

State Bar of Texas

Financial Statements

For the Year Ended May 31, 2016

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State Bar of Texas

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Padgett Stratemann

Independent Auditor's Report

To the Board of Directors
State Bar of Texas
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the State Bar of Texas (the "State Bar"), an agency of The State of Texas, as of and for the year ended May 31, 2016, 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

State Bar's 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.

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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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the State Bar as of May 31, 2016, 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.

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, and Schedule of Employer Contributions, 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 ("GASB"), 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.

Padgett, Statemann + Co., L.L.P.

Austin, Texas
November 9, 2016

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State Bar of Texas

Management's Discussion and Analysis – (Unaudited)

May 31, 2016

The following is a discussion and analysis of the State Bar of Texas' (the "State Bar") financial performance for the fiscal year ended May 31, 2016. This section is a summary of the State Bar's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison to the prior year, with emphasis placed on the current year. 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 assets of the State Bar were below its liabilities at the close of the most recent fiscal year by \$3,790,170 (net position). This amount includes all State Bar-related assets, including the reserves, all capital assets, all assets related to the Texas Bar Book Fund, the Sections, and all special revenue funds and capital project funds.
- The State Bar's total net position decreased by \$40,960,089 from the end of fiscal year 2015 to the end of fiscal year 2016. This decrease is primarily the result of a restatement of \$43,549,032 for the adoption of Statement GASB Nos. 68 and 71. See Note 14 regarding this adjustment.
- As of the close of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$30,507,638, an increase of \$1,885,939 in comparison with the prior year. Of this amount, \$12,667,356 is available for spending at the State Bar's discretion (unassigned fund balance). The amount includes the General Fund, the Client Security Fund, the Special Revenue and Capital Projects Funds, and the Sections.
- At the end of the current fiscal year, the fund balance for the General Fund was \$14,637,003, or 37.5% of the total General Fund expenditures for the year ended May 31, 2016. Of this amount, \$1,457,822 is subject to the Board of Director's (the "Board") approval on how the funds may be used, and \$511,825 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, (3) notes to the basic financial statements, and (4) the required supplementary information. 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 20 through 22 of this report.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

The **statement of net position** presents information on all the State Bar's assets and liabilities, with the difference between the two 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.

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). From the end of fiscal year 2015 to the end of fiscal year 2016, net position decreased by \$40,960,089.

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 Texas Bar Book Fund.

Effective June 1, 2015, the State Bar implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statements No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. Implementation of this statement required the State Bar to report in the General Fund its proportionate share of net pension liability, deferred outflows of resources, and deferred inflows of resources and related pension expenses of the Employee Retirement System of Texas Plan (ERS Plan). The proportionate share is an actuarial calculation based on ERS records of actual contributions from the State Bar in fiscal year 2015 as a percentage of total contributions from all other plan participants. State Bar's proportionate share was calculated as 0.29402350%. The State Bar's proportionate share of net pension liability at August 31, 2015 is \$39,006,462. The implementation resulted in a restatement of the beginning net position in fiscal year 2016. The restatement decreased net position by \$43,549,032. See Notes to the Financial Statements for additional detail information.

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 23 through 31 of this report. All of the funds of the State Bar can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

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, the Client Security Fund, and Sections, all of which are considered to be major funds. Data from the other 9 governmental funds are combined into a single, aggregated presentation. These 9 funds are: Texas Board of Legal Specialization Fund, Texas Bar College, Annual Meeting, 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 elsewhere in the report.

- *Proprietary funds* – The Texas Bar Book Fund is the State Bar's one 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 27 through 29 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 only fiduciary fund the State Bar has is an agency fund used to hold monies for donations received for access to justice. The basic fiduciary fund financial statement can be found on pages 30 through 31 of this report.

In addition, the basic financial statements provide information regarding The State Bar's legally separate discretely presented component unit. Discretely presented component unit financial information is reported separately from the primary government.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

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 33 through 65 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 68 through 72 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 76 through 78.

Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the State Bar, assets are below liabilities by \$3,790,170 at the close of the most recent fiscal year.

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 \$8,184,927 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.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

Table A-1
The State Bar's Net Position

	2016			2015 Total
	Governmental Activities	Business-Type Activities	Total	
Current and other assets	\$ 47,753,179	\$ 2,022,748	\$ 49,775,927	\$ 46,388,395
Capital assets	8,360,327	35,324	8,395,651	8,621,866
Total assets	\$ 56,113,506	\$ 2,058,072	\$ 58,171,578	\$ 55,010,261
Total deferred outflows of resources	7,265,497	-	7,265,497	-
Total liabilities	\$ 57,917,232	\$ 193,039	\$ 58,110,271	\$ 17,840,342
Total deferred inflows of resources	11,116,974	-	11,116,974	-
Net position:				
Net investment in capital assets	\$ 8,184,927	\$ 35,324	\$ 8,220,251	\$ 8,576,934
Unrestricted (deficit)	(13,840,130)	1,829,709	(12,010,421)	28,592,985
Total net position	\$ (5,655,203)	\$ 1,865,033	\$ (3,790,170)	\$ 37,169,919

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

Governmental Activities – Governmental activities increased the State Bar's net position by \$2,312,915. Key elements of this increase and a breakdown of expenses and program revenues and revenues by source type follows:

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

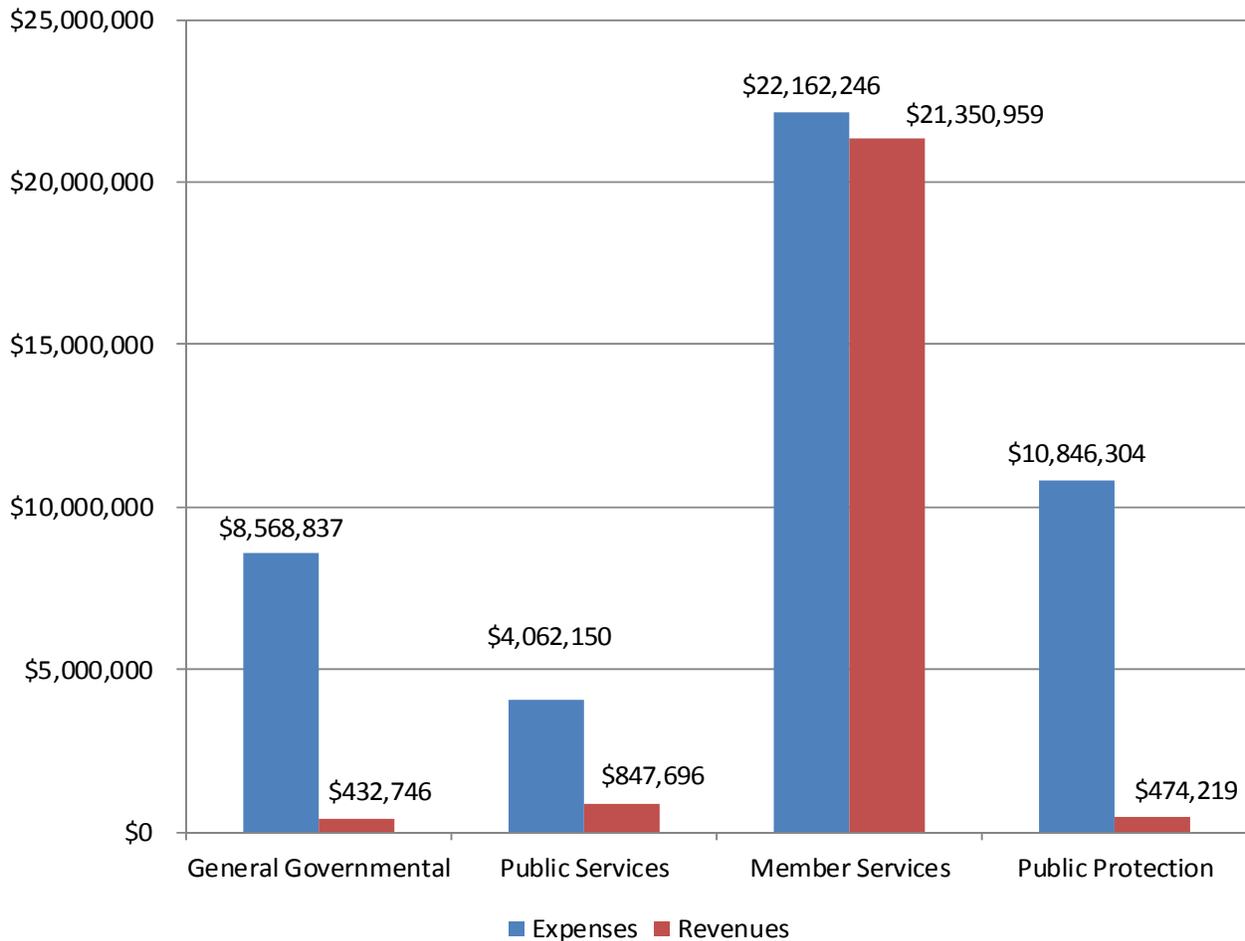
	2016			2015 Total
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues:				
Charges for services	\$ 21,647,454	\$ 2,454,752	\$ 24,102,206	\$ 22,132,857
Operating grants and contributions	1,458,166	-	1,458,166	1,428,121
General revenues:				
Membership dues	22,375,233	-	22,375,233	22,104,439
Investment income	159,371	1,212	160,583	146,314
Royalty revenue	806,770	980,425	1,787,195	1,418,415
Other income	1,514,484	128	1,514,612	198,232
Loss on disposal of capital assets	(9,026)	-	(9,026)	(179,287)
Total revenues	<u>47,952,452</u>	<u>3,436,517</u>	<u>51,388,969</u>	<u>47,249,091</u>
Expenses				
General government	8,568,837	-	8,568,837	8,532,695
Public services	4,062,150	-	4,062,150	3,780,778
Member services	22,162,246	-	22,162,246	22,472,824
Public protection	10,846,304	-	10,846,304	10,579,853
Books	-	3,160,489	3,160,489	2,903,533
Total expenses	<u>45,639,537</u>	<u>3,160,489</u>	<u>48,800,026</u>	<u>48,269,683</u>
Increase (decrease) in net position	2,312,915	276,028	2,588,943	(1,020,592)
Net position at beginning of year	<u>35,580,914</u>	<u>1,589,005</u>	<u>37,169,919</u>	<u>38,190,511</u>
Restatement for implementation of new accounting standard	(43,549,032)	-	(43,549,032)	-
Net position at end of year	<u>\$ (5,655,203)</u>	<u>\$ 1,865,033</u>	<u>\$ (3,790,170)</u>	<u>\$ 37,169,919</u>

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

Expense and Program Revenues – Governmental Activities



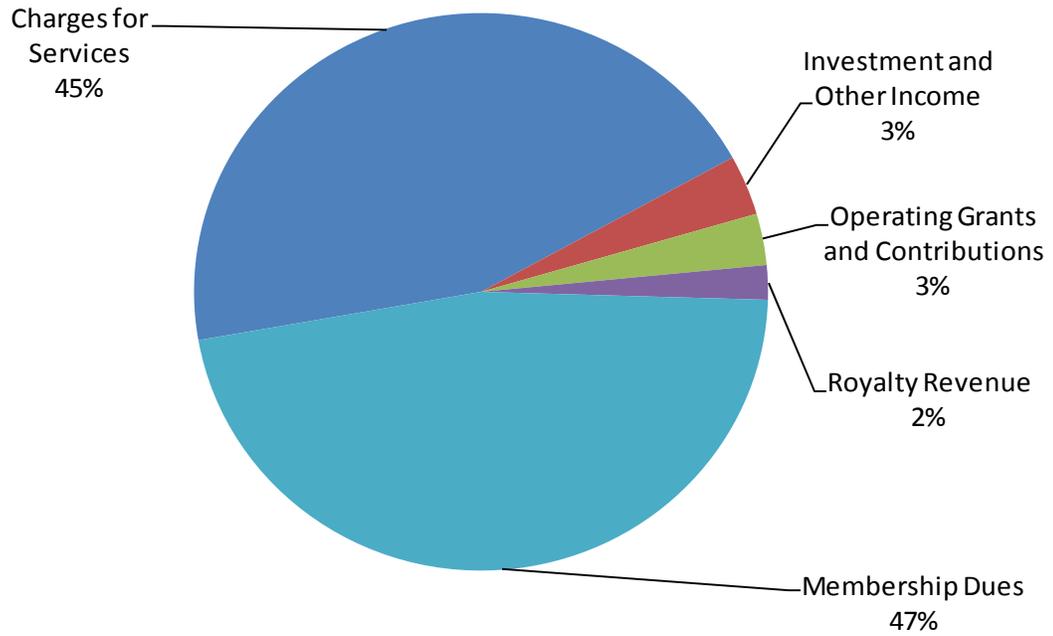
This chart depicts the program revenues and expenses as presented in the Statement of Activities on page 22 of the financial statements. These represent the revenues and related expenses for these programs. The State Bar also collects membership dues, investment income, royalty revenue, and other income that totaled \$25,837,623 for the year ended May 31, 2016.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

Revenues by Source – Governmental Activities



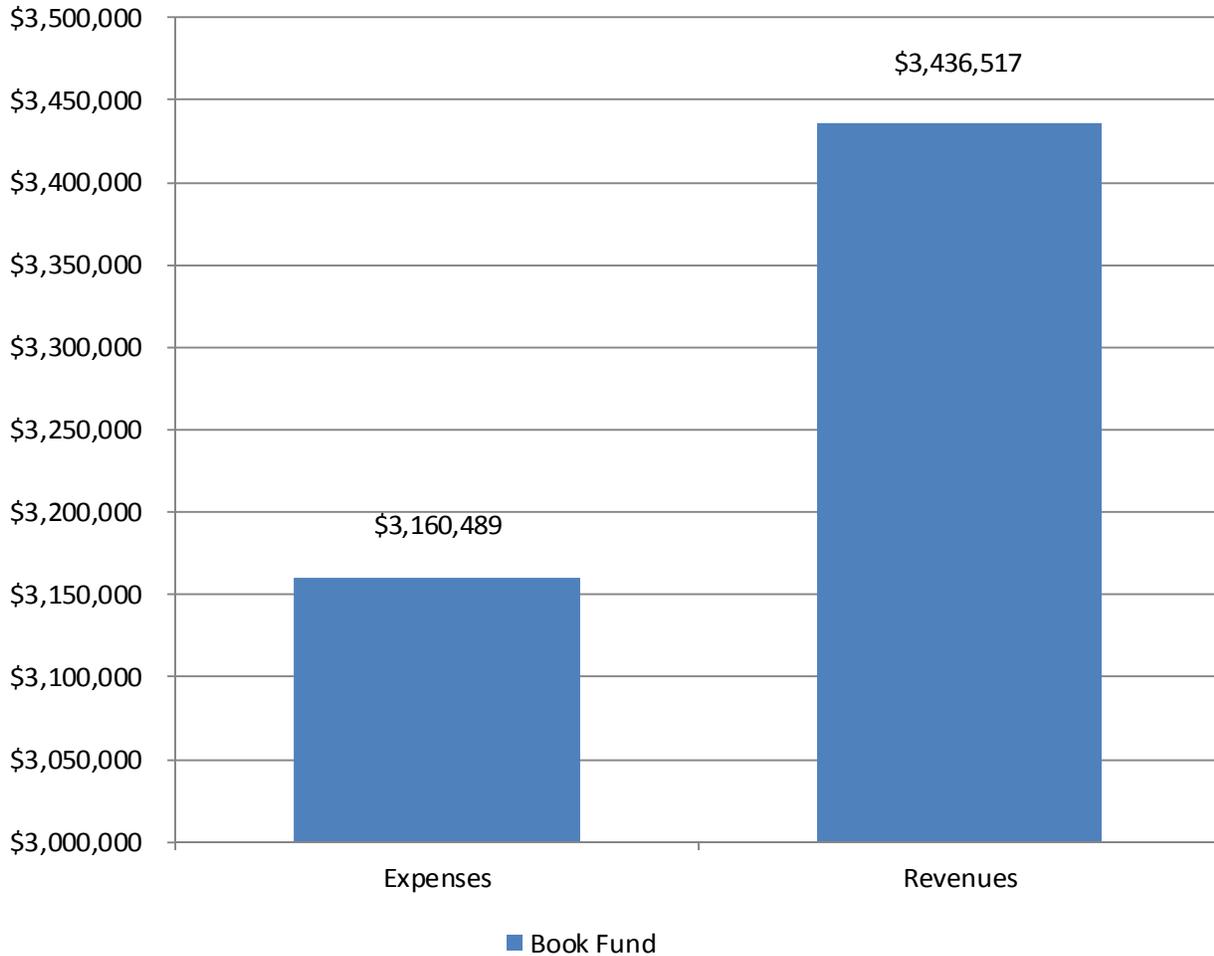
State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

Business-Type Activities – Business-type activities increased the State Bar's net position by \$276,028. A breakdown of expenses and program revenues and revenues by source type follows:

Expenses and Program Revenues – Business-Type Activities

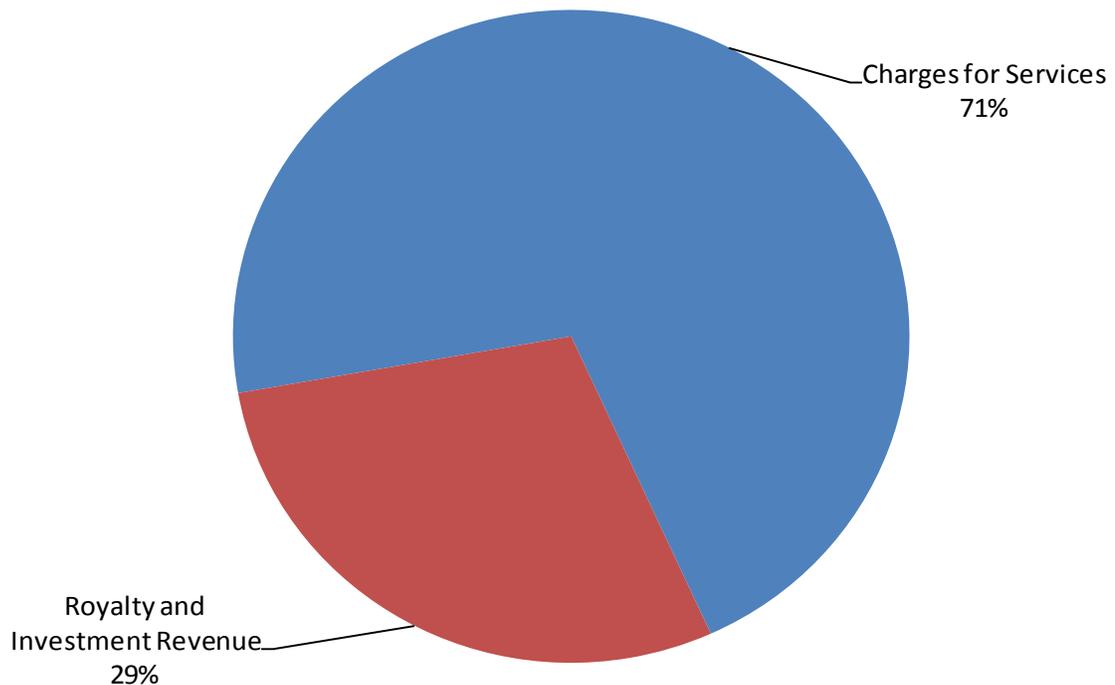


State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

Revenues by Source – Business Activities



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 \$30,507,638, an increase of \$1,885,939 in comparison with the prior year. Of this amount, \$908,450 is nonspendable for prepaid expenditures and inventories, and \$16,931,832 is committed for specific uses by the Board.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

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 \$14,637,003, which is 86.5% 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 32.4% of total General Fund expenditures. During the current fiscal year, the fund balance of the State Bar's General Fund increased by \$2,137,207.

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 Texas Bar Book Fund totaled \$1,865,033. The total increase in net position was \$276,028. 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 \$2,070,129 above budgeted amounts. The most significant positive variances resulted from other income revenue and professional development revenue, which were offset by a negative variance from membership dues revenue. The State Bar's actual expenditures for the General Fund were \$1,821,839 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 as of May 31, 2016, amounts to \$8,360,327 (net of accumulated depreciation and amortization). This investment in capital assets includes land; buildings and systems; and furniture, equipment, digital publication, and other assets.

Table A-3
State Bar's Capital Assets – Net of Accumulated Depreciation

	2016			2015
	Governmental Activities	Business-Type Activities	Total	Total
Land	\$ 154,074	\$ -	\$ 154,074	\$ 154,074
Construction in progress	455,977	-	455,977	159,823
Building and systems	824,028	-	824,028	834,795
Furniture, equipment, digital publication, and other assets	6,926,248	35,324	6,961,572	7,473,174
	<u>\$ 8,360,327</u>	<u>\$ 35,324</u>	<u>\$ 8,395,651</u>	<u>\$ 8,621,866</u>

Additional information on the State Bar's capital assets can be found in Note 2 on page 45 of this report.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) – Continued

May 31, 2016

Long-Term Liabilities – At the end of the current fiscal year, the State Bar had capital leases of \$175,400 and accrued compensated absences of \$1,579,064.

Table A-4
State Bar's Noncurrent Liabilities

	2016			2015 Total
	Governmental Activities	Business-Type Activities	Total	
Capital lease payable	\$ 175,400	\$ -	\$ 175,400	\$ 44,932
Accrued compensated absences	1,489,829	89,235	1,579,064	1,656,446
Net pension liability	<u>39,006,462</u>	<u>-</u>	<u>39,006,462</u>	<u>-</u>
Total liabilities	40,671,691	89,235	40,760,926	1,701,378
Less current portion	<u>(599,438)</u>	<u>(30,398)</u>	<u>(629,836)</u>	<u>(600,122)</u>
Total noncurrent liabilities	<u>\$ 40,072,253</u>	<u>\$ 58,837</u>	<u>\$ 40,131,090</u>	<u>\$ 1,101,256</u>

Additional information on the State Bar's noncurrent liabilities can be found in Note 5 on page 50 of this report.

Economic Factors and Next Year's Budget

For the General Fund, estimated revenues for fiscal year 2017 are \$41,317,927 and estimated expenditures and other uses are \$40,329,127. If these estimates are realized, and the General Fund transfers \$988,800 to other funds as budgeted, the State Bar's budgetary General Fund fund balance is not expected to change.

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 Chief Financial Officer, State Bar of Texas, and P.O. Box 12487, Austin, Texas 78711.

Basic Financial Statements

State Bar of Texas
Statement of Net Position
May 31, 2016

ASSETS	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents – cash in bank	\$ 16,309,975	\$ -	\$ 16,309,975
Investments	28,143,540	-	28,143,540
Receivables:			
Sales to members and others – net of an allowance for uncollectibles of \$1,341 and \$68,376	25,472	700,452	725,924
Interest receivable	83,823	-	83,823
Other accounts receivable	2,929,728	-	2,929,728
Due (to) from other funds	(647,809)	647,809	-
Inventories	10,423	674,487	684,910
Prepaid items	<u>898,027</u>	<u>-</u>	<u>898,027</u>
Total current assets	<u>47,753,179</u>	<u>2,022,748</u>	<u>49,775,927</u>
Noncurrent assets:			
Capital assets – net of accumulated depreciation/amortization:			
Land	154,074	-	154,074
Construction in progress	455,977	-	455,977
Building and systems	824,028	-	824,028
Furniture, equipment, digital publication, and other assets	<u>6,926,248</u>	<u>35,324</u>	<u>6,961,572</u>
Total noncurrent assets	<u>8,360,327</u>	<u>35,324</u>	<u>8,395,651</u>
Total assets	<u>\$ 56,113,506</u>	<u>\$ 2,058,072</u>	<u>\$ 58,171,578</u>
Deferred Outflows of Resources			
Deferred outflows on pension liability (Note 9)	<u>7,265,497</u>	<u>-</u>	<u>7,265,497</u>
Total deferred outflows of resources	<u>\$ 7,265,497</u>	<u>\$ -</u>	<u>\$ 7,265,497</u>

LIABILITIES	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,900,375	\$ -	\$ 1,900,375
Accrued liabilities	1,002,452	103,804	1,106,256
Due to agency funds	752,858	-	752,858
Unearned revenue	13,589,856	-	13,589,856
Capital lease obligations	44,315	-	44,315
Accrued compensated absences	555,123	30,398	585,521
	<u>17,844,979</u>	<u>134,202</u>	<u>17,979,181</u>
Noncurrent Liabilities			
Capital lease obligations	131,085	-	131,085
Accrued compensated absences	934,706	58,837	993,543
Net pension liability	39,006,462	-	39,006,462
	<u>40,072,253</u>	<u>58,837</u>	<u>40,131,090</u>
Total noncurrent liabilities	<u>40,072,253</u>	<u>58,837</u>	<u>40,131,090</u>
Total liabilities	<u>\$ 57,917,232</u>	<u>\$ 193,039</u>	<u>\$ 58,110,271</u>
Deferred inflows of resources			
Deferred inflows on pension liability (Note 9)	11,116,974	-	11,116,974
Total deferred inflows of resources	<u>\$ 11,116,974</u>	<u>\$ -</u>	<u>\$ 11,116,974</u>
NET POSITION			
Net investment in capital assets	8,184,927	35,324	8,220,251
Unrestricted (deficit)	<u>(13,840,130)</u>	<u>1,829,709</u>	<u>(12,010,421)</u>
Total Net Position	<u>\$ (5,655,203)</u>	<u>\$ 1,865,033</u>	<u>\$ (3,790,170)</u>

The accompanying notes are an integral part of this statement.

State Bar of Texas
Statement of Activities
Year Ended May 31, 2016

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	\$ 8,568,837	\$ 432,746	\$ -	\$ (8,136,091)	\$ -	\$ (8,136,091)
Public services	4,062,150	435,678	412,018	(3,214,454)	-	(3,214,454)
Member services	22,162,246	20,304,811	1,046,148	(811,287)	-	(811,287)
Public protection	<u>10,846,304</u>	<u>474,219</u>	<u>-</u>	<u>(10,372,085)</u>	<u>-</u>	<u>(10,372,085)</u>
Total governmental activities	<u>45,639,537</u>	<u>21,647,454</u>	<u>1,458,166</u>	<u>(22,533,917)</u>	<u>-</u>	<u>(22,533,917)</u>
Business-type activities:						
Books	<u>3,160,489</u>	<u>2,454,752</u>	<u>-</u>	<u>-</u>	<u>(705,737)</u>	<u>(705,737)</u>
Total business-type activities	<u>3,160,489</u>	<u>2,454,752</u>	<u>-</u>	<u>-</u>	<u>(705,737)</u>	<u>(705,737)</u>
Total primary government activities	<u>\$ 48,800,026</u>	<u>\$ 24,102,206</u>	<u>\$ 1,458,166</u>	<u>(22,533,917)</u>	<u>(705,737)</u>	<u>(23,239,654)</u>
General revenues:						
Membership dues				22,375,233	-	22,375,233
Investment income				159,371	1,212	160,583
Royalty revenue				806,770	980,425	1,787,195
Other income				1,514,484	128	1,514,612
Loss on disposal of capital assets				<u>(9,026)</u>	<u>-</u>	<u>(9,026)</u>
Total general revenues				<u>24,846,832</u>	<u>981,765</u>	<u>25,828,597</u>
Change in net position				2,312,915	276,028	2,588,943
Net position at beginning of year, prior to restatement				<u>35,580,914</u>	<u>1,589,005</u>	<u>37,169,919</u>
Restatement for implementation of new accounting standard (Note 14)				<u>(43,549,032)</u>	<u>-</u>	<u>(43,549,032)</u>
Net position at end of year				<u>\$ (5,655,203)</u>	<u>\$ 1,865,033</u>	<u>\$ (3,790,170)</u>

The accompanying notes are an integral part of this statement.

State Bar of Texas
Balance Sheet – Governmental Funds
 May 31, 2016

ASSETS	General Fund	Client Security Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Current assets:					
Cash and cash equivalents –					
cash in bank	\$ 7,492,854	\$ 34,693	\$ 5,998,016	\$ 2,784,412	\$ 16,309,975
Investments	20,773,694	2,870,314	1,509,378	2,990,154	28,143,540
Receivables:					
Sales to members and others –					
net of an allowance for					
uncollectibles of					
\$1,341	25,472	-	-	-	25,472
Interest receivable	52,075	9,278	294	22,176	83,823
Other accounts receivable	2,787,021	-	101,964	40,743	2,929,728
Due from other governmental					
funds	176,621	280,837	1,153,175	1,097,075	2,707,708
Inventories	10,423	-	-	-	10,423
Prepaid items	501,402	-	40,996	355,629	898,027
Total assets	<u>\$ 31,819,562</u>	<u>\$ 3,195,122</u>	<u>\$ 8,803,823</u>	<u>\$ 7,290,189</u>	<u>\$ 51,108,696</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Current liabilities:					
Accounts payable	\$ 1,428,424	\$ -	\$ 471,951	\$ -	\$ 1,900,375
Accrued liabilities	978,469	-	23,528	455	1,002,452
Due to other governmental funds	2,531,087	-	-	176,621	2,707,708
Due to enterprise fund	647,809	-	-	-	647,809
Due to agency fund	752,858	-	-	-	752,858
Unearned revenue	10,843,912	-	1,202,690	1,543,254	13,589,856
Total liabilities	<u>17,182,559</u>	<u>-</u>	<u>1,698,169</u>	<u>1,720,330</u>	<u>20,601,058</u>
Fund Balances					
Nonspendable	511,825	-	40,996	355,629	908,450
Committed	1,457,822	3,195,122	7,064,658	5,214,230	16,931,832
Unassigned	12,667,356	-	-	-	12,667,356
Total fund balances	<u>14,637,003</u>	<u>3,195,122</u>	<u>7,105,654</u>	<u>5,569,859</u>	<u>30,507,638</u>
Total liabilities and fund balances	<u>\$ 31,819,562</u>	<u>\$ 3,195,122</u>	<u>\$ 8,803,823</u>	<u>\$ 7,290,189</u>	<u>\$ 51,108,696</u>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

May 31, 2016

Total fund balance – Governmental Funds balance sheet	\$ 30,507,638
Amounts reported for governmental activities in the statement of net position are different because:	
Restatement as a result of the implementation of GASB Statement Nos. 68 and 71	(43,549,032)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,360,327
The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Pension liability and related deferred inflows and outflows	691,093
Capital lease payable	(175,400)
Accrued compensated absences	<u>(1,489,829)</u>
Net position of governmental activities – statement of net position	\$ <u><u>(5,655,203)</u></u>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

Year Ended May 31, 2016

	<u>General Fund</u>	<u>Client Security Fund</u>	<u>Sections</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Membership dues	\$ 20,073,248	\$ -	\$ 2,301,985	\$ -	\$ 22,375,233
Accounting and management fees	717,307	-	-	-	717,307
Texas Bar Journal	621,751	-	-	-	621,751
MCLE fees	3,122,392	-	-	-	3,122,392
Professional development	13,779,371	-	-	-	13,779,371
Minority affairs	349,660	-	-	-	349,660
Investment income	117,078	13,255	15,883	13,155	159,371
Grant revenue	-	-	-	474,318	474,318
Service agreement revenue	749,500	-	-	-	749,500
Licensing revenue	460,000	-	-	-	460,000
Other income	2,613,686	81,654	1,095,937	2,125,542	5,916,819
	<u>42,603,993</u>	<u>94,909</u>	<u>3,413,805</u>	<u>2,613,015</u>	<u>48,725,722</u>
Total revenues					
Expenditures					
Executive	1,926,431	-	-	-	1,926,431
External affairs	1,129,905	-	-	-	1,129,905
Special services	-	-	3,127,755	2,602,084	5,729,839
Member and public service	1,799,321	-	-	-	1,799,321
Professional development	9,998,318	-	-	-	9,998,318
Legal and attorney services	1,863,114	-	-	-	1,863,114
Access to justice commission	671,685	-	-	-	671,685
Attorney compliance	1,756,003	-	-	-	1,756,003
Administration	1,973,096	-	-	40,989	2,014,085
Finance and information technology	5,305,251	-	-	1,377,775	6,683,026
Communications	2,095,122	-	-	-	2,095,122
Public protection	9,779,946	797,154	-	-	10,577,100
Expenditures related to Board commitments	777,140	-	-	-	777,140
	<u>39,075,332</u>	<u>797,154</u>	<u>3,127,755</u>	<u>4,020,848</u>	<u>47,021,089</u>
Total expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>3,528,661</u>	<u>(702,245)</u>	<u>286,050</u>	<u>(1,407,833)</u>	<u>1,704,633</u>
Other Financing Sources (Uses)					
Proceeds from capital leases	-	-	-	181,306	181,306
Transfers in	-	500,000	-	891,454	1,391,454
Transfers out	<u>(1,391,454)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,391,454)</u>
Total other financing sources (uses)	<u>(1,391,454)</u>	<u>500,000</u>	<u>-</u>	<u>1,072,760</u>	<u>181,306</u>
Net change in fund balances	2,137,207	(202,245)	286,050	(335,073)	1,885,939
Fund balances at beginning of year	<u>12,499,796</u>	<u>3,397,367</u>	<u>6,819,604</u>	<u>5,904,932</u>	<u>28,621,699</u>
Fund balances at end of year	<u>\$ 14,637,003</u>	<u>\$ 3,195,122</u>	<u>\$ 7,105,654</u>	<u>\$ 5,569,859</u>	<u>\$ 30,507,638</u>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year Ended May 31, 2016

Net change in fund balance – total Governmental Funds	\$ 1,885,939
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 expense:	
Capital outlay – exclusive of noncapitalized items	699,018
Depreciation expense	(916,207)
Loss on disposal of capital assets	(9,026)
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:	
Proceeds from capital leases	(181,306)
Repayment of capital leases	50,838
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	691,093
Change in compensated absences	<u>92,566</u>
Change in net position of governmental activities – statement of activities	\$ <u><u>2,312,915</u></u>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Net Position – Proprietary Fund

May 31, 2016

	Business-Type Activities – Major Enterprise Fund
Assets	
Current assets:	
Accounts receivable – net of allowance for uncollectibles of \$68,376	\$ 700,452
Due from other funds	647,809
Inventories	<u>674,487</u>
Total current assets	2,022,748
Noncurrent assets:	
Capital assets – furniture, equipment, digital publication, and other – net of accumulated depreciation and amortization of \$641,015	<u>35,324</u>
Total assets	\$ <u><u>2,058,072</u></u>
Liabilities	
Current liabilities:	
Accrued liabilities	\$ 103,804
Accrued compensated absences	<u>30,398</u>
Total current liabilities	<u>134,202</u>
Noncurrent liabilities – accrued compensated absences	<u>58,837</u>
Total liabilities	\$ <u><u>193,039</u></u>
Net Position	
Net investment in capital assets	\$ 35,324
Unrestricted	<u>1,829,709</u>
Total net position	\$ <u><u>1,865,033</u></u>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund

Year Ended May 31, 2016

	Business-Type Activities – Major Enterprise Fund
Operating Revenues	
Charges for sales and services:	
Book sales	\$ 2,454,752
Royalty revenue	980,425
Other income	128
	<hr/>
Total operating revenues	3,435,305
	<hr/>
Operating Expenses	
Administrative	632,719
Benefits	335,871
Costs of goods sold	603,100
Dues, subscriptions, and licenses	48,377
Education and training	5,370
Insurance	4,693
Meetings and conferences	1,181
Miscellaneous	40
Postage and freight	173,860
Professional services	38,926
Publicity and advertising	12,254
Rentals – office, equipment, and storage	157,804
Repair and maintenance	21,410
Salaries	1,081,961
Supplies, awards, gifts, and specialty items	10,978
Telephone	3,491
Travel	28,454
	<hr/>
Total operating expenses	3,160,489
	<hr/>
Operating income	274,816
	<hr/>
Nonoperating Revenues	
Investment income	1,212
	<hr/>
Total nonoperating revenues	1,212
	<hr/>
Change in net position	276,028
Net position at beginning of year	1,589,005
	<hr/>
Net position at end of year	\$ 1,865,033
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Cash Flows – Proprietary Fund

Year Ended May 31, 2016

	Business-Type Activities – Major Enterprise Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 1,951,031
Receipts from royalties	980,425
Payments to suppliers for goods and services	(1,865,891)
Payments to employees	(1,066,777)
	<hr/>
Net cash used in operating activities	(1,212)
	<hr/>
Cash Flows From Investing Activities	
Interest received	1,212
	<hr/>
Net cash provided by investing activities	1,212
	<hr/>
Net change in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	-
	<hr/>
Cash and cash equivalents at end of year	\$ -
	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 274,816
Bad debt expense	26,412
Adjustments to reconcile operating income to net cash used in operating activities:	
Increase in accounts receivable	(530,261)
Decrease in prepaid items	750
Decrease in due from other funds	148,233
Increase in inventories – lower of cost or market	(32,609)
Increase in accrued liabilities	96,263
Increase in accrued compensated absences	15,184
	<hr/>
Net cash used in operating activities	\$ (1,212)
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Net Position – Fiduciary Funds

May 31, 2016

	Agency Funds	Discrete Component Unit – State Bar of Texas Insurance Trust
Assets		
Cash in bank	\$ -	\$ 261,493
Restricted cash in bank	52,968	4,554
Income tax receivable	-	11,753
Prepaid items	-	66,830
Due from general fund	<u>752,858</u>	<u>-</u>
Total assets	<u>\$ 805,826</u>	<u>\$ 344,630</u>
Liabilities		
Accounts payable and accrued expenses	\$ -	\$ 72,931
Unremitted premiums collected	-	4,554
Deposits	-	13,556
Capital lease obligations	-	11,142
Due to other organizations	<u>805,826</u>	<u>-</u>
Total liabilities	<u>\$ 805,826</u>	<u>\$ 102,183</u>
Net Position	<u>\$ -</u>	<u>\$ 242,447</u>

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Changes in Net Position – Fiduciary Funds

For the Seventeen Months Then Ended, from January 1, 2015 to May 31, 2016

	Discrete Component Unit – State Bar of Texas Insurance
Additions	
Contributions of subscribers (net of refunds and returns of \$14,473)	\$ 8,594,795
Less premiums to insurance carrier	<u>8,594,770</u>
	25
Royalties	87,640
Rental	213,482
Commissions	72,366
Service agreement revenue	<u>687,000</u>
Total additions	<u>1,060,513</u>
Deductions	
Accounting fees	20,905
Actuarial services	6,315
Advertising	40
Bank fees	547
Insurance	43,597
Miscellaneous	1,127
Printing, postage, and supplies	44
Professional fees	29,733
Property taxes	723
Rent	225,192
Service agreement fee	749,500
Interest expense	<u>2,985</u>
Total deductions	<u>1,080,708</u>
Loss before income tax expense	(20,195)
Income tax benefit	<u>(41,984)</u>
Change in net position	21,789
Net position at beginning of year	<u>220,658</u>
Net position at end of year	<u>\$ 242,447</u>

The accompanying notes are an integral part of this statement.

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State Bar of Texas

Notes to the Financial Statements

May 31, 2016

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. Most component units, however, are discretely presented.

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 GASB Statement No. 61, for inclusion in the reporting entity and are such that the financial statements are blended with those of the State Bar.

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

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 6 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.

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.

Discretely Presented Component Unit

The relationship between the following component unit and the State Bar is such that it meets the criteria, as set forth in GASB Statement No. 61, for inclusion in the reporting entity as a discretely presented component unit.

The discretely presented component unit is 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. The Trust has a different fiscal year end from the State Bar with a fiscal year end of December 31, 2015. However, the financial statements include the Trust's financial information for the period of seventeen months from January 1, 2015 through May 31, 2016.

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. Therefore, the Trust meets the criteria for inclusion in the reporting entity as a discretely presented 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. 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% of the membership interest of the Agency and is, therefore, consolidated in its financial statements. All intercompany balances and transactions have been eliminated.

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

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 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 properly 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.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

In the governmental fund financial statements, revenues are considered 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 of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

THE FUND STRUCTURE

Governmental Fund Types

The State Bar reports the following major governmental funds:

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.

The Client Security Fund accounts for the payments associated with losses related to a lawyer's dishonest conduct or dishonest act against an individual. The Client Security Fund must maintain a corpus of \$2,000,000, in accordance with resolutions of the State Bar's Board. The fund did not meet the criteria for a major fund; however, management decided to include it as a major fund in the interest of the users of the financial statements.

The Sections are a special revenue fund. The Sections include all entities created by the State Bar's Board, which 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.

The State Bar reports its Book Enterprise Fund, now known as "TexasBarBooks," as a major proprietary 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:

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

The special revenue funds function for the benefit of the members of the State Bar and the State Bar's Board administers and maintains all control over their operations. The State Bar is obligated to fund liabilities and deficits of the special revenue funds. Although expenses for administration and operations are paid by the special revenue funds individually, the State Bar controls the collection and disbursement of monies for the special revenue funds and executes all investment transactions.

The capital projects funds are used to account for the acquisition and construction of the State Bar's major capital facilities, and other capital expenditures, other than those financed by proprietary funds. The capital projects funds include the Texas Law Center and the Technology Fund.

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May 31, 2016

Proprietary Fund Types

Enterprise Fund

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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the State Bar's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Fund Types

Agency Fund

The agency fund (a fiduciary fund type) is custodial in nature and is used to account for reporting voluntary access to justice contributions.

Component Unit

Additional information about the discretely presented component unit, the State Bar of Texas Insurance Trust and Affiliate can be found on page 34.

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.

CURRENT YEAR GASB STATEMENT IMPLEMENTATIONS

In fiscal year 2016, the State Bar implemented the following GASB Statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an Amendment of GASB Statement No. 27)* will improve accounting and financial report for state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the

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requirements of Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. The State Bar implemented this Statement in fiscal year 2016.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)*, addresses the issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement No. 68, as amended, requires that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported as transition only if it is practical to determine all such amounts. The State Bar implemented this Statement in fiscal year 2016, simultaneously with the provisions of Statement No. 68.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The State Bar implemented this Statement in fiscal year 2016.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, the objective of this Statement is to identify-in the context of the current governmental financial reporting environment- the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The State Bar implemented this Statement in fiscal year 2016.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, this Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. The State Bar implemented this Statement in fiscal year 2016.

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ASSETS, LIABILITIES, AND FUND BALANCES/NET POSITION

Assets

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 consisting primarily of government agency securities, United States Treasury securities, and certificates of deposit ("CDs") are stated at fair value. 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.

The State Bar is authorized to invest in the following investment instruments provided that they meet the guidelines established in the State Bar's investment policy and the Public Funds Investment Act:

- United States Treasury securities
- United States federal agency securities
- CDs and share certificates
- Banker's acceptances
- Fully collateralized repurchase agreements
- Money market mutual funds
- Commercial paper

Investments are reported at fair value based on pricing service modeling for fixed income securities and quoted market prices for U.S. treasury securities, commercial paper and certificates of deposits.

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 fund balance reserve to indicate they do not represent "available spendable resources."

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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. 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. Donated capital assets are recorded at estimated fair market 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 ("CIP") are not depreciated. The other capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

Intangible Asset

The intangible asset, consisting of a digital book publication, is reported in the business-type activities column of the government-wide financial statements and is considered to have a finite life. The finite-lived intangible asset is amortized over its estimated useful life, based on the digital publication's pattern of benefits. The finite-lived intangible asset is reviewed for impairments or obsolescence annually, or more frequently if events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. If impaired, the intangible asset is written down to fair value based on discounted cash flows.

Liabilities

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 Revenues

The State Bar collects certain dues, fees, and subscription revenue in advance for services to be rendered. These receipts are accounted for as unearned revenue, which will be earned and recognized in the subsequent fiscal year, as the services are rendered.

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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.

Employees' Compensable Leave

Employees' compensable leave balances represent the total liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and other uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statements of net position. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

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.

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 these estimates.

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 so will not be recognized as an outflow of resources (expenses/expenditures) until then.

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.

FUND BALANCE/NET POSITION

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 statements. Net position consists of the following:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation and reduced by outstanding capital lease obligations attributed to the acquisition of those assets.

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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 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 “not in spendable 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.

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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.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance 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 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:

	<u>General Fund</u>	<u>Client Security Fund</u>	<u>Sections</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances:					
Nonspendable:					
Inventories	\$ 10,423	\$ -	\$ -	\$ -	\$ 10,423
Prepaid items	501,402	-	40,996	355,629	898,027
Committed to:					
Texas Law Center projects	16,525	-	-	3,060,718	3,077,243
Access to Justice ("ATJ") student loan repayment program	500,000	-	-	-	500,000
Legal Access Fellowship Program	150,000	-	-	-	150,000
Law related education ("LRE") – website	864	-	-	-	864
Texas Court Records Preservation Task Force	201,917	-	-	-	201,917
Presidential initiatives	379,611	-	-	-	379,611
Statewide Pro Bono Recruitment Campaign	190,401	-	-	-	190,401
Professionalism and ethics initiatives	18,504	-	-	-	18,504
Client Security Fund expenditures	-	3,195,122	-	-	3,195,122
Sections expenditures	-	-	7,064,658	-	7,064,658
Information technology projects	-	-	-	1,060,058	1,060,058
Special revenue funds	-	-	-	1,093,454	1,093,454
Unassigned	<u>12,667,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,667,356</u>
Total fund balances	<u>\$ 14,637,003</u>	<u>\$ 3,195,122</u>	<u>\$ 7,105,654</u>	<u>\$ 5,569,859</u>	<u>\$ 30,507,638</u>

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, 2016 is approximately \$9.12 million of the unassigned fund balance for fiscal year 2016. The target level is based on 2.7 months of budgeted operating expenditures.

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INTERFUND ACTIVITIES AND BALANCES

The State Bar has the following types of transactions between funds:

Transfers

Legally required transfers that are reported when incurred as “transfers in” by the recipient fund and as “transfers out” by the disbursing fund.

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.

Interfund Receivables and Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. 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.

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NOTE 2: Capital Assets

Capital asset activity for the year ended May 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Completed CIP</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 154,074	\$ -	\$ -	\$ -	\$ 154,074
Construction in progress	159,823	(122,450)	418,604	-	455,977
Total capital assets not being depreciated	<u>313,897</u>	<u>(122,450)</u>	<u>418,604</u>	<u>-</u>	<u>610,051</u>
Capital assets being depreciated					
Buildings	6,489,602	-	-	-	6,489,602
Furniture, fixtures, computer equipment, software, and other	14,785,473	122,450	280,414	(157,054)	15,031,283
Total capital assets being depreciated	<u>21,275,075</u>	<u>122,450</u>	<u>280,414</u>	<u>(157,054)</u>	<u>21,520,885</u>
Less accumulated depreciation for:					
Buildings	(5,654,807)	-	(10,767)	-	(5,665,574)
Furniture, fixtures, computer equipment, software, and other	(7,347,623)	-	(905,440)	148,028	(8,105,035)
Total accumulated depreciation	<u>(13,002,430)</u>	<u>-</u>	<u>(916,207)</u>	<u>148,028</u>	<u>(13,770,609)</u>
Total capital assets being depreciated – net	<u>8,272,645</u>	<u>122,450</u>	<u>(635,793)</u>	<u>(9,026)</u>	<u>7,750,276</u>
Governmental activities capital assets – net	<u>\$ 8,586,542</u>	<u>\$ -</u>	<u>\$ (217,189)</u>	<u>\$ (9,026)</u>	<u>\$ 8,360,327</u>
Business-type activities:					
Digital publication – intangible	\$ 300,659	\$ -	\$ -	\$ -	\$ 300,659
Furniture, fixtures, computer equipment, software, and other	375,680	-	-	-	375,680
Accumulated depreciation	(641,015)	-	-	-	(641,015)
Business-type activities capital assets – net	<u>\$ 35,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,324</u>

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Depreciation and amortization expense for the year ended May 31, 2016 for governmental activities totaled \$916,207 which was allocated in the following manner:

<u>Functions/Programs</u>	
General government	\$ 899,321
Member services	16,583
Public protection	<u>303</u>
	<u>\$ 916,207</u>

There was no depreciation and amortization expense for business-type activities for the year ended May 31, 2016.

NOTE 3: Deposits, Investments, and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of May 31, 2016, the carrying amount of deposits was \$16,628,990 as presented below.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Governmental, agency and business-type activities:		
Cash in bank – carrying amount	\$ 4,596,268	\$ 5,917,837
Money market funds	<u>11,766,675</u>	<u>11,796,716</u>
Total cash in bank – primary government	<u>16,362,943</u>	<u>17,714,553</u>
Discretely presented component unit activities:		
Cash in bank – carrying amount	261,493	261,493
Cash in bank – restricted	<u>4,554</u>	<u>4,554</u>
Total cash in bank – discretely presented component unit	<u>266,047</u>	<u>266,047</u>
Total cash in bank	<u>\$ 16,628,990</u>	<u>\$ 17,980,600</u>

These amounts consists of all cash in banks and a portion of short-term investments. These amounts are included on the combined statement of net position as part of the “cash and cash equivalents” accounts.

Custodial Credit Risk

In the case of deposits, the risk is that in the event of a bank failure, the State Bar’s deposits 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

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with pledge securities. There is no limit on the amount the State Bar may deposit in any one institution. As of May 31, 2016, the State Bar is not exposed to deposit custodial credit risk because it was collateralized with securities held by the Federal Reserve in the State Bar's name in the amount of \$16,226,000. None of the State Bar's funds are held in foreign currency.

INVESTMENTS

State Bar categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of May 31, 2016, the fair value of investments were:

Governmental Activities

	Fair Value Hierarchy				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value	Fair Value
U.S. Treasury securities	\$ 4,977,019	\$ -	\$ -	\$ -	\$ 4,977,019
U.S. government agency obligations	-	10,364,882	-	-	10,364,882
Commercial paper	5,548,934	-	-	-	5,548,934
Certificates of deposit	7,252,705	-	-	-	7,252,705
Total investments	\$ <u>17,778,658</u>	\$ <u>10,364,882</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>28,143,540</u>

U.S. Treasury securities, commercial paper and certificates of deposit are valued using closing bid quoted market prices as of the last business day of the month (Level 1 inputs); U.S. government agency bonds are valued using a yield-based matrix pricing model (Level 2 inputs).

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 exposed investment custodial credit risk at May 31, 2016.

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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, and money market funds investments. Investments in United States government agency obligations are not guaranteed by the United States government, but are government sponsored enterprises. As of May 31, 2016, State Bar's credit quality distribution for securities with credit risk exposure was:

Investment Type	Standard and Poor's Ratings				Total
	AAA	AA	A	BB	
U.S. Treasury securities	\$ -	\$ 4,977,019	\$ -	\$ -	\$ 4,977,019
U.S government agency obligations	-	10,364,882	-	-	10,364,882
Commercial paper	-	-	5,548,934	-	5,548,934
	<u>\$ -</u>	<u>\$ 15,341,901</u>	<u>\$ 5,548,934</u>	<u>\$ -</u>	20,890,835
Certificates of deposit – not rated					<u>7,252,705</u>
					<u>\$ 28,143,540</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% of the investment portfolio ("IP").
- (2) Mortgage-Backed Securities. Guaranteed by U.S. Government Sponsored Agencies up to 30% of the IP.
- (3) Certificates of Deposit. Up to 30% of the IP, but no more than 5% with any single issuer.
- (4) Bankers Acceptance. Up to 15% of the IP, but no more than 5% with any single issuer.
- (5) Repurchase Agreements. Up to 30% of the IP, but no more than 10% with any single issuer.
- (6) Money Market Mutual Funds. Up to 100% of the IP.
- (7) Commercial Paper. Up to 30% of the IP, but no more than 5% with any single issuer.

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As of May 31, 2016, the State Bar's investments consist of the following:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage</u>
Federal Home Loan Bank	\$ 4,688,086	17%
Federal Home Loan Mortgage Corp.	5,481,123	19%
GNMA Pool	195,673	1%
United States Treasury securities	4,977,019	17%
Commercial paper	5,548,934	20%
Certificates of deposit	<u>7,252,705</u>	<u>26%</u>
Total investments	<u>\$ 28,143,540</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.

NOTE 4: Short-Term Debt

(Not Applicable)

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Notes to the Financial Statements

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NOTE 5: Long-Term Liabilities

A summary of changes in long-term liabilities for the State Bar is shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Governmental activities:						
Capital lease obligations	\$ 44,932	\$ 181,306	\$ (50,838)	\$ 175,400	\$ 44,315	\$ 131,085
Accrued compensated absences	1,582,395	469,286	(561,852)	1,489,829	555,123	934,706
Net pension liability	<u>-</u>	<u>39,006,462</u>	<u>-</u>	<u>39,006,462</u>	<u>-</u>	<u>39,006,462</u>
Total governmental activities	<u>\$ 1,627,327</u>	<u>\$ 39,657,054</u>	<u>\$ (612,690)</u>	<u>\$ 40,671,691</u>	<u>\$ 599,438</u>	<u>\$ 40,072,253</u>
Business-type activities:						
Accrued compensated absences	\$ 74,051	\$ 42,499	\$ (27,315)	\$ 89,235	\$ 30,398	\$ 58,837
Total business-type activities	<u>\$ 74,051</u>	<u>\$ 42,499</u>	<u>\$ (27,315)</u>	<u>\$ 89,235</u>	<u>\$ 30,398</u>	<u>\$ 58,837</u>
Discretely presented component unit activities:						
Capital lease obligations	\$ 33,722	\$ -	\$ (22,580)	\$ 11,142	\$ 11,142	\$ -
Total discretely presented component unit activities	<u>\$ 33,722</u>	<u>\$ -</u>	<u>\$ (22,580)</u>	<u>\$ 11,142</u>	<u>\$ 11,142</u>	<u>\$ -</u>

NOTE 6: Bonded Indebtedness

(Not Applicable)

NOTE 7: Derivatives

(Not Applicable)

NOTE 8: Leases

Capital Lease Obligations

The State Bar entered into long-term leases for financing the purchase of certain equipment. Such leases are classified as capital leases for accounting purposes; therefore, such leases are recorded at the present value of the future minimum lease payments at the inception of the lease.

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Notes to the Financial Statements
 May 31, 2016

Assets under capital leases as of May 31, 2016:

	<u>Governmental Activities</u>			<u>Discretely Presented Component Unit</u>		
	<u>Assets</u>	<u>Accumulated Depreciation</u>	<u>Total</u>	<u>Assets</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Other equipment	\$ 273,547	\$ (67,360)	\$ 206,187	\$ 66,229	\$ (66,229)	\$ -
Totals	\$ 273,547	\$ (67,360)	\$ 206,187	\$ 66,229	\$ (66,229)	\$ -

Future minimum lease payments under the capital leases, together with the net present value of all minimum lease payments as of May 31, 2016:

	<u>Governmental Activities</u>			<u>Discretely Presented Component Unit</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Future Minimum Lease Payments</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Future Minimum Lease Payments</u>
Year ending May 31,						
2017	\$ 44,315	\$ 2,247	\$ 46,561	\$ 11,142	\$ 318	\$ 11,460
2018	46,530	6,554	53,085	-	-	-
2019	46,571	4,228	50,799	-	-	-
2020	37,984	1,899	39,883	-	-	-
Totals	\$ 175,400	\$ 14,928	\$ 190,328	\$ 11,142	\$ 318	\$ 11,460

Operating Leases

Rent expense incurred under all third-party office space and equipment operating leases for the year ended May 31, 2016 totaled \$441,015 for governmental activities and \$225,192 for fiduciary activities.

At May 31, 2016, 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. At May 31, 2016, the State Bar entered into long-term leases for financing the purchase of certain equipment.

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Notes to the Financial Statements
 May 31, 2016

Such leases are classified as operating leases for accounting purposes, as the related equipment does not meet the capitalization threshold. Future minimum lease payments on these operating leases are as follows:

	Governmental Activities
Year ending May 31,	
2017	\$ 552,178
2018	551,436
2019	559,731
2020	505,701
2021	424,340
2022-2026	<u>1,403,187</u>
	<u>\$ 3,996,573</u>

Component Unit

The Trust has entered into an operating lease for office space and in August 2014 began subleasing its office space. Future minimum lease payments on these operating leases are as follows:

	Minimum Lease Commitments	Sublease Income	Net Lease Commitments
Year ending May 31,			
2017	\$ 88,385	\$ 96,860	\$ (8,475)
2018	<u>81,019</u>	<u>88,788</u>	<u>(7,769)</u>
	<u>\$ 169,404</u>	<u>\$ 185,648</u>	<u>\$ (16,244)</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, with all risks and costs being the liability of the State of Texas. 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 the Financial Statements

May 31, 2016

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% 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% 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.

ERS plan's membership as of the measurement date of August 31, 2015 is presented in the table below:

Employees Retirement System's Membership	
	<u>ERS Plan</u>
Inactive plan members and beneficiaries currently receiving benefits	100,003
Inactive plan members entitled to but not yet receiving benefits	101,122
Active plan members	<u>142,409</u>
Total plan members	<u><u>343,534</u></u>

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

Contributions

The contribution rates for the state and the members for the ERS Plan for the measurement period of fiscal 2015 are presented in the table below:

Required Contribution Rates – ERS Plan					
Employer			Members		
<u>Employee Class</u>	<u>Elected Class – Legislators</u>	<u>Elected Class – Other</u>	<u>Employee Class</u>	<u>Elected Class – Legislators</u>	<u>Elected Class – Other</u>
8.00%	8.00%	8.00%	6.90%	8.00%	6.90%

The amount of State Bar’s contributions recognized by the ERS plan during the fiscal 2015 measurement period was \$1,471,279.

Net Pension Liability

The State Bar’s net pension liability was measured as of August 31, 2015, 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, 2006 through August 31, 2011. Additionally, the actuarial valuation as of August 31, 2015 also incorporates the across-the-board pay increases budgeted by the state Legislature for the current fiscal 2014-2015 biennium.

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Notes to the Financial Statements

May 31, 2016

The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2015:

Actuarial Methods and Assumptions

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Actuarial Assumptions:	
Discount Rate	6.86%
Investment Rate of Return	8.00%
Inflation	3.50%
Salary Increase	0% to 11.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
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.

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Notes to the Financial Statements

May 31, 2016

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
Total	<u>100%</u>	

Discount Rate

A single discount rate of 6.86% was applied to measure the total pension liability as of August 31, 2015. The 6.86% discount rate incorporated an 8.00% long-term expected rate of return on pension plan investments and 3.79% 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 2053 and the municipal bond rate was applied to all benefit payments thereafter.

The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. The legislature passed House Bill No. 9 in the 84th legislative session during fiscal year 2015 to increase the State contributions for fiscal years 2016 and 2017 and maintained the changes made by the 83rd legislature session in Senate bill No. 1459, which established proportional decreases to the employee contributions if the State contribution was decreased. The passage of this bill is an indicator that the legislature is committed to increase the funding levels for the pension funds. Considering these events, the projected employer contributions are based on fiscal 2015 funding levels.

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

Changes in Net Pension Liability

State Bar's total pension liability is based on an actuarial valuation performed as of August 31, 2015. For fiscal 2016 reporting, the measurement date of State Bar's net pension liability is August 31, 2015. The schedule of changes in State Bar's net pension liability for the fiscal year ending May 31, 2016 is presented below:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at August 31, 2014	\$ 118,758,458	\$ 75,293,449	\$ 43,465,009
Changes for the year:			
Service cost	3,620,026	-	3,620,026
Interest on total pension liability	6,979,675	-	6,979,675
Effect of benefit changes	(258,254) **	-	(258,254)
Effect of differences between expected and actual experience	(837,235)	-	(837,235)
Effect of assumption changes or inputs	(10,082,558) *	-	(10,082,558)
Employer contributions	-	1,471,279	(1,471,279)
Member contributions	-	1,358,858	(1,358,858)
Investment income net of investment expense	-	167,419	(167,419)
Benefit payments/refunds of contributions	(6,025,397)	(6,025,397)	-
Change in proportion	(2,587,078)	(1,640,220)	(946,858)
Administrative expenses	-	(64,213)	64,213
Net changes	<u>(9,190,821)</u>	<u>(4,732,274)</u>	<u>(4,458,547)</u>
Balances at August 31, 2015	<u>\$ 109,567,637</u>	<u>\$ 70,561,175</u>	<u>\$ 39,006,462</u>

* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

** The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

Sensitivity Analysis

The following presents the net pension liability of the State Bar, calculated using the discount rate of 6.86%, 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 (5.86%) or 1 percentage point higher (7.86%) than the current rate:

	<u>1% Decrease</u> <u>5.86%</u>	<u>Current</u> <u>6.86%</u>	<u>1% Increase</u> <u>7.86%</u>
State Bar's proportionate share of net pension liability	\$ 52,085,335	\$ 39,006,462	\$ 28,042,015

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 Employees Retirement System. 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. Employees Retirement System 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 2015 CAFR:

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

For the year ended May 31, 2016, State Bar recognized pension expense of \$712,557.

Service cost	\$ 3,620,026
Interest on total pension liability	6,979,675
Recognition of benefit changes	(258,254)
Recognition of experience changes	(493,963)
Recognition of assumption changes	(2,022,290)
Projected investment return	(5,761,879)
Recognition of difference in investment return	237,757
Member contributions	(1,358,858)
Recognition of effect of change in proportion and contribution difference	(293,870)
Administrative expenses	<u>64,213</u>
Pension expense	<u>\$ 712,557</u>

State Bar of Texas
Notes to the Financial Statements
 May 31, 2016

At May 31, 2016, State Bar reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 869,665
Changes of assumptions	1,386,174	6,951,329
Net difference between projected and actual investment return	4,475,568	2,643,405
Change in proportion and contribution difference	104	652,575
Contributions subsequent to the measurement date	<u>1,403,651</u>	<u>-</u>
Total	<u>\$ 7,265,497</u>	<u>\$ 11,116,974</u>

Contributions made subsequent to the measurement date are eligible employer contributions made from September 1, 2015 through May 31, 2016.

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 ended May 31,	
2017	\$ (2,572,366)
2018	(3,228,669)
2019	(572,985)
2020	<u>1,118,892</u>
	<u>\$ (5,255,128)</u>

State Bar of Texas
Notes to the Financial Statements
 May 31, 2016

The remaining balance to be recognized in future years (and included in the thereafter category), if any will be impacted by additional future deferred inflows and outflows of resources.

	Original Amount	Date Established	Original Recognition Period	Amount Recognized in 5/31/16 Expenses (1)	Balance of Deferred Inflows 5/31/2016	Balance of Deferred Outflows 5/31/2016
Investment gains (losses)	\$ 4,405,675	8/31/2014	5	\$ 1,762,270	\$ -	\$ 2,643,405
Investment gains (losses)	(5,594,460)	8/31/2015	5	(1,118,892)	(4,475,568)	-
Experience changes	1,597,580	8/31/2014	3.22	727,915	-	869,665
Experience changes	946,528	8/31/2015	3.22	293,953	-	652,575
Assumption changes or inputs	(3,604,322)	8/31/2014	3.22	(2,218,044)	(1,386,278)	-
Assumption changes or inputs	10,082,558	8/31/2015	3.22	3,131,229	-	6,951,329
Employer contributions made	1,403,651					

(1) Investment gains/(losses) are recognized in pension expense over a period of five years; economic/demographic losses and assumption changes or inputs are recognized over the average remaining service life for all active, inactive, and retired members.

NOTE 10: Deferred Compensation

(Not Applicable)

NOTE 11: Post Employment Health Care and Life Insurance Benefits

(Not Applicable)

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, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 176,621
Client Security Fund	General Fund	280,837
Nonmajor Governmental Funds	General Fund	1,097,075
Agency Fund	General Fund	752,858
Sections	General Fund	1,153,175
Enterprise Fund	General Fund	<u>647,809</u>
Total		<u>\$ 4,108,375</u>

During the year, the General Fund transferred \$500,000 to the Client Security Fund and \$891,454 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 the Financial Statements

May 31, 2016

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, 2017 and thereafter, contingent upon the State of Texas legislature and the Supreme Court of Texas.

NOTE 14: Adjustments to Fund Balance/Net Position

Pension Restatement

Effective June 1, 2015, the State Bar implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. Upon adoption, net pension liability, deferred inflows and outflows and pension expense are now reflected on the financial statements in accordance with the guidance provided for within the standards. The implementation resulted in a restatement of the governmental activities, beginning net position in 2016, the year in which the provisions of GASB Statement No. 68 were adopted. The adoption decreased net position by \$43,549,032.

Net position at beginning of year – as previously reported	\$ 37,169,919
Implementation of GASB Statement Nos. 68 and 71	<u>(43,549,032)</u>
Net position at beginning of year – as restated	<u>\$ (6,379,113)</u>

NOTE 15: Contingencies and Commitments

The State Bar has no contingencies or commitments to report.

NOTE 16: Subsequent Events

Management evaluated the need for disclosures and/or adjustments resulting from subsequent events through November 9, 2016 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 2016. 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 the Financial Statements

May 31, 2016

NOTE 18: Management's Discussion and Analysis

(See pages 7-18)

NOTE 19: The Financial Reporting Entity

(See pages 33-37)

NOTE 20: Stewardship, Compliance, and Accountability

(Not applicable)

NOTE 21: Not Applicable

NOTE 22: Donor-Restricted Endowments

(Not applicable)

NOTE 23: Extraordinary and Special Items

The State Bar has no extraordinary or special items to report for the fiscal year ended May 31, 2016.

NOTE 24: Disaggregation of Receivable and Payable Balances

(Not applicable)

NOTE 25: Termination Benefits

(Not applicable)

NOTE 26: Segment Information

Component Unit – State Bar of Texas Insurance Trust and Affiliate

Agreement Between Primary Government and Component Unit

The State Bar and the State Bar of Texas Insurance Trust and Affiliate (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 March 1, 2016, by the Trust to the State Bar in exchange for the State Bar's professional services.

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

Contributions of Subscribers and Premiums to Insurance Carrier

Contributions of subscribers, as required by the Program, are credited to net assets. In turn, premiums for insurance coverage are charged against net assets 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 5.0% of contributions received from individual members as an administrative fee.

As of May 31, 2016, the Trust had a premium cash balance of \$4,554, which represents premiums collected from subscribers for which the Trust is liable to remit to the insurance carrier. These amounts are shown on the consolidated balance sheets as restricted cash.

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.

Commissions

Effective January 2, 2014, the State Bar of Texas Insurance Trust and Affiliate entered into a Purchase and Sales Agreement with Business Planning Concepts, Inc. d/b/a Member Benefits. Under this agreement the State Bar of Texas Insurance Trust agreed to sell their book of medical insurance business and their Affiliate agreed to sell their book of individual and small group medical insurance business to Member Benefits for a purchase price equal to fifteen 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 seventy two 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

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

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, 2016, 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, 2011.

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, 2016.

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 assets 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,
3. To be applied to either the benefit of those insured or paid directly to the insured.

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.

State Bar of Texas

Notes to the Financial Statements

May 31, 2016

The Program year under the contract with Prudential is July 1 through June 30. The stabilization fund was totaled \$2,683,027:

The Trust has a December 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, 2015.

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

(Not applicable)

NOTE 28: Deferred Outflows of Resources and Deferred Inflows of Resources

(see page 59)

NOTE 29: Troubled Debt Restructuring

(Not applicable)

NOTE 30: Non-exchange Financial Guarantees

(Not applicable)

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Required Supplemental Information

State Bar of Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund

Year Ended May 31, 2016

	Budgeted Amounts – Original and Final	Actual	Variance Favorable (Unfavorable)
Revenues			
Membership dues	\$ 20,193,785	\$ 20,073,248	\$ (120,537)
Accounting and management fees	717,307	717,307	-
Texas Bar Journal	715,100	621,751	(93,349)
MCLE fees	3,001,000	3,122,392	121,392
Professional development	13,190,878	13,779,371	588,493
Minority affairs	272,700	349,660	76,960
Investment income	81,700	117,078	35,378
Service agreement revenue	-	749,500	749,500
Licensing revenue	-	460,000	460,000
Other income	2,361,394	2,613,686	252,292
Total revenues	40,533,864	42,603,993	2,070,129
Expenditures			
Executive:			
Office of Executive Director	658,214	621,774	36,440
Deputy Director and Legal Counsel	387,721	320,625	67,096
Assistant Deputy Director	170,175	181,595	(11,420)
Officers and directors	761,836	777,537	(15,701)
Presidential initiatives	100,000	24,900	75,100
Total executive	2,077,946	1,926,431	151,515
External Affairs:			
External Affairs Officer	226,885	217,178	9,707
Governmental relations	254,669	138,489	116,180
SBOT Leadership Academy	94,000	90,902	3,098
Sections	274,227	262,672	11,555
Local bars	430,300	366,906	63,394
Special events	78,604	53,758	24,846
Total external affairs	1,358,685	1,129,905	228,780
Member and public services:			
Member and Public Services Director	158,928	159,192	(264)
Center for Legal History	150,470	108,668	41,802
Law Related Education	466,002	422,369	43,633
Law Student Department	20,266	18,854	1,412
Texas Young Lawyers Association	894,401	894,919	(518)
SBOT Volunteer Committees	251,980	195,319	56,661
Total member and public services	1,942,047	1,799,321	142,726
Professional development:			
Texas Bar CLE	9,811,786	9,557,332	254,454
Minority affairs	408,416	440,986	(32,570)
Total professional development	10,220,202	9,998,318	221,884

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, 2016

	Budgeted Amounts – Original and Final	Actual	Variance Favorable (Unfavorable)
Legal and attorney services:			
Legal and Attorney Services Director	\$ 205,049	\$ 194,640	\$ 10,409
Texas Lawyers Assistance Program	352,493	365,690	(13,197)
Legal Access Department	<u>1,339,322</u>	<u>1,302,784</u>	<u>36,538</u>
Total legal and attorney services	<u>1,896,864</u>	<u>1,863,114</u>	<u>33,750</u>
Access to Justice Commission	<u>697,683</u>	<u>671,685</u>	<u>25,998</u>
Total Access to Justice Commission	<u>697,683</u>	<u>671,685</u>	<u>25,998</u>
Attorney compliance:			
Office of Attorney Compliance Director	159,313	157,784	1,529
Advertising review	178,282	172,085	6,197
Client Attorney Assistance Program	533,548	540,507	(6,959)
Lawyer referral	323,251	335,665	(12,414)
MCLE	<u>552,731</u>	<u>549,962</u>	<u>2,769</u>
Total attorney compliance	<u>1,747,125</u>	<u>1,756,003</u>	<u>(8,878)</u>
Administration:			
Office of Administration Director	20,715	35,118	(14,403)
Human resources	351,971	308,310	43,661
Training and tuition	76,133	69,203	6,930
Member benefits	213,018	260,902	(47,884)
Purchasing and facilities	1,189,029	1,163,373	25,656
Research and analysis	<u>114,296</u>	<u>136,190</u>	<u>(21,894)</u>
Total administration	<u>1,965,162</u>	<u>1,973,096</u>	<u>(7,934)</u>
Finance and information technology:			
Accounting	1,203,232	1,188,673	14,559
Membership	960,562	804,633	155,929
Other administrative	1,701,052	1,599,903	101,149
Information technology	1,301,773	1,326,440	(24,667)
Customer service	<u>357,198</u>	<u>385,602</u>	<u>(28,404)</u>
Total finance and information technology	<u>5,523,817</u>	<u>5,305,251</u>	<u>218,566</u>

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, 2016

	Budgeted Amounts – Original and Final	Actual	Variance Favorable (Unfavorable)
Communications:			
Office of Communications Director	\$ 225,053	\$ 216,380	\$ 8,673
Texas Bar Journal	1,260,686	1,141,410	119,276
Public information	410,945	417,539	(6,594)
Web management	375,677	319,793	55,884
Total communications	<u>2,272,361</u>	<u>2,095,122</u>	<u>177,239</u>
Public protection:			
Chief Disciplinary Counsel	8,956,130	9,013,969	(57,839)
Grievance Oversight Committee	48,800	48,813	(13)
Unauthorized Practice of Law	170,000	155,063	14,937
Professional Ethics Commission	11,080	12,496	(1,416)
Board of Disciplinary Appeals	559,508	549,605	9,903
Total public protection	<u>9,745,518</u>	<u>9,779,946</u>	<u>(34,428)</u>
Expenditures related to Board commitments:			
Presidential initiatives	179,611	-	179,611
Statewide pro-bono recruitment campaign	389,778	199,378	190,400
Texas court records preservation task force	201,917	-	201,917
Alternative careers	64,800	-	64,800
Access to Justice (“ATJ”) student loan repayment program	313,160	313,160	-
Law related education (“LRE”) – website	13,924	13,060	864
Texas Law Center renovations	16,525	-	16,525
Sheeran-Crowley Memorial Trust	250,000	250,000	-
Professionalism and ethics initiatives	20,046	1,542	18,504
Total expenditures related to board commitments	<u>1,449,761</u>	<u>777,140</u>	<u>672,621</u>
Total expenditures	<u>40,897,171</u>	<u>39,075,332</u>	<u>1,821,839</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(363,307)</u>	<u>3,528,661</u>	<u>248,290</u>
Other Financing Sources (Uses)			
Transfers in (out) to:			
Technology Fund	(505,000)	(505,000)	-
Texas Law Center	(386,454)	(386,454)	-
Client Security Fund	(500,000)	(500,000)	-
Total other financing sources (uses)	<u>(1,391,454)</u>	<u>(1,391,454)</u>	<u>-</u>
Net change in fund balances	(1,754,761)	2,137,207	3,891,968
Fund balance at beginning of year	<u>12,499,796</u>	<u>12,499,796</u>	<u>-</u>
Fund balance at end of year	<u>\$ 10,745,035</u>	<u>\$ 14,637,003</u>	<u>\$ 3,891,968</u>

State Bar of Texas

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

Year Ended May 31, 2016

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 3,620,026	\$ 3,424,863
Interest on total pension liability	6,979,675	6,985,815
Effect of benefit changes	(258,254)	-
Effect of differences between expected and actual experience	(837,235)	(760,345)
Effect of assumption changes or inputs *	(10,082,558)	3,604,054
Benefit payments/refunds of contributions	(6,025,397)	(5,901,661)
Change in proportion	<u>(2,587,078)</u>	<u>-</u>
Net changes	<u>(9,190,821)</u>	<u>7,352,726</u>
Total pension liability – balance at August 31, 2014	<u>118,758,458</u>	<u>111,405,732</u>
Total pension liability – balance at August 31, 2015	<u>\$ 109,567,637</u>	<u>\$ 118,758,458</u>
Plan fiduciary net position		
Employer contributions	1,471,279	1,449,472
Member contributions	1,358,858	1,294,244
Investment income net of investment expense	167,419	9,775,831
Benefit payments/refunds of contributions	(6,025,397)	(5,901,661)
Change in proportion	(1,640,220)	-
Administrative expenses	<u>(64,213)</u>	<u>(60,700)</u>
Net changes	<u>(4,732,274)</u>	<u>6,557,186</u>
Plan fiduciary net position – balance at August 31, 2014	<u>75,293,449</u>	<u>68,736,263</u>
Plan fiduciary net position – balance at August 31, 2015	<u>\$ 70,561,175</u>	<u>\$ 75,293,449</u>
Net pension liability – balance at August 31, 2014	43,465,009	42,669,469
Net pension liability – balance at August 31, 2015	39,006,462	43,465,009
State Bar's covered-employee payroll **	\$ 19,402,731	\$ 17,900,403
State Bar's proportionate share of the net pension liability as a percentage of its covered-employee payroll	201.40%	226.83%
Plan fiduciary net position as a percentage of total pension liability	64.40%	63.40%

* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

** The covered-employee payroll is the payroll of employees that are provided with pension through the pension plan for fiscal 2015, the measurement period.

The Schedule of Changes in Net Position Liabilities and Related Ratio disclosure is required for ten 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
May 31, 2016

	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$ 2,167,280	\$ 2,187,835
Contributions in relation to the actuarially determined contributions	\$ 1,471,279	\$ 1,449,472
Contribution deficiency (excess)	\$ 696,001	\$ 738,363
Covered-employee payroll	\$ 19,507,265	\$ 19,427,203
Contributions as a percentage of covered-employee payroll	7.54%	7.46%

State Bar of Texas

Notes to Required Supplementary Information

Year Ended May 31, 2016

(1) Changes of benefit terms related to pension liability

There were no benefit changes during the year.

(2) Changes of assumptions related to pension liability

Actuarially determined contributions are adjusted for actual payroll and administrative expenses.

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Other Supplemental Information

State Bar of Texas

Combining Balance Sheet – Nonmajor Governmental Funds

May 31, 2016

ASSETS	Texas Board of Legal Specialization Fund	Texas Bar College	Annual Meeting	Texas Law Center	Technology Fund	Project Grants Fund	Hatton W. Summers Grants Fund	Law Focused Education	Dept. of Public Service	Total Nonmajor Governmental Funds
Assets										
Current assets:										
Cash and cash equivalents	\$ 1,537,656	\$ 334,274	\$ 599,643	\$ 48,388	\$ -	\$ -	\$ 264,451	\$ -	\$ -	\$ 2,784,412
Investments	-	-	-	2,990,154	-	-	-	-	-	2,990,154
Receivables:										
Interest receivable	-	-	-	22,176	-	-	-	-	-	22,176
Other accounts receivable	40,743	-	-	-	-	-	-	-	-	40,743
Due from other governmental funds	-	-	-	-	1,060,058	37,017	-	-	-	1,097,075
Prepaid items	8,474	1,000	309,596	-	36,559	-	-	-	-	355,629
Total assets	\$ 1,586,873	\$ 335,274	\$ 909,239	\$ 3,060,718	\$ 1,096,617	\$ 37,017	\$ 264,451	\$ -	\$ -	\$ 7,290,189
LIABILITIES AND FUND BALANCE										
Liabilities										
Current liabilities:										
Accrued liabilities	\$ -	\$ 7	\$ 448	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 455
Due to other governmental funds	79,390	11,808	77,502	-	-	-	7,921	-	-	176,621
Unearned revenue	617,240	145,463	487,004	-	-	37,017	256,530	-	-	1,543,254
Total liabilities	696,630	157,278	564,954	-	-	37,017	264,451	-	-	1,720,330
Fund Balances										
Nonspendable	8,474	1,000	309,596	-	36,559	-	-	-	-	355,629
Committed	881,769	176,996	34,689	3,060,718	1,060,058	-	-	-	-	5,214,230
Total fund balances	890,243	177,996	344,285	3,060,718	1,096,617	-	-	-	-	5,569,859
Total liabilities and fund balances	\$ 1,586,873	\$ 335,274	\$ 909,239	\$ 3,060,718	\$ 1,096,617	\$ 37,017	\$ 264,451	\$ -	\$ -	\$ 7,290,189

State Bar of Texas

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year Ended May 31, 2016

	<u>Texas Board of Legal Specialization Fund</u>	<u>Texas Bar College</u>	<u>Annual Meeting</u>	<u>Texas Law Center</u>	<u>Technology Fund</u>	<u>Project Grants Fund</u>	<u>Hatton W. Summers Grants Fund</u>	<u>Law Focused Education</u>	<u>Dept. of Public Service</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues										
Investment income	\$ 1,229	\$ 154	\$ 262	\$ 11,395	\$ -	\$ -	\$ 115	\$ -	\$ -	\$ 13,155
Grant revenue	-	-	-	-	-	72,500	353,300	20,000	28,518	474,318
Other income	<u>1,322,485</u>	<u>254,675</u>	<u>548,382</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,125,542</u>
Total revenues	<u>1,323,714</u>	<u>254,829</u>	<u>548,644</u>	<u>11,395</u>	<u>-</u>	<u>72,500</u>	<u>353,415</u>	<u>20,000</u>	<u>28,518</u>	<u>2,613,015</u>
Expenditures										
Special services	1,343,549	256,091	528,011	-	-	72,500	353,415	20,000	28,518	2,602,084
Administration	-	-	-	40,989	-	-	-	-	-	40,989
Information technology	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,377,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,377,775</u>
Total expenditures	<u>1,343,549</u>	<u>256,091</u>	<u>528,011</u>	<u>40,989</u>	<u>1,377,775</u>	<u>72,500</u>	<u>353,415</u>	<u>20,000</u>	<u>28,518</u>	<u>4,020,848</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(19,835)</u>	<u>(1,262)</u>	<u>20,633</u>	<u>(29,594)</u>	<u>(1,377,775)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,407,833)</u>
Other Financing Sources										
Proceeds from capital leases	-	-	-	-	181,306	-	-	-	-	181,306
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,454</u>	<u>505,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>891,454</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,454</u>	<u>686,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,072,760</u>
Net change in fund balances	(19,835)	(1,262)	20,633	356,860	(691,469)	-	-	-	-	(335,073)
Fund balances at beginning of year	<u>910,078</u>	<u>179,258</u>	<u>323,652</u>	<u>2,703,858</u>	<u>1,788,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,904,932</u>
Fund balances at end of year	<u>\$ 890,243</u>	<u>\$ 177,996</u>	<u>\$ 344,285</u>	<u>\$ 3,060,718</u>	<u>\$ 1,096,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,569,859</u>

State Bar of Texas

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended May 31, 2016

	General Fund	Client Security Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Membership dues	\$ 20,073,248	\$ -	\$ 2,301,985	\$ -	\$ 22,375,233
Accounting and management fees	717,307	-	-	-	717,307
Texas Bar Journal	621,751	-	-	-	621,751
MCLE fees	3,122,392	-	-	-	3,122,392
Professional development	13,779,371	-	-	-	13,779,371
Minority affairs	349,660	-	-	-	349,660
Investment income	117,078	13,255	15,883	13,155	159,371
Grant revenue	-	-	-	474,318	474,318
Service agreement revenue	749,500	-	-	-	749,500
Licensing revenue	460,000	-	-	-	460,000
Other income	2,613,686	81,654	1,095,937	2,125,542	5,916,819
Total revenues	42,603,993	94,909	3,413,805	2,613,015	48,725,722
Expenditures					
Salaries	16,789,777	-	-	546,963	17,336,740
Benefits	5,523,609	-	-	174,173	5,697,782
Travel	1,837,324	-	445,736	238,144	2,521,204
Meetings and conferences	4,194,933	-	1,076,144	514,108	5,785,185
Professional services	2,927,247	-	451,544	438,920	3,817,711
Court fees	86,089	-	-	-	86,089
Publicity and advertising	720,956	-	5,768.0	150,158	876,882
Dues, subscriptions, and licenses	602,567	-	-	58,621	661,188
Education and training	151,832	-	38,955	1,345	192,132
Supplies, awards, gifts, and specialty items	566,261	-	25,188	175,111	766,560
Rentals – office, equipment, and storage	916,449	-	-	122,975	1,039,424
Maintenance and repairs	576,740	-	-	404,490	981,230
Utilities	244,583	-	-	-	244,583
Postage and freight	717,931	-	15,208	25,981	759,120
Telephone	385,784	-	2,967	16,061	404,812
Insurance	404,160	-	-	-	404,160
Claims and judgments	-	797,154	-	-	797,154
Administrative	1,038,219	-	685,084	184,575	1,907,878
Printing and copying	1,353,914	-	381,161	44,369	1,779,444
Capital outlay	36,957	-	-	871,769	908,726
Debt service:					
Principal	-	-	-	50,838	50,838
Interest	-	-	-	2,247	2,247
Total expenditures	39,075,332	797,154	3,127,755	4,020,848	47,021,089
Excess (deficiency) of revenues over (under) expenditures	3,528,661	(702,245)	286,050	(1,407,833)	1,704,633
Other Financing Sources (Uses)					
Proceeds from capital leases	-	-	-	181,306	181,306
Transfers in	-	500,000	-	891,454	1,391,454
Transfers out	(1,391,454)	-	-	-	(1,391,454)
Other financing sources (uses)	(1,391,454)	500,000	-	1,072,760	181,306
Net change in fund balances	2,137,207	(202,245)	286,050	(335,073)	1,885,939
Fund balance at beginning of year	12,499,796	3,397,367	6,819,604	5,904,932	28,621,699
Fund balance at end of year	\$ 14,637,003	\$ 3,195,122	\$ 7,105,654	\$ 5,569,859	\$ 30,507,638