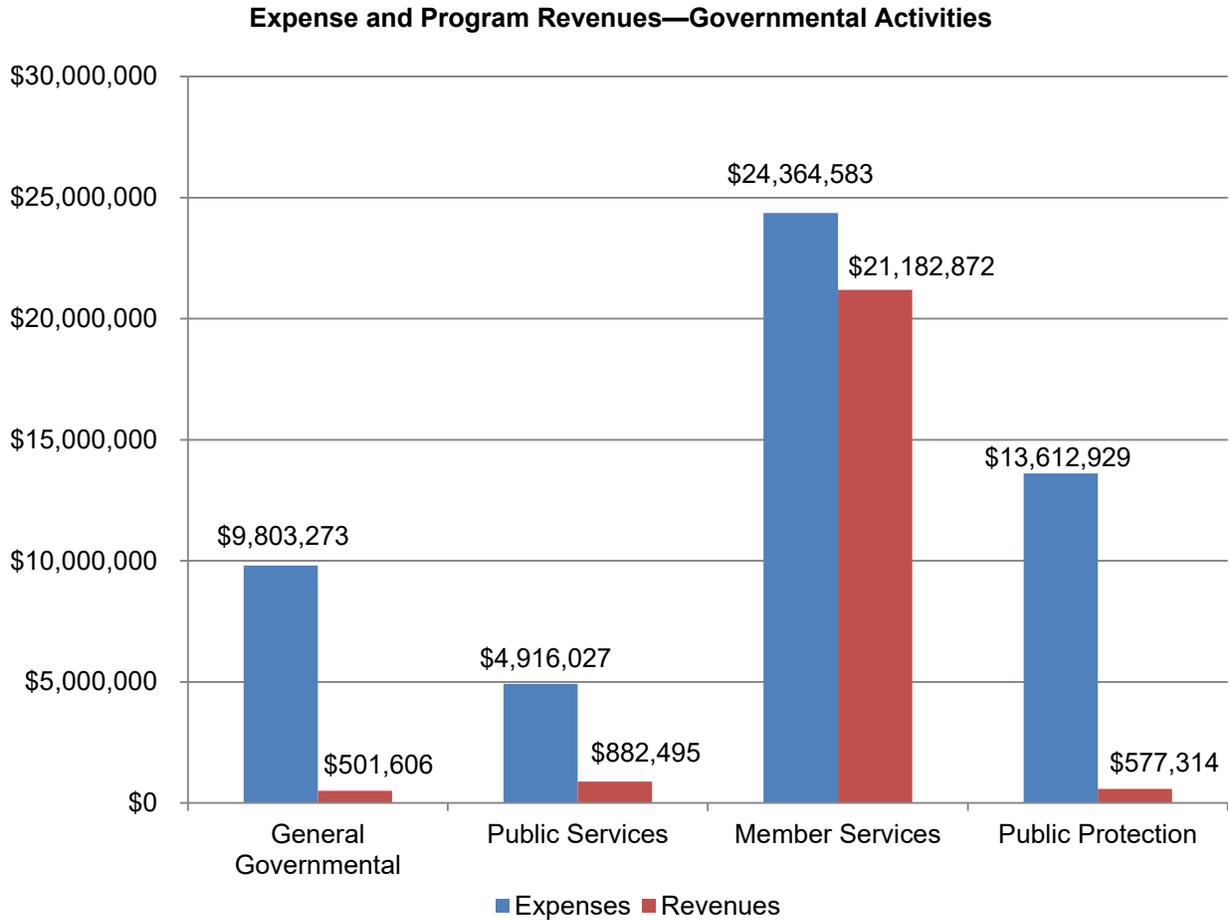
**Table A-2  
Changes in the State Bar's Net Position**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 21,523,129	\$ 21,748,077	\$ 2,295,723	\$ 2,399,481	\$ 23,818,852	\$ 24,147,558
Operating grants and contributions	1,621,158	1,521,931	-	-	1,621,158	1,521,931
General revenues:						
Membership dues	23,038,553	22,740,436	-	-	23,038,553	22,740,436
Investment income	448,156	229,232	5,822	2,677	453,978	231,909
Royalty revenue	1,291,089	1,246,784	1,049,625	959,028	2,340,714	2,205,812
Other income	242,749	299,150	-	-	242,749	299,150
Loss on disposal of capital assets	(2,753)	(1,799)	-	-	(2,753)	(1,799)
Total revenues	<b>48,162,081</b>	<b>47,783,811</b>	<b>3,351,170</b>	<b>3,361,186</b>	<b>51,513,251</b>	<b>51,144,997</b>
<b>Expenses:</b>						
General government	9,803,273	9,274,098	-	-	9,803,273	9,274,098
Public services	4,916,027	4,390,752	-	-	4,916,027	4,390,752
Member services	24,364,583	23,649,040	-	-	24,364,583	23,649,040
Public protection	13,612,929	12,500,286	-	-	13,612,929	12,500,286
Books	-	-	3,760,496	3,485,948	3,760,496	3,485,948
Total expenses	<b>52,696,812</b>	<b>49,814,176</b>	<b>3,760,496</b>	<b>3,485,948</b>	<b>56,457,308</b>	<b>53,300,124</b>
Increase (decrease) in net position	<b>(4,534,731)</b>	<b>(2,030,365)</b>	<b>(409,326)</b>	<b>(124,762)</b>	<b>(4,944,057)</b>	<b>(2,155,127)</b>
Net position at beginning of year, as restated	<b>(4,489,634)</b>	<b>(2,314,542)</b>	<b>(831,205)</b>	<b>(706,443)</b>	<b>(5,320,839)</b>	<b>(3,020,985)</b>
Net position at end of year	<b>\$ (9,024,365)</b>	<b>\$ (4,344,907)</b>	<b>\$ (1,240,531)</b>	<b>\$ (831,205)</b>	<b>\$ (10,264,896)</b>	<b>\$ (5,176,112)</b>

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Management's Discussion and Analysis (Unaudited)  
May 31, 2018

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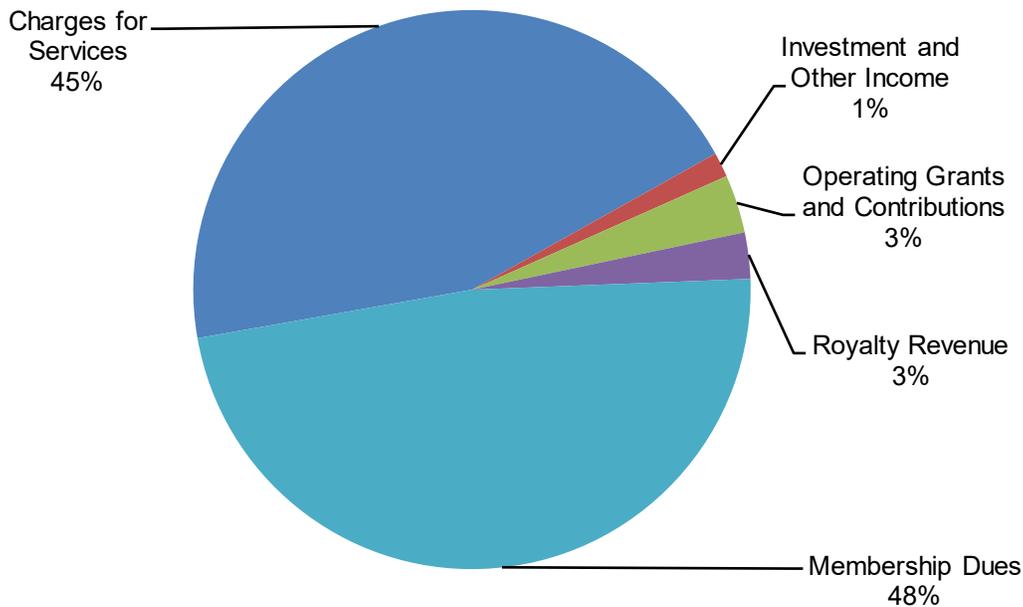
This chart depicts the program revenues and expenses as presented in the statement of activities on page 18 of the financial statements. These represent the revenues and related expenses for these programs. The State Bar also collects membership dues, investment income, royalty revenue and other income that totaled \$25,017,794 for the year ended May 31, 2018.

**State Bar of Texas**

**Management's Discussion and Analysis (Unaudited)  
May 31, 2018**

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**Revenues by Source—Governmental Activities**



Membership dues continues to be the primary source of revenue for the State Bar. Total membership dues collections for fiscal year 2018 were \$23,038,553 compared to \$22,740,436 in the prior fiscal year. The State Bar anticipates a slowing growth in the revenue from dues because the projected number of licensed attorneys will likely stabilize over the next five years.

TexasBarCLE charges for services for fiscal year 2018 totaled \$13,941,859, which remained consisted to fiscal 2017 of \$13,591,618. The continuing legal education offered by TexasBarCLE has continued to provide stable income for the Bar to supplement other strategic goals that may not generate revenue, but provide a valuable service to lawyers and the public of the State of Texas. Other charges for services include Minimum Continuing Legal Education (MCLE) fees, Texas Board of Legal Specialization fees and Bar Journal fees.

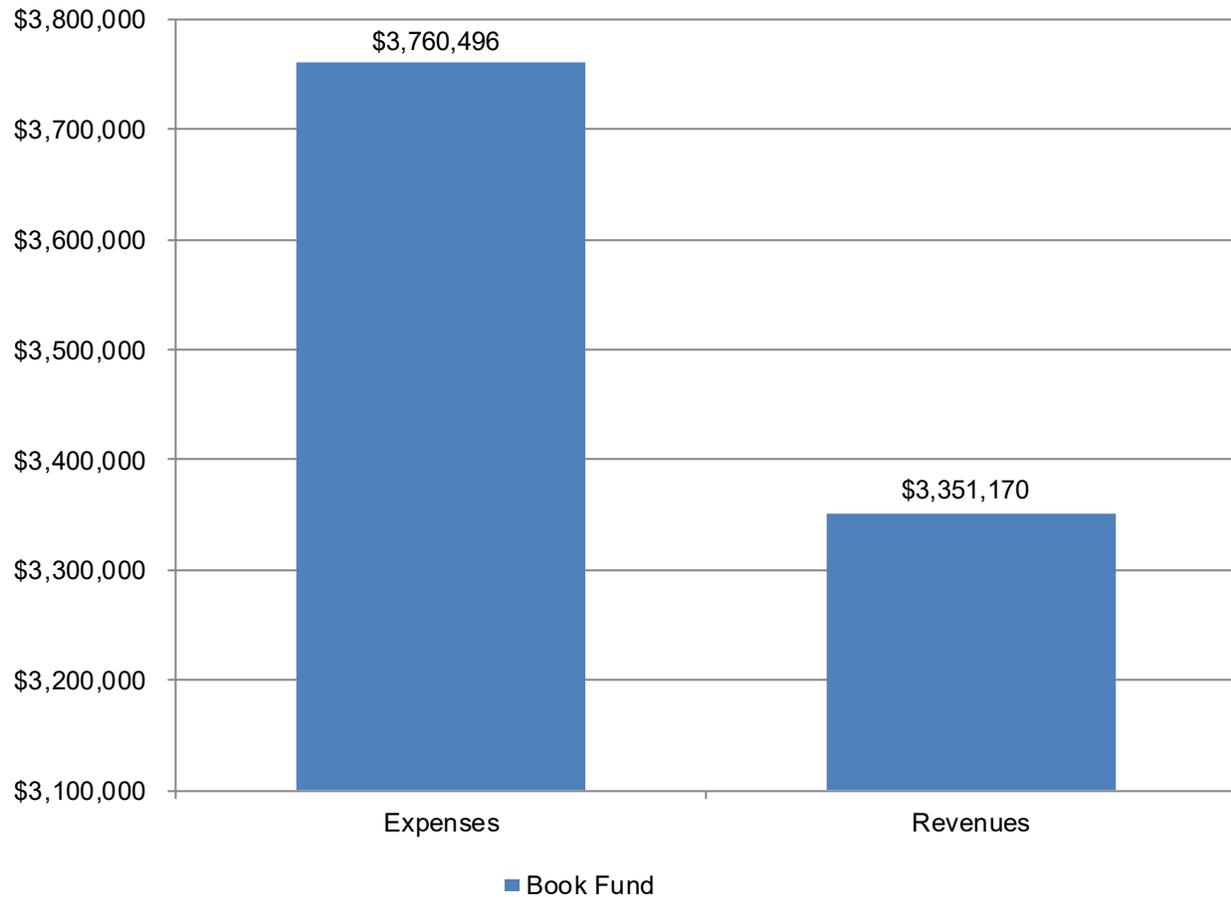
**State Bar of Texas**

**Management’s Discussion and Analysis (Unaudited)  
May 31, 2018**

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**Business-type activities:** Business-type activities decreased the State Bar’s net position by \$409,326. The Law Practice Resource Management Fund, which includes the Law Practice Resource Management, shows steady income and expenses although the change in net position is slightly lower this year than last year’s \$(124,762). The revenue and expenses will fluctuate from year to year based on the number of projects that are completed during the year. A breakdown of expenses and program revenues and revenues by source type follows:

**Expenses and Program Revenues—Business-Type Activities**

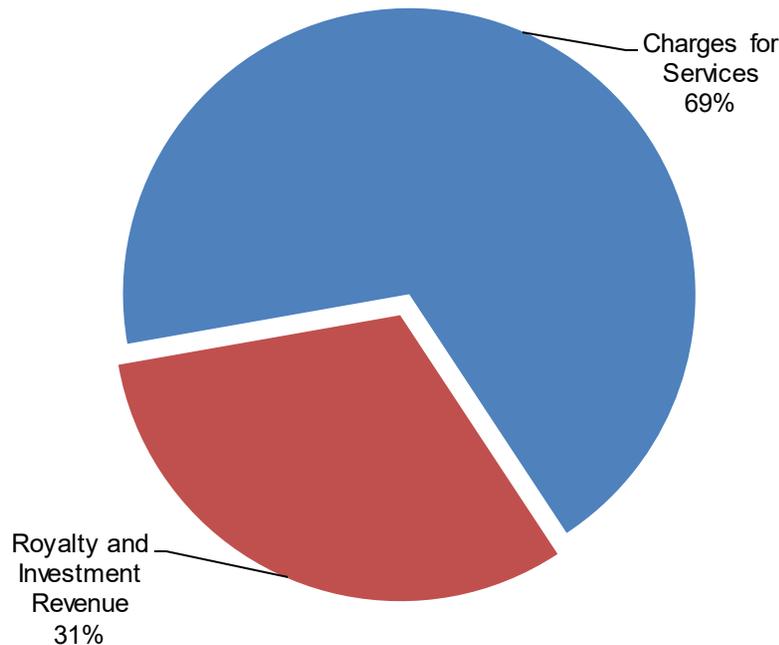


**State Bar of Texas**

**Management's Discussion and Analysis (Unaudited)  
May 31, 2018**

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**Revenues by Source—Business Activities**



The types of revenue for the State Bar's business activities continues to be charges for the sale of Law Practice Resource Management books, both online subscriptions and hard copies of practice manuals. Additionally, Texas Bar Books receives royalties from Thompson Reuters on the sale of Law Practice Resource Management books. These revenues are anticipated to remain stable.

**Financial Analysis of the Government's Funds**

As noted earlier, the State Bar uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds:** The focus of the State Bar's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the State Bar's financing requirements. In particular, undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$32,495,359 an increase of \$257,361 in comparison with the prior year. Of this amount, \$827,014 is nonspendable for inventories and prepaid items and \$19,628,561 is committed for specific uses by the Board.

## State Bar of Texas

### Management's Discussion and Analysis (Unaudited) May 31, 2018

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The General Fund is the chief operating fund of the State Bar. At the end of the current fiscal year, the total fund balance of the General Fund was \$15,708,250, which is 77 percent unassigned. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 29 percent of total General Fund expenditures. During the current fiscal year, the fund balance of the State Bar's General Fund decreased by \$212,406.

**Proprietary funds:** The State Bar's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the current fiscal year, net position of the Law Practice Management totaled a deficit of (\$1,240,531). The total decrease in net position was (\$409,326). Other factors concerning the finances of this fund have already been addressed in the discussion of the State Bar's business-type activities.

**General Fund budgetary highlights:** The State Bar's actual revenue for the General Fund was \$739,923 above budgeted amounts. The most significant positive variances resulted from professional development revenue and investment income, which were offset by a negative variance from MCLE fees revenue. The State Bar's actual expenditures for the General Fund were \$2,807,892 below budgeted amounts. The most significant positive variance resulted from board commitment expenditures.

#### Capital asset administration:

**Capital assets:** The State Bar's investment in capital assets for its governmental activities and business-type activities as of May 31, 2018, amounts to \$6,989,311 (net of accumulated depreciation and amortization). This investment in capital assets includes land; buildings and systems; and furniture, equipment and other assets.

Table A-3  
State Bar's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 154,074	\$ 154,074	\$ -	\$ -	\$ 154,074	\$ 154,074
Construction in progress	20,960	617,584	-	-	20,960	617,584
Building and systems, net	824,028	824,028	-	-	824,028	824,028
Furniture, equipment, digital publication and other, net	5,954,927	6,091,630	35,322	35,322	5,990,249	6,126,952
	<u>\$ 6,953,989</u>	<u>\$ 7,687,316</u>	<u>\$ 35,322</u>	<u>\$ 35,322</u>	<u>\$ 6,989,311</u>	<u>\$ 7,722,638</u>

Additional information on the State Bar's capital assets can be found in Note 2 on page 39 of this report.

**State Bar of Texas**

**Management’s Discussion and Analysis (Unaudited)  
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**Long-term liabilities:** At the end of the current fiscal year, the State Bar had capital leases of \$84,555 and accrued compensated absences of \$1,563,115. The net pension liability increased by approximately \$6.3 million due to changes to actuarial assumptions discussed previously in this section. The current portion of liabilities, or liabilities that are due within one year include capital lease payments and estimated payouts of vacation leave to employees. The following table presents a summary of the State Bar’s Long-term liabilities for the year ended May 31, 2018, with comparative information as of May 31, 2017:

**Table A-4  
State Bar’s Noncurrent Liabilities**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Capital lease payable	\$ 84,555	\$ 131,085	\$ -	\$ -	\$ 84,555	\$ 131,085
Accrued compensated absences	1,467,752	1,462,844	95,363	87,166	1,563,115	1,550,010
Net pension liability	56,802,309	50,745,020	3,625,679	3,239,044	60,427,988	53,984,064
Total liabilities	58,354,616	52,338,949	3,721,042	3,326,210	62,075,658	55,665,159
Less current portion	(624,692)	(604,182)	(34,698)	(31,798)	(659,390)	(635,980)
Total noncurrent liabilities	\$ 57,729,924	\$ 51,734,767	\$ 3,686,344	\$ 3,294,412	\$ 61,416,268	\$ 55,029,179

Additional information on the State Bar’s noncurrent liabilities can be found in Note 5 on page 43 of this report.

**Economic Factors and Next Year’s Budget**

For the General Fund, estimated revenues for fiscal year 2019 are \$42,111,890 and estimated expenditures and other uses are \$42,243,090. If these estimates are realized, and the General Fund transfers \$1,088,800 to other funds as budgeted, the State Bar’s budgetary General Fund balance is expected to decrease slightly due to the expenditures related to Board commitments of excess fund balance.

**Contacting the State Bar’s Financial Management**

This financial report is designed to provide a general overview of the State Bar’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Division Director, State Bar of Texas, and P.O. Box 12487, Austin, Texas 78711.

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## **Basic Financial Statements**

**State Bar of Texas**

**Statement of Net Position  
May 31, 2018**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents—cash in bank	\$ 10,825,229	\$ -	\$ 10,825,229
Investments	35,962,560	-	35,962,560
Receivables:			
Sales to members and others, net of an allowance for uncollectibles of \$3,138 and \$74,008	59,620	710,184	769,804
Interest receivable	48,001	-	48,001
Other accounts receivable	2,044,983	-	2,044,983
Internal balances	(440,261)	440,261	-
Inventories	9,453	758,756	768,209
Prepaid items	817,561	-	817,561
<b>Total current assets</b>	<b>49,327,146</b>	<b>1,909,201</b>	<b>51,236,347</b>
Noncurrent assets:			
Capital assets:			
Land	154,074	-	154,074
Construction in progress	20,960	-	20,960
Buildings, net	824,028	-	824,028
Furniture, fixtures, computer equipment, software and other equipment, net	5,954,927	35,322	5,990,249
<b>Total noncurrent assets</b>	<b>6,953,989</b>	<b>35,322</b>	<b>6,989,311</b>
<b>Total assets</b>	<b>\$ 56,281,135</b>	<b>\$ 1,944,523</b>	<b>\$ 58,225,658</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows on pension liability	\$ 11,639,847	\$ 742,969	\$ 12,382,816
<b>Total deferred outflows of resources</b>	<b>\$ 11,639,847</b>	<b>\$ 742,969</b>	<b>\$ 12,382,816</b>

See notes to financial statements.

	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 1,353,348	\$ -	\$ 1,353,348
Accrued liabilities	1,055,924	94,708	1,150,632
Due to agency funds	781,831	-	781,831
Unearned revenue	13,640,683	-	13,640,683
Capital lease obligations	46,571	-	46,571
Accrued compensated absences	578,121	34,698	612,819
<b>Total current liabilities</b>	<u>17,456,478</u>	<u>129,406</u>	<u>17,585,884</u>
Noncurrent liabilities:			
Capital lease obligations	37,984	-	37,984
Accrued compensated absences	889,631	60,665	950,296
Net pension liability	56,802,309	3,625,679	60,427,988
<b>Total noncurrent liabilities</b>	<u>57,729,924</u>	<u>3,686,344</u>	<u>61,416,268</u>
<b>Total liabilities</b>	<u>\$ 75,186,402</u>	<u>\$ 3,815,750</u>	<u>\$ 79,002,152</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows on pension liability	\$ 1,758,945	\$ 112,273	\$ 1,871,218
<b>Total deferred inflows of resources</b>	<u>\$ 1,758,945</u>	<u>\$ 112,273</u>	<u>\$ 1,871,218</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 6,869,434	\$ 35,322	\$ 6,904,756
Unrestricted (deficit)	(15,893,799)	(1,275,853)	(17,169,652)
<b>Total net position</b>	<u>\$ (9,024,365)</u>	<u>\$ (1,240,531)</u>	<u>\$ (10,264,896)</u>

**State Bar of Texas**

**Statement of Activities  
Year Ended May 31, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 9,803,273	\$ 501,606	\$ -	\$ (9,301,667)	\$ -	\$ (9,301,667)
Public services	4,916,027	384,618	497,877	(4,033,532)	-	(4,033,532)
Member services	24,364,583	20,059,591	1,123,281	(3,181,711)	-	(3,181,711)
Public protection	13,612,929	577,314	-	(13,035,615)	-	(13,035,615)
<b>Total governmental activities</b>	<b>52,696,812</b>	<b>21,523,129</b>	<b>1,621,158</b>	<b>(29,552,525)</b>	<b>-</b>	<b>(29,552,525)</b>
Business-type activities:						
Books	3,760,496	2,295,723	-	-	(1,464,773)	(1,464,773)
<b>Total business-type activities</b>	<b>3,760,496</b>	<b>2,295,723</b>	<b>-</b>	<b>-</b>	<b>(1,464,773)</b>	<b>(1,464,773)</b>
<b>Total primary government activities</b>	<b>\$ 56,457,308</b>	<b>\$ 23,818,852</b>	<b>\$ 1,621,158</b>	<b>(29,552,525)</b>	<b>(1,464,773)</b>	<b>(31,017,298)</b>
General revenues:						
Membership dues				23,038,553	-	23,038,553
Investment income				448,156	5,822	453,978
Royalty revenue				1,291,089	1,049,625	2,340,714
Other income				242,749	-	242,749
Loss on disposal of capital assets				(2,753)	-	(2,753)
<b>Total general revenues</b>				<b>25,017,794</b>	<b>1,055,447</b>	<b>26,073,241</b>
<b>Change in net position</b>				<b>(4,534,731)</b>	<b>(409,326)</b>	<b>(4,944,057)</b>
Net position at beginning of year, as restated				(4,489,634)	(831,205)	(5,320,839)
Net position at end of year				<b>\$ (9,024,365)</b>	<b>\$ (1,240,531)</b>	<b>\$ (10,264,896)</b>

**State Bar of Texas**

**Balance Sheet—Governmental Funds  
May 31, 2018**

	General Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Current assets:				
Cash and cash equivalents—cash in bank	\$ 3,868,479	\$ 6,243,990	\$ 712,760	\$ 10,825,229
Investments	25,091,332	1,768,979	9,102,249	35,962,560
Receivables:				
Sales to members and others, net of an allowance for uncollectibles of \$3,138	59,620	-	-	59,620
Interest receivable	31,332	212	16,457	48,001
Other accounts receivable	1,971,718	66,322	6,943	2,044,983
Due from other governmental funds	1,109,894	738,148	1,222,714	3,070,756
Inventories	9,453	-	-	9,453
Prepaid items	504,335	30,243	282,983	817,561
<b>Total assets</b>	<b>\$ 32,646,163</b>	<b>\$ 8,847,894</b>	<b>\$ 11,344,106</b>	<b>\$ 52,838,163</b>
<b>Liabilities and Fund Balance</b>				
Current liabilities:				
Accounts payable	\$ 1,229,407	\$ 123,941	\$ -	\$ 1,353,348
Accrued liabilities	1,053,166	2,029	729	1,055,924
Due to other governmental funds	1,960,862	-	1,109,894	3,070,756
Due to enterprise fund	440,261	-	-	440,261
Due to agency fund	781,831	-	-	781,831
Unearned revenue	11,472,386	1,337,613	830,684	13,640,683
<b>Total current liabilities</b>	<b>16,937,913</b>	<b>1,463,583</b>	<b>1,941,307</b>	<b>20,342,803</b>
Fund balances:				
Nonspendable	513,788	30,243	282,983	827,014
Committed	3,154,677	7,354,068	9,119,816	19,628,561
Unassigned	12,039,785	-	-	12,039,785
<b>Total fund balances</b>	<b>15,708,250</b>	<b>7,384,311</b>	<b>9,402,799</b>	<b>32,495,360</b>
<b>Total liabilities and fund balances</b>	<b>\$ 32,646,163</b>	<b>\$ 8,847,894</b>	<b>\$ 11,344,106</b>	<b>\$ 52,838,163</b>

See notes to financial statements.

**State Bar of Texas**

**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
May 31, 2018**

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Total fund balance—Governmental Funds balance sheet	\$ 32,495,360
Amounts reported for governmental activities in the statement of net position are difference because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	6,953,989
The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Net pension liability	(56,802,309)
Capital lease payable	(84,555)
Accrued compensated absences	(1,467,752)
Change in deferred outflows related to net pension liability	11,639,847
Change in deferred inflows related to net pension liability	<u>(1,758,945)</u>
<b>Net position of governmental activities—statement of net position</b>	<b><u><u>\$ (9,024,365)</u></u></b>

See notes to financial statements.

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds  
Year Ended May 31, 2018

	General Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Membership dues	\$ 20,571,688	\$ 2,466,865	\$ -	\$ 23,038,553
Accounting and management fees	650,351	-	-	650,351
Texas Bar Journal	530,322	-	-	530,322
MCLE fees	2,903,788	-	-	2,903,788
Professional development	13,941,859	-	-	13,941,859
Minority affairs	409,437	-	-	409,437
Investment income	326,166	26,550	95,440	448,156
Grant revenue	-	-	528,777	528,777
Member benefits	831,891	-	-	831,891
Website	429,303	-	-	429,303
Advertising review	385,975	-	-	385,975
Other income	1,489,183	1,143,805	2,118,098	4,751,086
<b>Total revenues</b>	<b>42,469,963</b>	<b>3,637,220</b>	<b>2,742,315</b>	<b>48,849,498</b>
<b>Expenditures:</b>				
Executive	2,174,881	-	-	2,174,881
External affairs	1,303,609	-	-	1,303,609
Member and public service	1,904,386	-	-	1,904,386
Professional development	9,840,136	-	-	9,840,136
Legal and attorney services	1,518,604	-	-	1,518,604
Access to justice commission	729,679	-	-	729,679
Attorney compliance	1,895,333	-	-	1,895,333
Administration	1,904,363	-	3,729	1,908,092
Finance and information technology	5,127,914	-	700,519	5,828,433
Communications	2,263,490	-	-	2,263,490
Public protection	10,548,855	-	894,799	11,443,654
Special services	-	3,608,968	2,216,119	5,825,087
Expenditures related to Board commitments	1,632,319	-	-	1,632,319
Capital outlay	-	-	271,349	271,349
Debt service:				
Principal	-	-	46,530	46,530
Interest	-	-	6,554	6,554
<b>Total expenditures</b>	<b>40,843,569</b>	<b>3,608,968</b>	<b>4,139,599</b>	<b>48,592,136</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,626,394</b>	<b>28,252</b>	<b>(1,397,284)</b>	<b>257,362</b>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	1,838,800	1,838,800
Transfers out	(1,838,800)	-	-	(1,838,800)
<b>Total other financing sources (uses)</b>	<b>(1,838,800)</b>	<b>-</b>	<b>1,838,800</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(212,406)</b>	<b>28,252</b>	<b>441,516</b>	<b>257,362</b>
Fund balances at beginning of year, as restated	15,920,656	7,356,059	8,961,283	32,237,998
Fund balances at end of year	\$ 15,708,250	\$ 7,384,311	\$ 9,402,799	\$ 32,495,360

See notes to financial statements.

State Bar of Texas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the  
Governmental Funds to the Statement of Activities  
Year Ended May 31, 2018

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Net change in fund balance—total Governmental Funds	\$	257,362
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense:		
Capital outlay—exclusive of noncapitalized items		115,981
Depreciation and amortization expense		(846,555)
Loss on disposal of capital assets		(2,753)
Proceeds from capital leases provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the statement of net position; repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net position:		
Repayment of capital leases		46,530
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in pension liability and related deferred inflows and outflows		(4,100,388)
Change in compensated absences		(4,908)
		<hr/>
<b>Change in net position of governmental activities—statement of activities</b>	<b>\$</b>	<b>(4,534,731)</b>

See notes to financial statements.

State Bar of Texas

Statement of Net Position—Proprietary Fund  
May 31, 2018

	Law Practice Resource Management
<b>Assets</b>	
Current assets:	
Accounts receivable, net of allowance for uncollectibles of \$74,008	\$ 710,184
Due from other funds	440,261
Inventories, net of obsolescence	758,756
<b>Total current assets</b>	<u>1,909,201</u>
Noncurrent assets:	
Capital assets—furniture, fixtures, computer equipment, digital publication and other equipment, net of accumulated depreciation and amortization of \$318,315	<u>35,322</u>
<b>Total assets</b>	<u>\$ 1,944,523</u>
<b>Deferred Outflows of Resources—pension liability</b>	<u>\$ 742,969</u>
<b>Liabilities</b>	
Current liabilities:	
Accrued liabilities	\$ 94,708
Accrued compensated absences	34,698
<b>Total current liabilities</b>	<u>129,406</u>
Noncurrent liabilities:	
Accrued compensated absences	60,665
Net pension liability	3,625,679
<b>Total noncurrent liabilities</b>	<u>3,686,344</u>
<b>Total liabilities</b>	<u>\$ 3,815,750</u>
<b>Deferred Inflows of Resources—pension liability</b>	<u>\$ 112,273</u>
<b>Net Position</b>	
Investment in capital assets	\$ 35,322
Unrestricted	<u>(1,275,853)</u>
<b>Total net position</b>	<u>\$ (1,240,531)</u>

See notes to financial statements.

**State Bar of Texas**

**Statement of Revenues, Expenses and Changes in Net Position—Proprietary Fund  
Year Ended May 31, 2018**

	Law Practice Resource Management
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Operating revenues:	
Charges for sales and services:	
Book sales	\$ 2,295,723
Royalty revenue	1,049,625
<b>Total operating revenues</b>	<u>3,345,348</u>
Operating expenses:	
Salaries	1,275,044
Professional services	41,172
Education and training	11,103
Costs of goods sold	677,979
Administrative	602,777
Benefits	666,452
Dues, subscriptions and licenses	50,685
Insurance	5,910
Meetings and conferences	1,182
Postage and freight	162,233
Publicity and advertising	3,200
Rentals—office, equipment and storage	175,626
Repair and maintenance	26,610
Supplies, awards, gifts and specialty items	24,448
Telephone	4,563
Travel	31,512
<b>Total operating expenses</b>	<u>3,760,496</u>
<b>Operating loss</b>	<u>(415,148)</u>
Nonoperating revenues:	
Investment income	5,822
<b>Total nonoperating revenues</b>	<u>5,822</u>
<b>Change in net position</b>	(409,326)
Net position at beginning of year	<u>(831,205)</u>
Net position at end of year	<u>\$ (1,240,531)</u>

See notes to financial statements.

**State Bar of Texas**

**Statement of Cash Flows—Proprietary Fund  
Year Ended May 31, 2018**

	Law Practice Resource Management
Cash flows from operating activities:	
Receipts from customers	\$ 2,055,175
Receipts from royalties	1,049,625
Payments to suppliers for goods and services	(2,269,397)
Payments to employees	(1,272,467)
<b>Net cash used in operating activities</b>	<u>(437,064)</u>
Cash flows from noncapital financing:	
Interfund transactions	431,242
<b>Net cash used in noncapital financing</b>	<u>431,242</u>
Cash flows from investing activities:	
Interest received	5,822
<b>Net cash provided by investing activities</b>	<u>5,822</u>
<b>Net change in cash and cash equivalents</b>	-
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (415,148)
Bad-debt expense	16,113
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(256,661)
Inventories—lower of cost or market	(103,770)
Accrued liabilities	52,479
Accrued compensated absences	8,197
Net pension liability	386,635
Deferred outflows of resources	150,614
Deferred inflows of resources	(275,523)
<b>Net cash used in operating activities</b>	<u><u>\$ (437,064)</u></u>

See notes to financial statements.

**State Bar of Texas**

**Statement of Net Position—Fiduciary Funds  
May 31, 2018**

	Agency Funds	State Bar of Texas Insurance Trust
<b>Assets</b>		
Cash in bank	\$ -	\$ 259,700
Accounts receivable	-	14,465
Due from general fund	781,831	-
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 781,831</b>	<b>\$ 274,165</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ -	\$ 17,340
Due to other funds	-	8,252
Due to other organizations	781,831	-
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>\$ 781,831</b>	<b>\$ 25,592</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Net Position</b>	<b>\$ -</b>	<b>\$ 248,573</b>
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See notes to financial statements.

**State Bar of Texas**

**Statement of Changes in Net Position—Fiduciary Funds  
Year Ended May 31, 2018**

	State Bar of Texas Insurance Trust
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Additions:	
Contributions of subscribers	\$ 6,595,701
Royalties	62,075
Rental	168,467
Commissions	39,629
Service agreement revenue	250,000
<b>Total additions</b>	<u>7,115,872</u>
Deductions:	
Premiums to insurance carrier	6,595,701
Accounting fees	34,624
Insurance	85,417
Printing, postage, supplies and miscellaneous	948
Rent	172,921
Service agreement fee	187,500
<b>Total deductions</b>	<u>7,077,111</u>
<b>Income before income tax benefit</b>	38,761
Income tax benefit	7,428
<b>Change in net position</b>	<u>31,333</u>
Net position at beginning of year	<u>217,240</u>
Net position at end of year	<u><u>\$ 248,573</u></u>

See notes to financial statements.

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## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

**Reporting entity:** The State Bar of Texas' (the State Bar) enabling legislation, Texas Rev. Civ. Stat. Ann. Art. 320a-1 (Vernon Supp. 1986), provides the authority for operations of the State Bar. In 1939, the State Bar was created by the State of Texas legislature. Located in the judicial branch of State government, its primary responsibility is to cooperate in the regulation of the practice of law in the State of Texas. The State Bar is an administrative branch or department of the Supreme Court of Texas. This report includes the funds and account groups required to account for those activities, organizations and functions which are related to the State Bar and are controlled by the State Bar. The State Bar is included in the financial statements of the State of Texas as a component unit.

The State Bar's major activities or functions include the collection and monitoring of membership dues, discipline of attorneys, development and accreditation of professional development courses, publishing and printing of legal text for sale to members, preparation and distribution of the Bar Journal and providing access to a database of legal information for member use. These activities are included in the accompanying financial statements.

**Component units:** Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government.

The State Bar appoints a majority of members to the Texas Bar Foundation's (the Foundation), the Texas Center for Legal Ethics' (the Center) and the Texas Legal Protection Plan, Inc.'s. (the Plan) governing body; however, because the State Bar is not in a position to impose its will on or significantly influence the programs, projects, activities or level of service performed by the Foundation, Center and the Plan, and because no financial burden or benefit exists between the State Bar and the Foundation, Center and the Plan, they are not considered a component unit of the State Bar.

**Blended component units:** The relationship among the following component units and the State Bar is such that it meets the criteria, as set forth in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34.*, for inclusion in the reporting entity and are such that the financial statements are blended with those of the State Bar.

The Texas Bar College (the College) is an honor society designed to recognize attorneys who accumulate at least twice as many continuing legal education credit hours each year than the minimum required. The College was created in 1981 by order of the Texas Supreme Court. The College is governed by an 18-member board of directors, of which, 12 members are appointed by the State Bar's President, and six members are appointed by the State Bar's President based on nominations submitted by the College's board. The College is a Section 501(c)(3) corporation and is self-funded through membership dues, investment income and merchandise sales. The College is reported as a Special Revenue Fund.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Law Focused Education, Inc. was created in 1975 as a Section 501(c)(3) corporation to plan, promote and support law-related education programs aimed at preparing elementary, middle and high school students for effective, responsible citizenship and who are committed to liberty, justice and the Rule of Law. Law Focused Education, Inc. is governed by a 16-member board of directors, all of which are appointed by the State Bar's President. Law Focused Education, Inc. is made up of two funds: Hatton W. Sumners Grants Fund and Law Focused Education, both of which are reported as Special Revenue Funds. Contact the Finance Division of the State Bar to obtain financial statements of the blended component units.

The State Bar of Texas Insurance Trust and Affiliate, which consists of The State Bar of Texas Insurance Trust (the Trust) and the SBIT Insurance Agency, LLC (the Agency). The State Bar of Texas Insurance Trust and Affiliate is custodial in nature and is reported with the fiduciary fund financial statements.

Subsequent to December 31, 2013, the Trust's agreement was amended to reduce the number of the members of its board of trustees from seven to three, all of which are members of the State Bar's Board. Prior to May 31, 2017, the State Bar was reporting it as a discrete component unit. At the time of the change in members of the board, State Bar should have re-evaluated the criteria as set forth in GASB Statement No. 61. Management performed the re-evaluation of the criteria in May 31, 2017, and determined the Trust meets the criteria for inclusion in the reporting entity as a blended component unit.

The Trust was formed in 1973 to provide group insurance benefits to members of the State Bar, including their employees, employees of the State Bar and the Trust and families of all eligible participants. Premiums for the group policies are collected by the Trust and are remitted to the insurance company, Prudential Insurance Company of America (Prudential), who underwrites the State Bar of Texas Insurance Program (the Program). Prudential is responsible for all claims.

The Agency was formed on January 11, 2005, as a general lines insurance agency. The Agency was formed to assist employees of the State Bar, the Trust and the families of eligible participants in acquiring insurance from companies other than those currently provided by the Trust. The Trust owns 100 percent of the membership interest of the Agency and is, therefore, consolidated in its financial statements. All intercompany balances and transactions have been eliminated.

**Government-wide and fund financial statements:** The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the State Bar and are reported on a full accrual basis of accounting, using the economic resource measurement focus, which recognizes all long-term assets and receivables, as well as long-term debt and obligations. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by dues, fees, grants and other revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position presents the State Bar's nonfiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. All capital asset depreciation is reported as a direct expense of the financial program that benefits from the use of the capital assets. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Membership dues and other items not required to be included among program revenues are reported instead as general revenues.

**Fund financial statements:** The fund financial statements provide information about the State Bar's funds, including its fiduciary funds and blended component units. Separate financial statements for each fund category—governmental, proprietary and fiduciary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**Fund accounting:** The accounts of the State Bar are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, deferred inflows/outflows, fund balance/net position, revenues and expenditures or expenses, as appropriate.

#### The fund structure:

**Governmental fund types:** The State Bar reports the following major governmental funds:

*General Fund:* The General Fund is the State Bar's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Special Revenue Funds:* The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Sections are a special revenue fund reported as major governmental fund. The Sections are created by the State Bar's Board and serve the individual members of the State Bar in certain legal specialization areas. The Sections' officers are elected by the members of the individual sections and are responsible for maintaining and administering their operations. Although the Sections collect a portion of their revenues and pay expenditures for administration and operations individually, the State Bar administers the collection of dues for the Sections. The State Bar believes it is unlikely that it will be required to use its assets to satisfy future claims of the Sections; however, the State Bar is liable for any claims should they occur.

**Proprietary Fund:** Proprietary fund types are used to account for the State Bar's ongoing activities, which are operated similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows.

*Enterprise Fund:* Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the State Bar has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accounting.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

The State Bar reports its Book Enterprise Fund, known as Law Practice Resource Management, as a major enterprise fund. The Book Enterprise Fund accounts for the activities relating to the sales of books. The principal operating revenues of the State Bar's Book Enterprise Fund are charges for the sales of books and royalty income. Operating expenses include the cost of sales and services, and administrative expenses.

Additionally, the State Bar reports the following nonmajor fund types:

*Special Revenue Funds:* The special revenue funds include: Texas Board of Legal Specialization Fund, Texas Bar College, Annual Meeting, Client Security Fund, Project Grants Fund, Hatton W. Sumners Grants Fund, Law Focused Education and Department of Public Service.

*Capital Projects Funds:* The capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds. The capital projects funds include the Texas Law Center and the Technology Fund.

*Fiduciary funds:* Fiduciary funds account for assets held by the State Bar in a trustee or agency capacity for the benefit of others and cannot be used to support the State Bar's activities. The State Bar has the following fiduciary fund types:

- Agency fund—The agency fund is custodial in nature and is used to account for reporting voluntary access to justice contributions.
- Component unit—Additional information about the blended presented component unit, the State Bar of Texas Insurance Trust and Affiliate can be found on pages 26-27.

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds do not have a measurement focus, but are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Internal activity between funds is eliminated in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus means that only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present resources (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues earned are recognized as soon as they are both measurable and available. For this purpose, State Bar considers revenues to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State Bar considers revenues to be available if they are collected within 60 days after year-end.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, other postemployment benefits, pension related amounts and claims and judgments are recognized as expenditures only when the liability has matured and payment is due. Capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital financing and capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State Bar's proprietary funds are charges for services. Operating expenses for proprietary funds include the costs of sales, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Budget and budgetary accounting:** The State Bar's budget is prepared annually by the Executive Director and is reviewed by the budget committee of the Board. The budget passes several stages of review, including a public hearing, adoption by the Board and approval by the Supreme Court of Texas. The budget may be amended at any meeting of the Board, but the amendments made are subject to the approval of the Supreme Court of Texas. Variances from budgeted revenues and expenditures are analyzed by management, the finance committee, the executive committee and the Board. Regulations do not prohibit the State Bar from having unfavorable variances.

#### **Assets, deferred outflows of resources, liabilities, deferred inflows of resources and fund balances/net position:**

**Cash and cash equivalents:** The State Bar's cash and cash equivalents are considered to be demand deposits, petty cash and money market accounts. Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

**Investments:** Investments consist primarily of United States treasury securities, government agency securities, commercial paper and money market mutual funds, which are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investments are reported at fair value based upon quoted market prices, or when quoted market prices are not readily determinable, estimated fair values using observable inputs including quoted prices for similar securities, interest rates, and a fixed income pricing model which uses available market rates. Investments in nonnegotiable certificates of deposit are reported at amortized costs.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

Chapter 2256 of the Texas Governmental Code (Public Funds Investment Act) authorizes the State Bar to invest in funds under a written investment policy. The State Bar's deposits and investments are invested pursuant to the investment policy, which is approved annually by the Board. The primary objectives of the State Bar's investment strategy, in order of priority, are preservation and safety of principal, liquidity and return on investment.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Receivables:** Receivables represents amounts due from sales to members and others. All receivables are shown net of an allowance for uncollectibles, if applicable. The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to net position. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credit to the allowance. The allowance for doubtful accounts is evaluated on a regular basis on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires, estimates that are susceptible to significant revision as more information becomes available. At May 31, 2018, the State Bar governmental activities and business-type activities reported an allowance of \$3,138 and \$74,008, respectively.

**Inventories:** Inventories consists of merchandise such as books and other publications held for sale by the State Bar, which are valued at the lower of cost or market. Cost is determined for inventories on the first-in, first-out method. Merchandise inventories reported in the General Fund are offset in the fund level financial statements by a nonspendable fund balance to indicate they do not represent available spendable resources.

**Prepaid items:** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items are recorded as expenditures/expenses when consumed rather than when purchased.

**Capital assets:** Capital assets, consisting of land, buildings, furniture and fixtures, computer equipment, software and other equipment, are reported in the governmental activities and business-type activities columns of the government-wide financial statements and proprietary fund financial statements. Capital assets are defined by the State Bar as assets with an initial cost of at least \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Land and construction in progress are not depreciated. The other capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Description	Asset Life
Buildings	30 years
Furniture and fixtures	10-20 years
Computer equipment	3-5 years
Software	3-5 years
Other equipment	5-10 years

**Accounts payable:** Accounts payable represent the liability for the value of assets or services received at the balance sheet date for which payment is pending.

**Unearned revenue:** The State Bar collects certain dues, fees and subscription revenue in advance for future events or for license, fees and memberships with periods beginning subsequent to year-end. These receipts are accounted for as unearned revenue, which will be earned and recognized in the subsequent fiscal year, as the events occur and the licenses and memberships commence.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Capital lease:** Capital lease obligations represent the liability for future lease payments under capital lease. Liabilities are reported separately as either current or noncurrent in the statement of net position.

**Compensated absences:** The State Bar grants paid annual leave to its employees. The amount of annual leave that employees accrue depends on the length of State of Texas service as of the employee's anniversary date and accrued days and allowable carryover hour's increases with the length of service. Subject to certain limitations and requirements, employees' accrued annual leave may be used while employed, through the transfer to another State of Texas agency, at the termination of employment, at death or retirement. The current and long-term liabilities for accumulated vacation are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds upon the occurrence of relevant events such as resignations, retirements and other uses of leave balances by covered employees. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid. Accrued annual leave of \$1,467,752 and \$95,363 was recorded as accrued compensated absences for governmental activities and business-type activities, respectively, for the year ended May 31, 2018.

**Pensions:** The fiduciary net position of the Employees Retirement System of Texas Plan (ERS) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for purposes of measuring the State Bar's net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense and information about assets, liabilities and additions and deductions from ERS's fiduciary net position. Benefit payments by ERS (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the plan. Investments of ERS are reported at fair value.

**Deferred outflows/inflows of resources:** In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. Deferred outflows of resources consists of items not yet charged to pension expense and contributions from State Bar after the measurement date but before the end of State Bar's reporting period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of items including difference between expected and actual experience, changes in assumptions and the change in proportion and contribution differences.

**Net position:** Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the government-wide financial statements and proprietary fund financial statements. Net position consists of the following:

**Net investment in capital assets:** Consists of capital assets, net of accumulated depreciation and amortization, reduced by outstanding capital lease obligations attributed to the acquisition of those assets.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Restricted net position:** Net position is reported as restricted when there are external limitations imposed on its use by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net position:** Represents the remaining portion of net position.

**Fund balance:** Fund balance is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the governmental fund financial statements. Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund statements.

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, such as inventories and prepaid items, or amounts that are legally or contractually required to be maintained intact. The nonspendable form criterion includes items that are not expected to be converted to cash.

**Restricted:** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Legal enforceability means that the State Bar can be compelled by an external party, such as citizens, public interest groups or the judiciary, to use resources created by enabling legislation only for the purposes specified by the legislation.

**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to a fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. The committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the State Bar for specific purposes, but do not meet the criteria to be classified as restricted or committed. In Governmental Funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or a State Bar official delegated by the Board or by resolution.

**Unassigned:** Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other Governmental Funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

## State Bar of Texas

### Notes to Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance/net position are available, the State Bar considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned/unrestricted funds, as needed, unless the Board or its delegated official has provided otherwise in its commitment or assignment actions.

The following table details fund balances between the various categories:

	General Fund	Sections	Nonmajor Governmental Funds	Total
Fund balances:				
Nonspendable:				
Inventories	\$ 9,453	\$ -	\$ -	\$ 9,453
Prepaid items	504,335	30,243	282,983	817,561
Total nonspendable	513,788	30,243	282,983	827,014
Committed to:				
Texas Law Center projects	-	-	3,676,630	3,676,630
Access to Justice (ATJ) student loan repayment program	350,000	-	-	350,000
Run-off Election Reserve	70,000	-	-	70,000
Document Preservation	50,000	-	-	50,000
Presidential initiatives	157,867	-	-	157,867
Statewide Pro Bono Recruitment Campaign	159,060	-	-	159,060
Ethics Initiatives	12,431	-	-	12,431
Texas Opportunity and Justice Incubator Program	755,278	-	-	755,278
Legal Access Division Programs	600,041	-	-	600,041
Referendum reserve	100,000	-	-	100,000
Client Security Fund Transfer	800,000	-	-	800,000
Archives Digitization Project	100,000	-	-	100,000
Client Security Fund expenditures	-	-	2,029,906	2,029,906
Sections expenditures	-	7,354,068	-	7,354,068
Information technology projects	-	-	1,170,697	1,170,697
Special revenue funds	-	-	2,242,583	2,242,583
Total committed	3,154,677	7,354,068	9,119,816	19,628,561
Unassigned	12,039,785	-	-	12,039,785
Total fund balances	\$ 15,708,250	\$ 7,384,311	\$ 9,402,799	\$ 32,495,360

At the September 2005 Board meeting, the Board adopted a financial policy to maintain a minimum level of unrestricted fund balance. The minimum level for the year ended May 31, 2018, is approximately \$9.9 million of the unassigned fund balance. The target level is based on 2.9 months of budgeted operating expenditures.

**Transfers:** Legally required transfers that are reported when incurred as transfers in by the recipient fund and as transfers out by the disbursing fund. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

**Reimbursements:** Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

## State Bar of Texas

### Notes to Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

**Interfund receivables and payables:** Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are shown in the financial statements as, due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. These balances will be repaid within the next year and, therefore, are classified as current.

**Interfund sales and purchases:** Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

The composition of the State Bar's interfund activities and balances are presented in Note 12.

**Significant estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Note 2. Capital Assets

Capital asset activity for the year ended May 31, 2018, was as follows:

	Beginning Balance	Completed CIP	Additions	Deletions	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 154,074	\$ -	\$ -	\$ -	\$ 154,074
Construction in progress	617,584	(617,584)	20,960	-	20,960
Total capital assets not being depreciated	771,658	(617,584)	20,960	-	175,034
Capital assets being depreciated and amortized:					
Buildings	6,489,602	-	-	-	6,489,602
Furniture, fixtures, computer equipment software and other equipment	15,028,306	617,584	95,021	(245,093)	15,495,818
Total capital assets being depreciated and amortized	21,517,908	617,584	95,021	(245,093)	21,985,420
Less accumulated depreciation and amortization for:					
Buildings	(5,665,574)	-	-	-	(5,665,574)
Furniture, fixtures, computer equipment software and other equipment	(8,936,676)	-	(846,555)	242,340	(9,540,891)
Total accumulated depreciation and amortization	(14,602,250)	-	(846,555)	242,340	(15,206,465)
Total capital assets being depreciated and amortized, net	6,915,658	617,584	(751,534)	(2,753)	6,778,955
Governmental activities capital assets, net	\$ 7,687,316	\$ -	\$ (730,574)	\$ (2,753)	\$ 6,953,989
Business-type activities:					
Furniture, fixtures, computer equipment software and other equipment	353,637	-	-	-	353,637
Accumulated depreciation and amortization	(318,315)	-	-	-	(318,315)
Business-type activities capital assets, net	\$ 35,322	\$ -	\$ -	\$ -	\$ 35,322

## State Bar of Texas

### Notes to Financial Statements

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#### Note 2. Capital Assets (Continued)

Depreciation and amortization expense for the year ended May 31, 2018, was allocated in the following manner:

Functions/programs:	
General government	\$ 823,745
Member services	22,810
	<u>\$ 846,555</u>

There was no depreciation and amortization expense for business-type activities for the year ended May 31, 2018, because assets were fully depreciated. The remaining balance is considered salvage value.

#### Note 3. Deposits, Investments and Repurchase Agreements

**Deposits of cash in bank:** As of May 31, 2018, the carrying amount of deposits was \$11,084,929 as presented below:

	Carrying Amount	Bank Balance
Governmental, business-type and fiduciary activities:		
Cash in bank—carrying amount	\$ 6,134,737	\$ 6,873,328
Money market funds—carrying amount at amortized cost	4,950,192	5,040,120
Total cash in bank	<u>\$ 11,084,929</u>	<u>\$ 11,913,449</u>

These amounts are included on the statement of net position and statement of net position—fiduciary funds as cash and cash equivalents.

**Custodial credit risk:** In the case of deposits, the risk is that in the event of a bank failure, the State Bar will not be able to recover deposits or collateral securities that are in the possession of an outside party. The State Bar has a deposit policy for custodial credit risk, which requires bank deposit accounts to be collateralized with pledge securities. There is no limit on the amount the State Bar may deposit in any one institution. As of May 31, 2018, the State Bar's deposits are not exposed to deposit custodial credit risk because they are collateralized with securities held by the Federal Reserve in the State Bar's name in the amount of approximately \$16.3 million. The State Bar does not have funds that are held in foreign currency.

**Investments:** State Bar uses various methods to measure the fair value of investments on a recurring basis. GASB Statement No. 72, *Fair Value Measurement and Application* established a hierarchy that prioritizes inputs to valuation methods. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities that the State Bar has the ability to access at the measurement date.
- Level 2 inputs are observable inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

## State Bar of Texas

### Notes to Financial Statements

#### Note 3. Deposits, Investments, and Repurchase Agreements (Continued)

- Level 3 inputs are unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the State Bar's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

As of May 31, 2018, the fair value of investments were:

#### Governmental activities:

	Carrying Value	Fair Value Measurements Using			Amortized Cost
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed income securities:					
U.S. Treasury securities	\$ 8,993,684	\$ 8,993,684	\$ -	\$ -	\$ -
U.S. government agency obligations	10,546,241	-	10,546,241	-	-
Commercial paper	6,432,978	-	6,432,978	-	-
Money market mutual funds	4,689,127	4,689,127	-	-	-
Certificates of deposit	5,300,530	-	-	-	5,300,530
Total investments	<u>\$ 35,962,560</u>	<u>\$ 13,682,811</u>	<u>\$ 16,979,219</u>	<u>\$ -</u>	<u>\$ 5,300,530</u>

U.S. Treasury securities are valued using closing bid quoted market prices as of the last business day of the month (Level 1 inputs). U.S. government agency obligations and commercial paper are valued using a yield-based matrix pricing model (Level 2 inputs). Certificates of deposits are valued at amortized cost.

*Custodial credit risk:* In the case of investments, there is a risk that in the event of the failure of a counterparty, the State Bar will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State Bar's investment policy requires that all deposits are fully insured or collateralized, as required by the Public Funds Collateral Act, 2257, of the Texas Government Code. The State Bar had no exposure to investment custodial credit risk at May 31, 2018, because all certificates of deposit were fully covered by Federal Deposit Insurance Corporation and all other investments are held in the State Bar's name.

## State Bar of Texas

### Notes to Financial Statements

#### Note 3. Deposits, Investments, and Repurchase Agreements (Continued)

*Credit risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Bar's investment policy allows for various types of investments including: United States government agency obligations, United States Treasury securities, certificates of deposit, Banker's acceptances, repurchase agreements, money market mutual funds and commercial paper. Investments in United States government agency obligations are not guaranteed by the United States government, but are government sponsored enterprises. As of May 31, 2018, State Bar's credit quality distribution for securities was:

Investment Type	Standard and Poor's Ratings				Total
	AAA	AA+	A-1+	A-1	
U.S. Treasury securities	\$ -	\$ 8,993,684	\$ -	\$ -	\$ 8,993,684
U.S. government agency obligations	-	10,413,792	-	-	10,413,792
Money market mutual funds	4,689,127	-	-	-	4,689,127
Commercial paper	-	-	1,490,574	4,942,404	6,432,978
	<u>\$ 4,689,127</u>	<u>\$ 19,407,476</u>	<u>\$ 1,490,574</u>	<u>\$ 4,942,404</u>	<u>30,529,581</u>
GNMA Pool—not applicable					132,449
Certificates of deposit—not rated					5,300,530
					<u>\$ 35,962,560</u>

*Concentration of credit risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. The State Bar is authorized to invest funds in accordance with its investment policy and the Texas Public Funds Investment Act. Authorized investments include, but are not limited to:

1. U.S. Treasury and federal agency securities—up to 100 percent of the investment portfolio (IP)
2. Mortgage-backed securities—guaranteed by U.S. government-sponsored agencies up to 30 percent of the IP
3. Certificates of deposit—up to 30 percent of the IP, but no more than 5 percent with any single issuer
4. Bankers acceptance—up to 15 percent of the IP, but no more than 5 percent with any single issuer
5. Repurchase agreements—up to 30 percent of the IP, but no more than 10 percent with any single issuer
6. Money market mutual funds—up to 100 percent of the IP
7. Commercial paper—up to 30 percent of the IP, but no more than 5 percent with any single issuer

## State Bar of Texas

### Notes to Financial Statements

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#### Note 3. Deposits, Investments, and Repurchase Agreements (Continued)

As of May 31, 2018, the State Bar's investments consist of the following:

Issuer	Fair Value	Percentage
U.S. Treasury securities	\$ 8,993,684	25%
Federal Home Loan Mortgage Corp.	3,805,554	11%
Fannie Mae	6,608,238	18%
GNMA Pool	132,449	0%
Commercial paper	6,432,978	18%
Certificates of deposit	5,300,530	15%
Money market mutual funds	4,689,127	13%
Total investments	<u>\$ 35,962,560</u>	<u>100%</u>

*Interest rate risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the State Bar manages its exposure to declines in fair values by limiting the types of investment it allows and by limiting the average maturity to five years.

As of May 31, 2018, the State Bar's investments exposure to interest rate risk was as follows:

Description	Fair Value	Weighted-Average Maturity (In Days)
U.S. Treasury securities	\$ 8,993,684	317
U.S. government agency obligations	10,546,241	6,796
Commercial paper	6,432,978	153
Certificates of deposit	5,300,530	49
Money market mutual funds	4,689,127	29
Total investments	<u>\$ 35,962,560</u>	

#### Note 4. Short-Term Debt

The State Bar has no short-term debt to report for the fiscal year ended May 31, 2018.

**State Bar of Texas**

**Notes to Financial Statements**

**Note 5. Long-Term Liabilities**

A summary of changes in long-term liabilities during the year ended May 31, 2018 is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Governmental activities:</b>						
Capital lease obligations	\$ 131,085	\$ -	\$ (46,530)	\$ 84,555	\$ 46,571	\$ 37,984
Accrued compensated absences	1,462,844	940,892	(935,984)	1,467,752	578,121	889,631
Net pension liability	50,745,020	17,015,716	(10,958,427)	56,802,309	-	56,802,309
Total governmental activities	\$ 52,338,949	\$ 17,956,608	\$ (11,940,941)	\$ 58,354,616	\$ 624,692	\$ 57,729,924
<b>Business-type activities:</b>						
Accrued compensated absences	\$ 87,166	\$ 39,995	\$ (31,798)	\$ 95,363	\$ 34,698	\$ 60,665
Net pension liability	3,239,044	1,086,109	(699,474)	3,625,679	-	3,625,679
Total business-type activities	\$ 3,326,210	\$ 1,126,104	\$ (731,272)	\$ 3,721,042	\$ 34,698	\$ 3,686,344

**Note 6. Bonded Indebtedness**

The State Bar has no bonded indebtedness to report for the fiscal year ended May 31, 2018.

**Note 7. Derivatives**

The State Bar has no derivatives to report for the fiscal year ended May 31, 2018.

**Note 8. Leases**

**Capital lease obligations:** The State Bar entered into long-term leases for financing the purchase of certain capital assets and are recorded at the present value of the future minimum lease payments at the inception of the lease.

A summary of original capitalized costs of all such property under lease in addition to the accumulated depreciation as of May 31, 2018 is presented below.

	Governmental Activities		
	Assets	Accumulated Depreciation	Total
Other equipment	\$ 241,319	\$ (140,556)	\$ 100,763
Total	\$ 241,319	\$ (140,556)	\$ 100,763

## State Bar of Texas

### Notes to Financial Statements

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#### Note 8. Leases (Continued)

Future minimum lease payments under the capital leases, together with the net present value of all minimum lease payments as of May 31, 2018:

	Governmental Activities		
	Principal	Interest	Total Future Minimum Lease Payments
Years ending May 31:			
2019	\$ 46,571	\$ 4,228	\$ 50,799
2020	37,984	1,899	39,883
Totals	<u>\$ 84,555</u>	<u>\$ 6,127</u>	<u>\$ 90,682</u>

**Operating leases:** Rent expense incurred under all third-party office space and equipment operating leases for the year ended May 31, 2018, totaled \$829,645 for governmental activities and \$172,311 for fiduciary activities.

At May 31, 2018, the State Bar was obligated under operating leases for the regional Chief Disciplinary Counsel Department's and the Texas Board of Legal Specialization's office space, expiring through 2027. In addition, the State Bar has some short-term leases during the year May 31, 2018. The operating lease for fiduciary activities expired in April 2018 and was not renewed.

Future minimum lease payments on these operating leases are as follows:

	Governmental Activities
Years ending May 31:	
2019	\$ 559,731
2020	505,701
2021	424,340
2022	350,564
2023	357,541
2024-2027	695,082
	<u>\$ 2,892,959</u>

#### Note 9. Defined Benefit Pension Plans

**Plan description:** The State Bar contributes to the Employees Retirement System of Texas (ERS), a public employee retirement system. It is a single employer defined benefit pension plan, since the plan is for all state employees. For financial reporting purposes, ERS is treated as a cost-sharing plan, since each participating employer has an obligation to contribute. ERS provides service retirement, death and disability benefits to plan members and beneficiaries. ERS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle B, Employees Retirement System of Texas, which is subject to amendment by the Texas Legislature. The ERS' annual financial report and other required disclosure information are available by writing the Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711-3207 or by calling (512) 476-6431.

**State Bar of Texas**

**Notes to Financial Statements**

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**Note 9. Defined Benefit Pension Plans (Continued)**

**Plan benefits:** ERS plan covers members in employee and elected classes. The State Bar participates in the employee class. The benefit and contribution provisions of the ERS plan are authorized by state law and may be amended by the Legislature. The monthly benefit may vary by membership class:

- The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member’s average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before August 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after September 1, 2009, and before September 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after September 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.
- The monthly standard annuity of the elected class equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

**Contributions:** The contribution rates for the state and the members for the ERS plan for the measurement date of August 31, 2017 are presented in the table below:

Required Contribution Rates—ERS Plan					
Employer			Members		
Employee Class	Elected Class— Legislators	Elected Class— Other	Employee Class	Elected Class— Legislators	Elected Class— Other
10.00%	10.00%	10.00%	9.50%	9.50%	9.50%

The amount of State Bar’s contributions recognized by the ERS plan during the 2017 measurement period was \$1,935,008.

**Net pension liability:** The State Bar’s net pension liability was measured as of August 31, 2017, and the total pension liability is used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**Actuarial assumptions:** The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2011 through August 31, 2016.

**State Bar of Texas**

**Notes to Financial Statements**

**Note 9. Defined Benefit Pension Plans (Continued)**

The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2017:

Actuarial Methods and Assumptions	
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, open
Actuarial assumptions:	
Discount rate	5.36%
Investment rate of return	7.50%
Inflation	2.50%
Salary increase	2.5% to 9.3%
Mortality	RP-2014 Active Member Mortality Tables with generational mortality improvements projected from the year 2014, which is based on the most recent Ultimate MP Scale
Cost-of-living adjustments	None—Employee 3.5%—Elected

**Long-term expected rate of return on assets:** The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan's investment portfolio are presented below:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity	55%	4.57%
Global Credit	10%	0.29%
Intermediate Treasuries	15%	0.33%
Real Estate	10%	0.53%
Infrastructure	4%	0.29%
Hedge Funds	5%	0.40%
Cash	1%	0.00%
Total	100%	

**Discount rate:** A blended discount rate of 5.36 percent was applied to measure the total pension liability as of August 31, 2017. The 5.36 percent discount rate incorporated a 7.50 percent long-term expected rate of return on pension plan investments and 3.42 percent 20-year municipal bond rate based on Federal Reserve Statistical Release H.15. The long-term expected investment rate of return was applied to projected benefit payments through fiscal year 2050 and the municipal bond rate was applied to all benefit payments thereafter.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 9. Defined Benefit Pension Plans (Continued)

The projection of cash flows used to determine this blended discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll.

**Sensitivity analysis:** The following presents the net pension liability of the State Bar, calculated using the discount rate of 5.36 percent, as well as what State Bar's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.36 percent) or 1 percentage point higher (6.36 percent) than the current rate:

	1% Decrease	Rate	1% Increase
	4.36%	5.36%	6.36%
State Bar's proportionate share of net pension liability	\$ 78,758,326	\$ 60,427,988	\$ 44,144,576

**Pension plan fiduciary net position:** The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. ERS issues stand-alone audited Comprehensive Annual Financial Report (CAFR).

More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS' fiscal 2017 CAFR:

Employees Retirement System of Texas  
P. O. Box 13207  
Austin, TX 78711-3207  
[www.ers.texas.gov](http://www.ers.texas.gov)

**Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pension:** At May 31, 2018, the State Bar reported a liability of \$60,427,988 for its proportionate share of the net pension liability. The net pension liability was measured as of August 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State Bar's proportion of the net pension liability was based on a projection of the State Bar's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. The change of discount rate and a slight change in the assumption of the withdraw rate of member contributions at termination are the only assumption changes during the current measurement period.

There have been no changes to the benefit terms of the plan since the prior measurement date. The State Bar's proportion of the entire ERS Plan was 0.27637361% in fiscal year 2018 as compared to the 0.27324143% in the prior fiscal year.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 9. Defined Benefit Pension Plans (Continued)

At May 31, 2018, State Bar reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 359,606	\$ 57,202
Changes of assumptions	9,752,119	688,871
Net difference between projected and actual investment return	346,231	-
Change in proportion and contribution differences	428,523	1,125,145
Contributions subsequent to the measurement date	1,496,337	-
Total	<u>\$ 12,382,816</u>	<u>\$ 1,871,218</u>

Contributions made subsequent to the measurement date are eligible employer contributions made from September 1, 2017, through May 31, 2018, totaling \$1,496,337, which is reported as deferred outflows of resources and will be recognized as a reduction in the net pension liability for the year ending May 31, 2019.

Amounts currently reported as deferred outflows and inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense in the following years:

Years ending May 31:	
2019	\$ 5,196,780
2020	3,984,344
2021	338,509
2022	(504,372)
	<u>\$ 9,015,261</u>

#### Note 10. Deferred Compensation

The State Bar has no deferred compensation to report for the fiscal year ended May 31, 2018.

#### Note 11. Postemployment Health Care and Life Insurance Benefits

The State Bar provides eligible State Bar retirees are provided postemployment health care and life insurance benefits through the State Retiree Health Plan (SRHP). The financial statements of the SRHP are included in the audited annual financial report of the ERS. Audited financial statements and detailed actuarial information for the SRHP may be obtained by calling (512) 476-6431 or writing:

Employees Retirement System of Texas  
P.O. Box 13207  
Austin, Texas, 78711-3207

**Plan description:** The SRHP is a cost-sharing multiple-employer defined benefit plan. The SRHP provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by the Texas Insurance Code, Section 1551.102.

**State Bar of Texas**

**Notes to Financial Statements**

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**Note 11. Postemployment Health Care and Life Insurance Benefits (Continued)**

Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the SRHP. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

**Funding policy:** The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the State Bar pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above the State Bar's contributions. The Bar's contributions to the SRHP are directly paid to ERS. The maximum monthly employer contribution toward the health and basic life premiums of eligible retirees is disclosed in the following table. For the fiscal year ended May 31, 2018, the State Bar contributed \$873,769 to ERS for actuarially required contributions; therefore, there is no recognized obligation at year-end.

**Contribution Rates  
Retiree Health and Basic Life Premium  
For the Fiscal Year 2018**

**ERS SRHP**

Level of Coverage—Employer/Plan Member	Employer	Retiree
Retiree only	\$ 629.62	\$ -
Retiree/spouse	990.38	360.76
Retiree/children	871.16	214.54
Retiree/family	1,231.92	602.30

**Note 12. Interfund Activity and Transactions**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds. The composition of interfund balances as of May 31, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor governmental funds	\$ 1,109,894
Sections	General Fund	738,148
Nonmajor governmental funds	General Fund	1,222,714
Law Practice Resource Management	General Fund	440,261
Total		<u>\$ 3,511,017</u>

During the year, the General Fund transferred \$1,838,800 to nonmajor governmental funds to supplement operations and to fund claims, technology projects and future renovations to the Texas Law Center.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 13. Continuance Subject to Review

The State Bar is subject to the Texas Sunset Act (Chapter 325). Subsequent to May 31, 2016, the revised State Bar Act was approved (Texas Gov. Code Section 81.001 et. seq.), which recreated the State Bar until September 1, 2029, and thereafter, contingent upon the State of Texas legislature and the Supreme Court of Texas.

#### Note 14. Restatement

During fiscal year ended May 31, 2017 management identified an error in the recognition of revenue related to licenses. As a result, beginning governmental activities net position and aggregate remaining funds fund balance were restated, as noted below. The effect on the change in net position and net change in fund balances, previously reported is a \$7,218 increase in the change in net position of governmental activities and net change in fund balances.

	Fund Balance	Change in Fund Balance
Nonmajor Governmental Funds:		
Balances as previously reported	\$ 5,753,137	\$ 183,278
Recognition of revenue	624,458	7,218
Balances as restated	<u>\$ 6,377,595</u>	<u>\$ 807,736</u>
	Net Position	Change in Net Position
Governmental activities:		
Balances as previously reported	\$ (5,114,092)	\$ (2,030,365)
Recognition of revenue	624,458	7,218
Balances as restated	<u>\$ (4,489,634)</u>	<u>\$ (1,405,907)</u>

#### Note 15. Contingencies and Commitments

The State Bar has no contingencies or commitments to report for the fiscal year ended May 31, 2018.

#### Note 16. Subsequent Events

Management evaluated the need for disclosures and/or adjustments resulting from subsequent events through November 20, 2018, the date the financial statements were available to be issued.

There are no subsequent events that necessitate disclosure and/or adjustments.

#### Note 17. Risk Management

The State Bar is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The State Bar purchased commercial insurance to cover risks associated with potential claims in 2018. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

## State Bar of Texas

### Notes to Financial Statements

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#### **Note 17. Risk Management (Continued)**

**Health, life and dental:** Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. State Bar employees are included in the Texas Employees Group Benefits Program (GBP) administered by the ERS, whose risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

**Texas Employees Group Benefits Program:** Claims for health, life, accidental death and dismemberment, disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations contracts.

#### **Note 18. Management's Discussion and Analysis (MD&A)**

See pages 3-13 for MD&A.

#### **Note 19. The Financial Reporting Entity**

See pages 29-38.

#### **Note 20. Stewardship, Compliance and Accountability**

The State Bar had none to report.

#### **Note 21. Not Applicable**

#### **Note 22. Donor-Restricted Endowments**

The State Bar has no donor-restricted endowments to report for the fiscal year ended May 31, 2018.

#### **Note 23. Extraordinary and Special Items**

The State Bar has no extraordinary or special items to report for the fiscal year ended May 31, 2018.

## State Bar of Texas

### Notes to Financial Statements

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#### Note 24. Disaggregation of Receivable Balances

The State Bar had other accounts receivable at May 31, 2018, which consisted of the following:

General Fund:	
Clerk of the Supreme Court	\$ 1,531,178
WeWork	52,025
Texas Center for Legal Ethics	47,731
Texas Supreme Court Historical Society	21,196
SBOT Insurance Trust	8,252
Texas Bar Foundation	38,015
Texas Access to Justice Foundation	91,685
Other	181,636
	<hr/>
	1,971,718
Sections:	
Family Law Royalties	54,961
Other	11,361
	<hr/>
	66,322
Nonmajor governmental funds:	
Refundable deposits	6,943
Total	<hr/>
	\$ 2,044,983

#### Note 25. Termination Benefits

The State Bar has no termination benefits to report for the fiscal year ended May 31, 2018.

#### Note 26. Component Unit—State Bar of Texas Insurance Trust and Affiliate

**Agreement between primary government and component unit:** The Trust entered into a professional services agreement on April 14, 2016. Under this agreement, the State Bar established and maintains a private insurance exchange through which qualified insurance companies can market and sell their products to members of the State Bar. The Trust offers insurance coverage to members of the State Bar and have been allowed to participate in the State Bar private insurance exchange since inception in October 2013. This agreement provides for the payment of an initial fee of \$687,000 and an annual fee of \$250,000 thereafter, paid quarterly beginning June 1, 2016, by the Trust to the State Bar in exchange for the State Bar's professional services.

**Contributions of subscribers and premiums to insurance carrier:** Contributions of subscribers, as required by the Program, are credited to net position. In turn, premiums for insurance coverage are charged against net position and are payable to the insurance carrier, in accordance with applicable policy provisions, in amounts based on rates established by the carrier. The Trust may retain up to 5 percent of contributions received from individual members as an administrative fee.

**Royalties:** Royalties are received from an administration agreement between the Trust and Business Planning Concepts, Inc. (dba Member Benefits), whereby Member Benefits provides administrative duties pertaining to the insurance program offered by the Trust. Royalty income is recognized when Member Benefits collects the premiums.

## State Bar of Texas

### Notes to Financial Statements

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#### **Note 26. Component Unit—State Bar of Texas Insurance Trust and Affiliate (Continued)**

**Commissions:** Effective January 2, 2014, the Trust entered into a purchase and sales agreement with Member Benefits. Under this agreement the State Bar of Texas Insurance Trust agreed to sell its book of medical insurance business and its Affiliate agreed to sell its book of individual and small group medical insurance business to Member Benefits for a purchase price equal to 15 percent of revenues received in connection with the books of business. Monthly payments related to this agreement began on February 15, 2014, and will continue monthly for a total of 72 months. Commission revenue is recognized when Member Benefits receives the commissions related to the sold insurance policies.

**Rental income:** Rental income is recognized on a straight-line basis over the term of each lease.

**Service agreement revenue:** The Trust recognizes service revenue when expenses are incurred that require a withdrawal from the premium stabilization fund.

**Income taxes:** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and noncurrent based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. The Trust's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At May 31, 2018, no interest or penalties have been or are required to be accrued. The Trust, generally, is no longer subject to income tax examinations by federal authorities for years prior to December 31, 2014.

The Trust and Agency are subject to the Texas gross margin tax. The Trust files a United States federal income tax return.

**Description of the Program:** The Program is a multiple-employer welfare arrangement, which provides for in-hospital disability income, group term life, long-term disability, office overhead and personal accident benefits. The Program, including all claims and incurred, but not reported claims, are fully insured through contracts with Prudential. The Trust has no benefit obligations outstanding as of May 31, 2018.

**Contributions:** At the option of each subscriber, contributions from insured employees may be required to defray the cost of providing insurance under a policy.

**Program terminations:** In the event the Program terminates, the net position of the Program will be allocated, as prescribed by the Trust Agreement, to provide the following benefits in the order indicated:

1. To liquidate all obligations of the Program;
2. To continue insurance on all those insured to the extent possible; and
3. To be applied to either the benefit of those insured or paid directly to the insured.

## State Bar of Texas

### Notes to Financial Statements

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#### **Note 26. Component Unit—State Bar of Texas Insurance Trust and Affiliate (Continued)**

**Reserve for premium stabilization:** The underwriter of the Program, Prudential, maintains a premium stabilization reserve on behalf of the Trust. The reserve's purpose is to equalize the net premium cost to the Trust and, thus, minimize fluctuations in premium cost from year-to-year by reason of variation in claim experience. Together, these funds comprise the reserve for premium stabilization.

The premium stabilization fund represents the accumulation of (a) premiums paid in excess of claims and other charges and (b) interest credited to the funds. This fund is used under the terms of each contract for the payment of claims, expenses and other charges under the contract in any policy year in which such claims, expenses and other charges exceed the amount of premiums paid by the Trust. Interest is earned on the reserve at rates determined annually by the underwriters.

The Program year under the contract with Prudential is July 1 through June 30. The stabilization fund totaled \$2,121,757.

The Trust has a May year-end, while the insurance carriers utilized by the Trust use a June year-end. It is not reasonably possible for the assets deposited with the insurance carriers to be estimated at the Trust's year-end and, therefore, these amounts are disclosed in the notes to the consolidated financial statements as of June 30, 2017.

In the event of termination of the insurance contract, balances, if any, remaining in the reserve after final adjustments, payment of claims, expenses, and other contractual changes would be paid to the Trust as return of premiums. The Trust is not liable for any deficit in the premium stabilization reserve.

#### **Note 27. Service Concession Arrangements**

The State Bar has no service concession arrangements to report for the fiscal year ended May 31, 2018.

#### **Note 28. Deferred Outflows of Resources and Deferred Inflows of Resources**

See page 48.

#### **Note 29. Troubled Debt Restructuring**

The State Bar has no troubled debt restructurings to report for the fiscal year ended May 31, 2018.

#### **Note 30. Nonexchange Financial Guarantees**

The State Bar has no nonexchange financial guarantees to report for the fiscal year ended May 31, 2018.

#### **Note 31. Tax Abatements**

The State Bar has no tax abatements to report for the fiscal year ended May 31, 2018.

#### **Note 32. Governmental Fund Balances**

See pages 36-37.

**Required Supplemental Information (Unaudited)**

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund  
Year Ended May 31, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget
<b>Revenues:</b>				
Membership dues	\$ 20,547,688	\$ 20,547,688	\$ 20,571,688	\$ 24,000
Accounting and management fees	650,351	650,351	650,351	-
Texas Bar Journal	551,200	551,200	530,322	(20,878)
MCLE fees	3,103,800	3,103,800	2,903,788	(200,012)
Professional development	13,613,424	13,613,424	13,941,859	328,435
Minority affairs	347,700	347,700	409,437	61,737
Investment income	110,000	110,000	326,166	216,166
Member benefits	724,852	724,852	831,891	107,039
Website	360,000	360,000	429,303	69,303
Advertising review	378,500	378,500	385,975	7,475
Other income	1,342,525	1,342,525	1,489,183	146,658
<b>Total revenues</b>	<b>41,730,040</b>	<b>41,730,040</b>	<b>42,469,963</b>	<b>739,923</b>
<b>Expenditures:</b>				
<b>Executive:</b>				
Office of Executive Director	638,120	638,120	603,648	34,472
Deputy Director and Legal Counsel	640,944	640,944	617,775	23,169
Assistant Deputy Director	214,229	214,229	204,602	9,627
Officers and directors	836,836	836,836	748,856	87,980
<b>Total executive</b>	<b>2,330,129</b>	<b>2,330,129</b>	<b>2,174,881</b>	<b>155,248</b>
<b>External Affairs:</b>				
External Affairs Officer	313,928	313,928	238,903	75,025
Governmental relations	253,678	253,678	173,623	80,055
SBOT Leadership Academy	94,000	94,000	94,869	(869)
Sections	317,337	317,337	309,633	7,704
Local bars	443,448	443,448	416,043	27,405
Special events	73,604	73,604	70,538	3,066
<b>Total external affairs</b>	<b>1,495,995</b>	<b>1,495,995</b>	<b>1,303,609</b>	<b>192,386</b>
<b>Member and public services:</b>				
Member and Public Services Director	171,834	171,834	145,284	26,550
Center for Legal History	146,169	146,169	138,993	7,176
Law Related Education	493,194	493,194	450,329	42,865
Law Student Department	20,266	20,266	19,065	1,201
Texas Young Lawyers Association	929,664	929,664	913,389	16,275
SBOT Volunteer Committees	231,980	231,980	237,326	(5,346)
<b>Total member and public services</b>	<b>1,993,107</b>	<b>1,993,107</b>	<b>1,904,386</b>	<b>88,721</b>
<b>Professional development:</b>				
TexasBarCLE	9,931,052	9,931,052	9,339,622	591,430
Minority affairs	463,169	463,169	500,514	(37,345)
<b>Total professional development</b>	<b>10,394,221</b>	<b>10,394,221</b>	<b>9,840,136</b>	<b>554,085</b>
<b>Legal and attorney services:</b>				
Legal and Attorney Services Director	217,902	217,902	211,632	6,270
Texas Lawyers Assistance Program	406,621	406,621	431,360	(24,739)
Legal Access Division	903,764	903,764	875,612	28,152
<b>Total legal and attorney services</b>	<b>1,528,287</b>	<b>1,528,287</b>	<b>1,518,604</b>	<b>9,683</b>

(Continued)

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund (Continued)  
Year Ended May 31, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget
Expenditures (continued):				
Access to Justice Commission	\$ 850,972	\$ 850,972	\$ 729,679	\$ 121,293
<b>Total Access to Justice Commission</b>	<b>850,972</b>	<b>850,972</b>	<b>729,679</b>	<b>121,293</b>
Attorney compliance:				
Office of Attorney Compliance Director	172,507	172,507	167,056	5,451
Advertising review	182,611	182,611	183,473	(862)
Client Attorney Assistance Program	572,585	572,585	532,809	39,776
Lawyer referral	346,182	346,182	347,682	(1,500)
MCLE	583,339	583,339	664,313	(80,974)
<b>Total attorney compliance</b>	<b>1,857,224</b>	<b>1,857,224</b>	<b>1,895,333</b>	<b>(38,109)</b>
Administration:				
Human resources	314,551	314,551	301,448	13,103
Training and tuition	71,133	71,133	28,426	42,707
Member benefits	202,338	202,338	255,091	(52,753)
Purchasing and facilities	1,240,885	1,240,885	1,172,139	68,746
Research and analysis	163,305	163,305	147,259	16,046
<b>Total administration</b>	<b>1,992,212</b>	<b>1,992,212</b>	<b>1,904,363</b>	<b>87,849</b>
Finance:				
Accounting	1,008,446	1,008,446	1,050,825	(42,379)
Membership	857,365	857,365	778,327	79,038
Other administrative	1,659,583	1,659,583	1,669,701	(10,118)
<b>Total finance</b>	<b>3,525,394</b>	<b>3,525,394</b>	<b>3,498,853</b>	<b>26,541</b>
Information technology:				
Information technology	1,347,148	1,347,148	1,247,350	99,798
Customer service	371,166	371,166	381,711	(10,545)
<b>Total information technology</b>	<b>1,718,314</b>	<b>1,718,314</b>	<b>1,629,061</b>	<b>89,253</b>
Communications:				
Office of Communications Director	250,572	250,572	233,249	17,323
Texas Bar Journal	1,300,562	1,300,562	1,210,826	89,736
Public information	458,780	458,780	459,197	(417)
Web management	396,220	396,220	360,218	36,002
<b>Total communications</b>	<b>2,406,134</b>	<b>2,406,134</b>	<b>2,263,490</b>	<b>142,644</b>
Public protection:				
Chief Disciplinary Counsel	9,712,355	9,712,355	9,754,647	(42,292)
Grievance Oversight Committee	48,800	48,800	44,193	4,607
Unauthorized Practice of Law	170,000	170,000	163,563	6,437
Professional Ethics Commission	11,080	11,080	12,272	(1,192)
Board of Disciplinary Appeals	607,016	607,016	574,180	32,836
<b>Total public protection</b>	<b>10,549,251</b>	<b>10,549,251</b>	<b>10,548,855</b>	<b>396</b>

(Continued)

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund (Continued)  
Year Ended May 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures (continued):				
Expenditures related to Board commitments:				
Presidential initiatives	\$ 301,753	\$ 301,753	\$ 143,886	\$ 157,867
Sheetran-Crowley Memorial Trust	250,000	250,000	250,000	-
Texas Opportunity & Justice Incubator Program	1,000,000	1,000,000	244,722	755,278
Statewide pro-bono recruitment campaign	174,265	174,265	15,205	159,060
Legal access fellowship program	4,618	4,618	4,618	-
LAD 2018 Board commitments	545,929	545,929	502,659	43,270
Referendum reserve	100,000	100,000	-	100,000
Texas court records preservation task force	50,000	50,000	-	50,000
Access to Justice (ATJ) student loan repayment program	350,000	350,000	350,000	-
Archives digitization project	100,000	100,000	-	100,000
Texas Law Center renovations	16,525	16,525	16,525	-
Supreme Court equipment replacement	100,000	100,000	100,000	-
Professionalism and ethics initiatives	17,131	17,131	4,704	12,427
<b>Total expenditures related to Board commitments</b>	<b>3,010,221</b>	<b>3,010,221</b>	<b>1,632,319</b>	<b>1,377,902</b>
<b>Total expenditures</b>	<b>43,651,461</b>	<b>43,651,461</b>	<b>40,843,569</b>	<b>2,807,892</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,921,421)</b>	<b>(1,921,421)</b>	<b>1,626,394</b>	<b>(2,067,969)</b>
Other financing sources (uses):				
Transfers in (out) to:				
Technology Fund	(1,250,000)	(1,250,000)	(1,250,000)	-
Texas Law Center	(288,800)	(288,800)	(288,800)	-
Client Security Fund	(300,000)	(300,000)	(300,000)	-
<b>Total other financing sources (uses)</b>	<b>(1,838,800)</b>	<b>(1,838,800)</b>	<b>(1,838,800)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(3,760,221)</b>	<b>(3,760,221)</b>	<b>(212,406)</b>	<b>3,547,815</b>
Fund balance at beginning of year	15,920,656	15,920,656	15,920,656	-
Fund balance at end of year	\$ 12,160,435	\$ 12,160,435	\$ 15,708,250	\$ 3,547,815

**State Bar of Texas**

**Note to Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund  
Year Ended May 31, 2018**

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**Note 1. Basis of Presentation**

The State Bar adopts an annual appropriated budget for its general fund. The State Bar's budget is prepared annually by the Executive Director and is reviewed by the budget committee of the Board. The budget passes several stages of review, including a public hearing, adoption by the Board and approval by the Supreme Court of Texas. The budget may be amended at any meeting of the Board, but the amendments made are subject to the approval of the Supreme Court of Texas. Variances from budgeted revenues and expenditures are analyzed by management, the finance committee, the executive committee and the Board. Regulations do not prohibit the State Bar from having unfavorable variances.

The State Bar is not legally required to adopt a budget for Sections, which is listed as a major special revenue fund and therefore a budget compared to actual is not included.

**State Bar of Texas**

**Schedule of Changes in State Bar's Proportionate Share of Net Pension Liability and Related Ratios**

	August 31			
	2018	2017	2016	2015
Measurement date	<b>August 31, 2017</b>	August 31, 2016	August 31, 2015	August 31, 2014
	0.27637361%	0.27324143%	0.29402350%	0.30057126%
State Bar's proportion of the net pension liability balance at August 31	<b>\$ 60,427,988</b>	\$ 53,984,064	\$ 39,006,462	\$ 43,465,009
State Bar's covered-employee payroll*	<b>\$ 20,632,468</b>	\$ 19,977,021	\$ 19,590,734	\$ 19,402,731
State Bar's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<b>292.88%</b>	270.23%	201.40%	226.83%
Plan fiduciary net position as a percentage of total pension liability	<b>54.67%</b>	55.32%	64.40%	63.40%

\*The covered-employee payroll is the payroll of employees that are provided with pension through the pension plan for each plan year, the measurement period.

The schedule of changes in net position liabilities and related ratio disclosure is required for 10 years. The schedule noted above is only for the years for which the new GASB statements have been implemented.

**State Bar of Texas**

**Schedule of Employer Contributions**

Fiscal Years Ended May 31,	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
<b>2018</b>	<b>\$ 2,482,803</b>	<b>\$ 2,482,803</b>	<b>\$ -</b>	<b>\$ 20,638,696</b>	<b>12.03%</b>
2017	2,371,089	2,371,089	-	19,794,416	11.98%
2016	2,293,610	2,293,610	-	19,507,265	11.76%
2015	1,845,751	1,845,751	-	19,427,203	9.50%
2014	1,665,702	1,665,702	-	19,032,960	8.75%
2013	1,376,433	1,376,433	-	18,584,172	7.41%
2012	1,341,923	1,341,923	-	17,769,494	7.55%
2011	1,373,078	1,373,078	-	16,932,249	8.11%
2010	1,272,762	1,272,762	-	16,391,209	7.76%
2009	1,179,327	1,179,327	-	15,729,540	7.50%
2008	N/A	N/A	N/A	N/A	N/A

N/A—Information not available.

**State Bar of Texas**

**Notes to Net Pension Liability  
May 31, 2018**

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Changes in the assumptions since the previous are described as follows:

- Decrease in investment return assumption from 8.00% to 7.50%
- Decrease the inflation adjustment from 3.50% to 2.50%
- Decrease the discount rate from 5.73% to 5.36%
- Salary increases changed from a range of 0% to 11.5% to a range of 2.5% to 9.3%
- Mortality Assumptions updated from 1994 Group Annuity Mortality table to most recent published national tables, RP-2014 Mortality Tables for employees and disability retirees
- Asset valuation method changed from 20% of market plus 80% of expected actuarial value to basing the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income

## **Other Supplemental Information**

State Bar of Texas

Combining Balance Sheet—Nonmajor Governmental Funds  
May 31, 2018

	Texas Board of Legal Specialization Fund	Texas Bar College	Annual Meeting	Client Security Fund	Texas Law Center	Technology Fund	Project Grants Fund	Hatton W. Summers Grants Fund	Law Focused Education	Department of Public Service	Total Nonmajor Governmental Funds
<b>Assets</b>											
Current assets:											
Cash and cash equivalents—cash in bank	\$ 1,204,280	\$ 329,703	\$ 683,682	\$ 210,933	\$ 90,880	\$ -	\$ -	\$ 255,611	\$ -	\$ 12,579	\$ 2,787,668
Investments	700,000	-	-	2,748,783	3,578,558	-	-	-	-	-	7,027,341
Receivables:											
Interest receivable	2,892	-	-	6,373	7,192	-	-	-	-	-	16,457
Other accounts receivable	6,943	-	-	-	-	-	-	-	-	-	6,943
Due from other governmental funds	-	-	-	-	-	1,170,697	52,017	-	-	-	1,222,714
Prepaid items	-	2,500	170,015	-	-	110,468	-	-	-	-	282,983
<b>Total assets</b>	<b>\$ 1,914,115</b>	<b>\$ 332,203</b>	<b>\$ 853,697</b>	<b>\$ 2,966,089</b>	<b>\$ 3,676,630</b>	<b>\$ 1,281,165</b>	<b>\$ 52,017</b>	<b>\$ 255,611</b>	<b>\$ -</b>	<b>\$ 12,579</b>	<b>\$ 11,344,106</b>
<b>Liabilities and Fund Balances</b>											
Current liabilities:											
Accrued liabilities	\$ -	\$ 2	\$ 727	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 729
Due to other governmental funds	55,177	7,728	83,520	936,183	-	-	-	26,654	-	632	1,109,894
Unearned revenue	-	106,103	431,660	-	-	-	52,017	228,957	-	11,947	830,684
<b>Total liabilities</b>	<b>55,177</b>	<b>113,833</b>	<b>515,907</b>	<b>936,183</b>	<b>-</b>	<b>-</b>	<b>52,017</b>	<b>255,611</b>	<b>-</b>	<b>12,579</b>	<b>1,941,307</b>
Fund balances:											
Nonspendable	-	2,500	170,015	-	-	110,468	-	-	-	-	282,983
Committed	1,858,938	215,870	167,775	2,029,906	3,676,630	1,170,697	-	-	-	-	9,119,816
<b>Total fund balances</b>	<b>1,858,938</b>	<b>218,370</b>	<b>337,790</b>	<b>2,029,906</b>	<b>3,676,630</b>	<b>1,281,165</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,402,799</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,914,115</b>	<b>\$ 332,203</b>	<b>\$ 853,697</b>	<b>\$ 2,966,089</b>	<b>\$ 3,676,630</b>	<b>\$ 1,281,165</b>	<b>\$ 52,017</b>	<b>\$ 255,611</b>	<b>\$ -</b>	<b>\$ 12,579</b>	<b>\$ 11,344,106</b>

**State Bar of Texas**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Governmental Funds  
Year Ended May 31, 2018**

	Texas Board of Legal Specialization Fund	Texas Bar College	Annual Meeting	Client Security Fund	Texas Law Center	Technology Fund	Project Grants Fund	Hatton W. Summers Grants Fund	Law Focused Education	Department of Public Service	Total Nonmajor Governmental Funds
<b>Revenues:</b>											
Investment income	\$ 11,505	\$ 811	\$ 1,592	\$ 38,142	\$ 43,277	\$ -	\$ -	\$ 113	\$ -	\$ -	\$ 95,440
Grant revenue	-	-	-	-	-	-	40,000	386,367	-	102,410	528,777
Other income	1,293,160	266,668	554,896	2,874	500	-	-	-	-	-	2,118,098
<b>Total revenues</b>	<b>1,304,665</b>	<b>267,479</b>	<b>556,488</b>	<b>41,016</b>	<b>43,777</b>	<b>-</b>	<b>40,000</b>	<b>386,480</b>	<b>-</b>	<b>102,410</b>	<b>2,742,315</b>
<b>Expenditures:</b>											
Special services	1,118,755	250,746	642,161	-	-	-	40,000	386,480	-	102,410	2,540,552
Administration	-	-	-	-	3,729	-	-	-	-	-	3,729
Finance and information technology	-	-	-	-	-	700,519	-	-	-	-	700,519
Public Protection Division	-	-	-	894,799	-	-	-	-	-	-	894,799
<b>Total expenditures</b>	<b>1,118,755</b>	<b>250,746</b>	<b>642,161</b>	<b>894,799</b>	<b>3,729</b>	<b>700,519</b>	<b>40,000</b>	<b>386,480</b>	<b>-</b>	<b>102,410</b>	<b>4,139,599</b>
Excess (deficiency) of revenues over (under) expenditures	185,910	16,733	(85,673)	(853,783)	40,048	(700,519)	-	-	-	-	(1,397,284)
<b>Other financing sources:</b>											
Transfers in	-	-	-	300,000	288,800	1,250,000	-	-	-	-	1,838,800
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>300,000</b>	<b>288,800</b>	<b>1,250,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,838,800</b>
<b>Net change in fund balances</b>	<b>185,910</b>	<b>16,733</b>	<b>(85,673)</b>	<b>(553,783)</b>	<b>328,848</b>	<b>549,481</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>441,516</b>
Fund balances at beginning of year, as restated	1,673,028	201,637	423,463	2,583,689	3,347,782	731,684	-	-	-	-	8,961,283
Fund balances at end of year	\$ 1,858,938	\$ 218,370	\$ 337,790	\$ 2,029,906	\$ 3,676,630	\$ 1,281,165	\$ -	\$ -	\$ -	\$ -	\$ 9,402,799

State Bar of Texas

Combining Statement of Revenues, Expenditures and Changes in Fund Balance—  
 Governmental Funds  
 Year Ended May 31, 2018

	General Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Membership dues	\$ 20,571,688	\$ 2,466,865	\$ -	\$ 23,038,553
Accounting and management fees	650,351	-	-	650,351
Texas Bar Journal	530,322	-	-	530,322
MCLE fees	2,903,788	-	-	2,903,788
Professional development	13,941,859	-	-	13,941,859
Minority affairs	409,437	-	-	409,437
Investment income	326,166	26,550	95,440	448,156
Grant revenue	-	-	528,777	528,777
Member Benefits	831,891	-	-	831,891
Website	429,303	-	-	429,303
Advertising Review	385,975	-	-	385,975
Other income	1,489,183	1,143,805	2,118,098	4,751,086
<b>Total revenues</b>	<b>42,469,963</b>	<b>3,637,220</b>	<b>2,742,315</b>	<b>48,849,498</b>
<b>Expenditures:</b>				
Salaries	17,625,992	-	533,446	18,159,438
Benefits	6,111,694	-	193,103	6,304,797
Travel	1,885,958	362,355	264,328	2,512,641
Meetings and conferences	4,186,171	1,387,802	629,769	6,203,742
Professional services	2,866,216	522,586	338,451	3,727,253
Court fees	110,004	-	-	110,004
Publicity and advertising	545,834	748	117,434	664,016
Dues, subscriptions and licenses	575,851	-	31,939	607,790
Education and training	112,360	67,861	45	180,266
Supplies, awards, gifts and specialty items	576,708	23,507	135,116	735,331
Rentals—office, equipment and storage	1,370,237	-	118,954	1,489,191
Maintenance and repairs	595,848	-	324,968	920,816
Utilities	209,699	-	-	209,699
Postage and freight	708,724	9,803	28,243	746,770
Telephone	355,376	5,525	19,111	380,012
Insurance	453,264	-	-	453,264
Claims and judgments	-	-	894,799	894,799
Administrative	1,246,423	763,012	134,220	2,143,655
Printing and copying	1,307,210	465,769	51,240	1,824,219
Capital outlay	-	-	271,349	271,349
Debt service:				
Principal	-	-	46,530	46,530
Interest	-	-	6,554	6,554
<b>Total expenditures</b>	<b>40,843,569</b>	<b>3,608,968</b>	<b>4,139,599</b>	<b>48,592,136</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,626,394</b>	<b>28,252</b>	<b>(1,397,284)</b>	<b>257,362</b>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	1,838,800	1,838,800
Transfers out	(1,838,800)	-	-	(1,838,800)
<b>Other financing sources (uses)</b>	<b>(1,838,800)</b>	<b>-</b>	<b>1,838,800</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(212,406)</b>	<b>28,252</b>	<b>441,516</b>	<b>257,362</b>
Fund balance at beginning of year, as restated	15,920,656	7,356,059	8,961,283	32,237,998
Fund balance at end of year	\$ 15,708,250	\$ 7,384,311	\$ 9,402,799	\$ 32,495,360

