

State Bar of Texas

(A Component Unit of the State of Texas)

Financial Report May 31, 2021



CONTENTS

Page

Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	17
Statement of Activities	19
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in the Fund Balance of Governmental Funds to the Statement of Activities	23
Statement of Net Position – Proprietary Fund.....	24
Statement of Revenues, Expenses and Changes In Net Position – Proprietary Fund	25
Statement of Cash Flows – Proprietary Fund	26
Statement of Net Position – Fiduciary Funds.....	27
Statement of Changes In Net Position – Fiduciary Funds	28
Notes to Financial Statements	29
Required Supplemental Information (Unaudited)	
Statement of Revenues, Expenditures and Changes In Fund Balance – Budget (GAAP Basis) and Actual – General Fund	61
Note to Statement of Revenues, Expenditures and Changes In Fund Balance – Budget (GAAP Basis) And Actual – General Fund.....	64
Schedule of Changes in State Bar's Proportionate Share of Net Pension Liability and Related Ratios.....	65
Schedule of Employer Contributions – Net Pension Liability	66
Notes to Net Pension Liability.....	67
Schedule of Changes in State Bar's Proportionate Share of Total OPEB Liability and Related Ratios.....	68
Schedule of Employer Contributions – Total OPEB Liability	69
Notes to OPEB Liability	70
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	77



Independent Auditor's Report

To the Board of Directors
State Bar of Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State Bar of Texas (the State Bar), a component unit of the State of Texas, as of and for the year ended May 31, 2021, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State Bar as of May 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.
1601 South MoPac Expressway, Suite D250 | Austin, Texas 78746
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The Board of Directors
State Bar of Texas

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, during the year ended May 31, 2021, the State Bar implemented Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities. Beginning net position of custodial funds has been restated as a result of the implementation of this statement.

As described in Note 14 to the basic financial statements, the State Bar restated beginning net position of the governmental activities, business-type activities, and the Texas Bar Books major proprietary fund to correct a misstatement of deferred outflows related to Postemployment Benefits Other Than Pensions (OPEB).

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
November 22, 2021

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

This Management's Discussion and Analysis is provided by management of the State Bar of Texas (State Bar) to offer readers an overview and analysis of the financial activities of the State Bar for the fiscal year ended May 31, 2021. This section is only an introduction and should be read in conjunction with the State Bar's financial statements, which immediately follow this section.

Financial Highlights

- The State Bar is in a strong financial position with no debt carried on the balance sheet, consistent revenues and controlled expenses. The State Bar General Fund's activities for the year ended May 31, 2021 increased the fund balance by \$1,578,893. Some major accomplishments during the year included the purchase of the 1415 Lavaca building for \$3,273,876 and the transfer of \$1,240,000 to the Technology Fund in addition to the regular operating transfer. Even with these large expenditures, the General Fund of the State Bar had net excess of revenues over expenditures of \$1,578,893. The net excess is due to savings generated by holding most previously planned in-person meetings virtually, thereby saving in expenditures categories related to travel and meetings.
- The State Bar complies with the Governmental Accounting Standards Board's (GASB) pronouncements, and has implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during fiscal year 2019. In fiscal year 2016, the State Bar implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the State Bar's Government-wide financial statements disclose a pension liability of (\$105,002,026) and a liability for Other Post-Employment Benefits (OPEB) of (\$40,664,516) on its balance sheet for the fiscal year ended May 31, 2021. The total net position of the State Bar is (\$72,936,073) even with these liabilities recorded. The amount of liability for both plans represents the State Bar's proportionate share of the total State of Texas plan's net liability based on the State Bar's total contributions made for its current and former employees. The amount of unfunded liability is not controlled or established by the State Bar of Texas. The plan is administered by the Employees' Retirement System of Texas (ERS). The liability does not affect the governmental funds or the budget of the State Bar, unless ERS requires a higher premium payment per employee. Historically, the premiums for employees and retirees have increased gradually and the State Bar does not anticipate significant changes to operating budget of the State Bar as a result of this GASB requirement. During the 87th Texas legislative session, the Legislature adopted an unfunded liability payment schedule requiring the State to make annual payments to the plan that will address the unfunded pension liability. Also, changes were made for future employees to participate in a defined contribution plan as opposed to the current defined benefit plan. These changes should address these significant liabilities going forward. See note 9 and note 11 for further disclosures on the defined benefit pension and OPEB plan.
- The assets of the State Bar were below its liabilities for fiscal year ended May 31, 2021 by (\$72,936,073). This amount includes all State Bar-related assets, including the reserves, all capital assets, all assets related to TexasBarBooks, the Sections and Division and all special revenue funds and capital project funds. The net deficit is due to the GASB requirement that the State Bar report its proportionate share of the pension and retiree's health insurance plans on its financial statements. Apart from those liabilities, the State Bar would show a positive net position.
- The State Bar's total net position increased by \$475,666 from the end of fiscal year 2020 to the end of fiscal year 2021. The increase in net position is due to the significant savings in holding most meetings virtually during the year.

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

- As of the close of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$44,953,373 an increase of \$5,251,975 in comparison with the prior year. Of this amount, \$26,708,334 is committed for ongoing expenses for board commitments, or for the special revenue fund expenditures.
- At the end of the current fiscal year, the fund balance for the General Fund was \$21,969,190 or 54 percent of the total General Fund expenditures for the year ended May 31, 2021. Of this amount, \$16,951,674 is subject to the Board of Director's (the Board) approval on how the funds may be used, and \$980,730 is non-spendable. The unassigned fund balance of the General Fund includes \$9,140,350 in minimum reserves, \$201,258 in changes to the FMV of investments, and \$7,610,066 in funds available for board commitments.

Overview of the Financial Statements

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

Government-wide statements: The government-wide financial statements are designed to provide readers with a broad overview of the State Bar's finances, in a manner similar to a private-sector business. The statements include all assets and liabilities using the accrual basis of accounting. The government-wide financial statements are made up of the statement of net position and the statement of activities. The government-wide financial statements can be found on pages 17 through 19 of this report.

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

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

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

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

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 20 through 28 of this report. All the funds of the State Bar can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The State Bar has three types of funds:

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

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

The State Bar maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Sections and Divisions, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. These nine funds are: Texas Board of Legal Specialization Fund, Texas Bar College, Annual Meeting, Client Security, Texas Law Center, Technology Fund, Project Grants Fund, Hatton W. Sumners Grants Fund, and Law Focused Education. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the other supplemental section of this report.

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

The basic governmental fund financial statements can be found on pages 20 through 28 of this report.

- **Proprietary funds**—The Texas Bar Books fund is the State Bar's only proprietary fund due to the long-term nature of its book projects. 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 24 through 26 of this report.

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

- **Fiduciary funds**—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State Bar's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary funds the State Bar has is a custodial fund used to hold monies for donations received for access to justice and the State Bar of Texas Insurance Trust, included as a blended component unit. The basic fiduciary fund financial statement can be found on pages 27 through 28 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29 through 60 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 61 through 74 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—non-major governmental funds, combining statement of revenues, expenditures and changes in fund balances—non-major governmental funds are provided to give additional information for each non-major 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 75 through 78.

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

Government-Wide Financial Analysis

Net position: The following table presents a summary of the State Bar's net position for the year ended May 31, 2021, with comparison totals as of May 31, 2020:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 61,176,502	\$ 54,403,142	\$ 1,637,590	\$ 1,536,067	\$ 62,814,092	\$ 55,939,209
Capital assets, net	9,032,377	6,266,438	316,365	215,505	9,348,742	6,481,943
Total assets	<u>\$ 70,208,879</u>	<u>\$ 60,669,580</u>	<u>\$ 1,953,955</u>	<u>\$ 1,751,572</u>	<u>\$ 72,162,834</u>	<u>\$ 62,421,152</u>
Deferred outflows of resources	\$ 31,168,684	\$ 28,483,837	\$ 1,989,490	\$ 1,818,118	\$ 33,158,174	\$ 30,301,955
Current liabilities	\$ 17,940,978	\$ 16,359,728	\$ 202,225	\$ 204,976	\$ 18,143,203	\$ 16,564,704
Noncurrent liabilities	138,736,516	122,975,401	8,800,748	7,821,613	147,537,264	130,797,014
Total liabilities	<u>\$ 156,677,494</u>	<u>\$ 139,335,129</u>	<u>\$ 9,002,973</u>	<u>\$ 8,026,589</u>	<u>\$ 165,680,467</u>	<u>\$ 147,361,718</u>
Deferred inflows of resources	\$ 11,822,017	\$ 13,786,634	\$ 754,597	\$ 879,998	\$ 12,576,614	\$ 14,666,632
Net position:						
Net investment in capital assets	\$ 8,749,921	\$ 6,090,842	\$ 316,365	\$ 215,505	\$ 9,066,286	\$ 6,306,347
Unrestricted (deficit)	(75,871,869)	(70,059,188)	(6,130,490)	(5,552,402)	(82,002,359)	(75,611,590)
Total net position	<u>\$ (67,121,948)</u>	<u>\$ (63,968,346)</u>	<u>\$ (5,814,125)</u>	<u>\$ (5,336,897)</u>	<u>\$ (72,936,073)</u>	<u>\$ (69,305,243)</u>

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 \$8,749,921 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)

May 31, 2021

Changes in net position: The following schedule shows the changes in net position for the year ended May 31, 2021 with comparison totals for the year ended May 31, 2020. The difference between revenues and expenditures represents the change in net position:

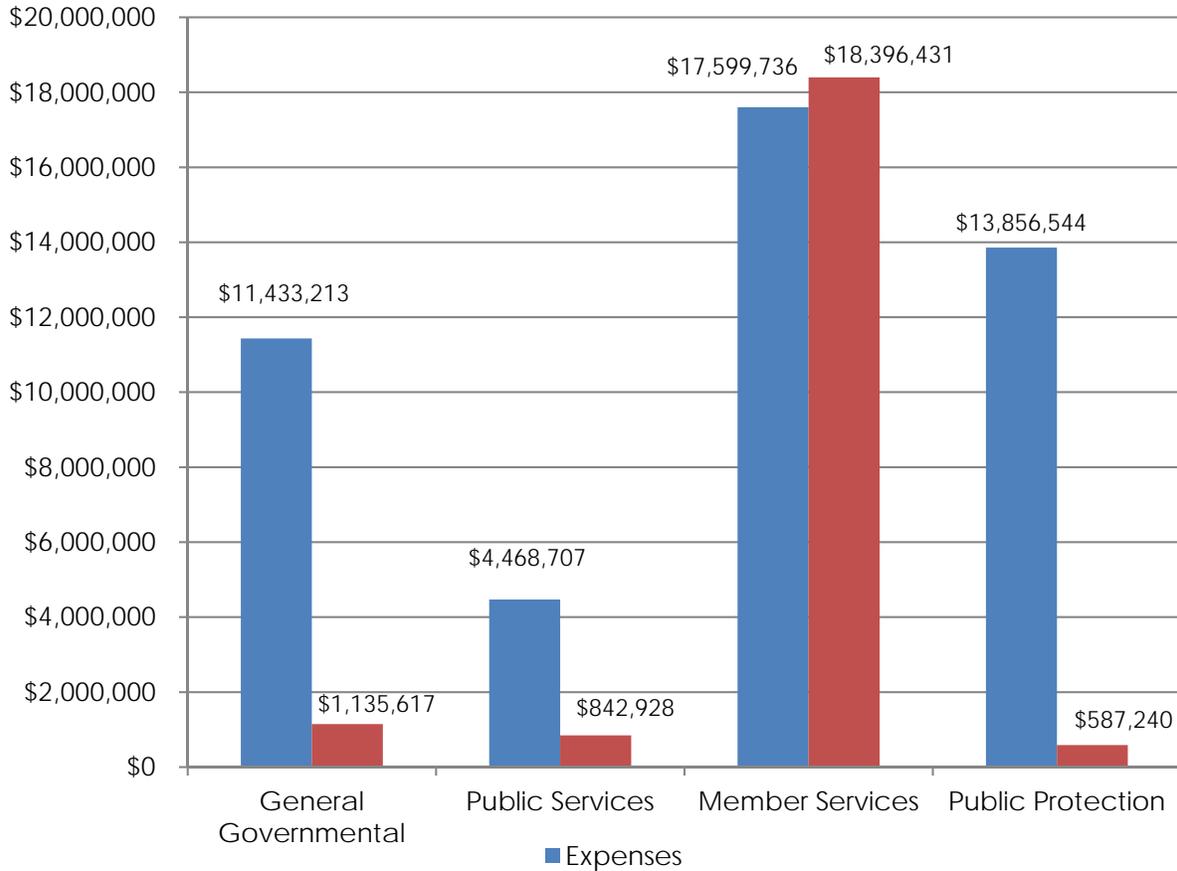
	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 20,062,262	\$ 20,872,152	\$ 2,096,118	\$ 2,341,355	\$ 22,158,380	\$ 23,213,507
Operating grants and contributions	909,450	1,678,145	-	-	909,450	1,678,145
General revenues:						
Membership dues	25,295,939	24,872,966	-	-	25,295,939	24,872,966
Investment income	186,819	1,427,944	213	9,366	187,032	1,437,310
Royalty revenue	1,579,067	1,591,507	1,331,588	1,227,197	2,910,655	2,818,704
Other income	231,167	448,977	-	-	231,167	448,977
Transfers	(200,000)	-	200,000	-	-	-
Total revenues	<u>48,064,704</u>	<u>50,891,691</u>	<u>3,627,919</u>	<u>3,577,918</u>	<u>51,692,623</u>	<u>54,469,609</u>
Expenses:						
General government	11,433,213	11,531,101	-	-	11,433,213	11,531,101
Public services	4,468,707	5,027,902	-	-	4,468,707	5,027,902
Member services	17,599,736	25,078,524	-	-	17,599,736	25,078,524
Public protection	13,856,544	16,122,685	-	-	13,856,544	16,122,685
Books	-	-	3,858,757	4,255,854	3,858,757	4,255,854
Total expenses	<u>47,358,200</u>	<u>57,760,212</u>	<u>3,858,757</u>	<u>4,255,854</u>	<u>51,216,957</u>	<u>62,016,066</u>
Increase (decrease) in net position	706,504	(6,868,521)	(230,838)	(677,936)	475,666	(7,546,457)
Net Position beginning of year, as restated	<u>(67,828,452)</u>	<u>(57,099,825)</u>	<u>(5,583,287)</u>	<u>(4,658,961)</u>	<u>(73,411,739)</u>	<u>(61,758,786)</u>
Net position at end of year	<u>\$ (67,121,948)</u>	<u>\$ (63,968,346)</u>	<u>\$ (5,814,125)</u>	<u>\$ (5,336,897)</u>	<u>\$ (72,936,073)</u>	<u>\$ (69,305,243)</u>

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

Expense and Program Revenues—Governmental Activities



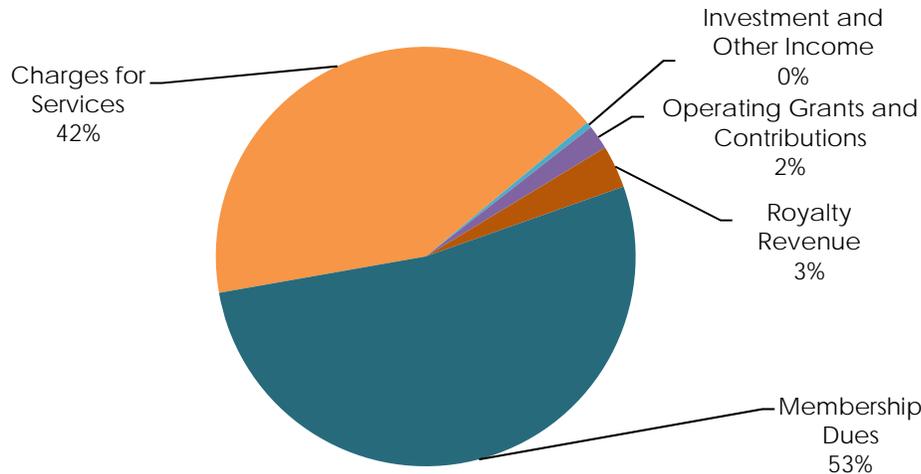
This chart depicts the program revenues and expenses as presented in the statement of activities on page 19 of the financial statements. These represent the revenues and related expenses for these programs. The State Bar also collects membership dues, investment income, royalty revenue and other income that totaled \$28,624,793 for the year ended May 31, 2021.

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

Revenues by Source—Governmental Activities



Membership dues continues to be the primary source of revenue for the State Bar. Total membership dues collections for fiscal year 2021 were \$25,295,939 compared to \$24,837,464 in the prior fiscal year. Membership dues includes regular dues, section dues, and TBLS dues payments. The State Bar anticipates a slowing growth in the revenue from dues because the projected number of licensed attorneys will likely stabilize over the next five years as new growth is offset by retiring attorneys.

TexasBarCLE charges for services were at \$13,114,832 for fiscal year 2021 compared to \$13,628,001 in revenue from fiscal year 2020. The decrease in revenue was anticipated and was caused by the impact of COVID safety precautions on in-classroom learning, which either moved the class to remote learning, limited the number of attendees to socially distance, or the course was cancelled or delayed. The continuing legal education offered by TexasBarCLE provides a stable income for the Bar to supplement other strategic goals that may not generate revenue, and it provides a valuable service to lawyers and the public by improving the quality of legal services. Other charges for services include Minimum Continuing Legal Education (MCLE) fees, Member Benefit fees, and Bar Journal fees.

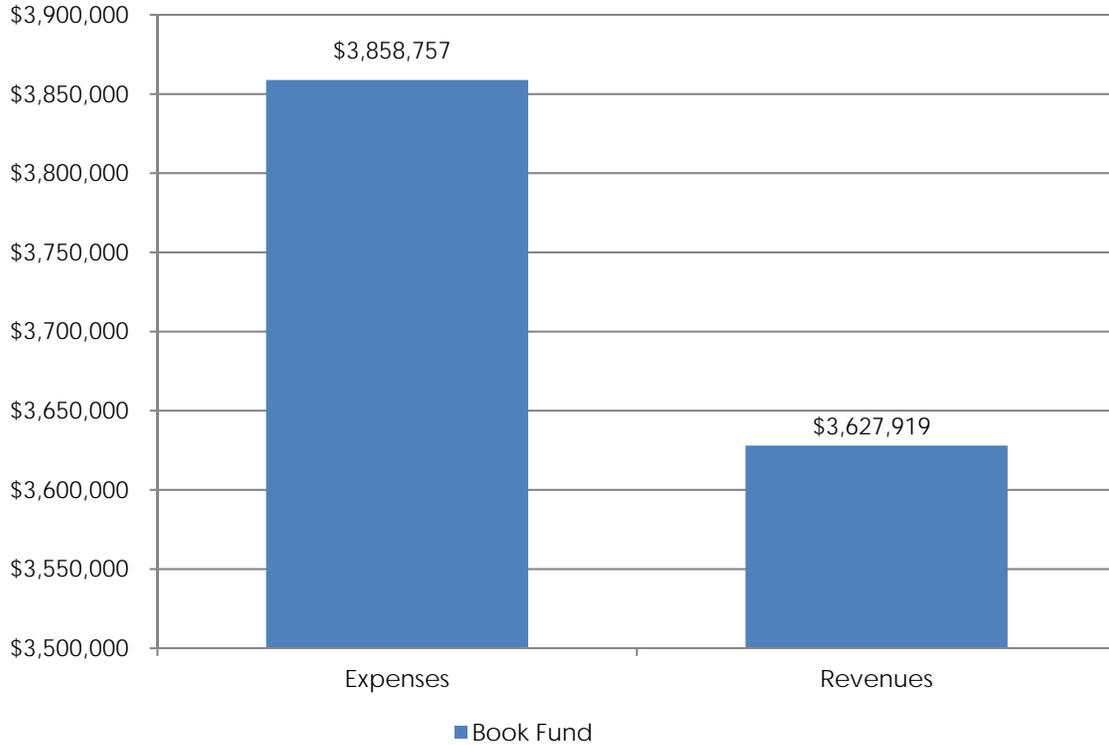
State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

Business-type activities: Business-type activities decreased the State Bar's net position by (\$230,838) due to the impact of the pension and OPEB adjustments. The TexasBarBooks Fund, shows steady income and expenses. The revenue and expenses will fluctuate from year to year based on the number of projects that are completed during the year. A breakdown of expenses and program revenues and revenues by source type follows:

Expenses and Program Revenues—Business-Type Activities

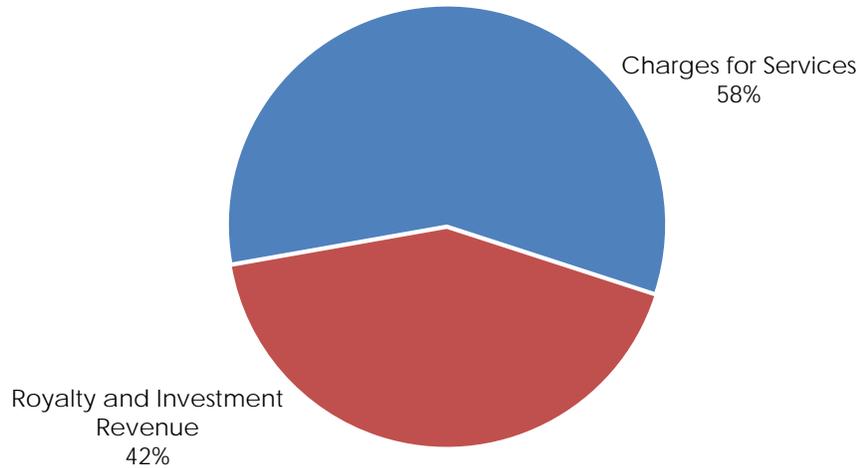


State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

Revenues by Source—Business Activities



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

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

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 \$44,953,373 an increase of \$5,251,975 in comparison with the prior year. Of this amount, \$1,293,365 is non-spendable for inventories and prepaid items and \$26,708,334 is committed for specific uses by the Board.

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 \$21,969,190, which is 77 percent unassigned. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 41 percent of total General Fund expenditures. During the current fiscal year, the fund balance of the State Bar's General Fund increased by \$1,578,893.

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 TexasBarBooks totaled (\$5,814,125). The total decrease in net position was (\$230,838). 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 (\$1,793,173) below budgeted amounts. The most significant negative variances resulted from investment income and TexasBarCLE fees. These decreases were completely offset by savings in expenditures. The State Bar's actual operating expenditures and transfers were below budgeted amounts by \$11,494,444, resulting in a net variance before board committed expenditures of \$9,701,300. The most significant positive variance resulted in travel and meeting costs from holding several meetings remotely.

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

Capital asset administration:

Capital assets: The State Bar's investment in capital assets for its governmental activities and business-type activities as of May 31, 2021, amounts to \$9,032,377 (net of accumulated depreciation and amortization). This investment in capital assets includes land; buildings and systems; and furniture, equipment, digital publication, and other assets. The increase from fiscal year 2020 to 2021 in land and buildings was a result of the board's purchase of 1415 Lavaca. The total capitalized cost of land and building was \$3,268,834, including inspection and closing costs.

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 1,413,874	\$ 154,074	\$ -	\$ -	\$ 1,413,874	\$ 154,074
Construction in progress	521,116	604,551	281,043	180,183	802,159	784,734
Building and systems, net	2,772,580	780,927	-	-	2,772,580	780,927
Furniture, equipment, digital publication and other, net	4,324,807	4,726,886	35,322	35,322	4,360,129	4,762,208
	<u>\$ 9,032,377</u>	<u>\$ 6,266,438</u>	<u>\$ 316,365</u>	<u>\$ 215,505</u>	<u>\$ 9,348,742</u>	<u>\$ 6,481,943</u>

Additional information on the State Bar's capital assets can be found in Note 2 on page 40 of this report.

Long-term liabilities: At the end of the current fiscal year, the State Bar had capital leases of \$282,456 and accrued compensated absences of \$2,120,517. The current portion of liabilities, or liabilities that are due within one year include capital lease payments and estimated payouts of vacation leave to employees. The following table presents a summary of the State Bar's Long-term liabilities for the year ended May 31, 2021, with comparative information as of May 31, 2020

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Capital lease payable	\$ 282,456	\$ 175,596	\$ -	\$ -	\$ 282,456	\$ 175,596
Deferred Rent	268,412	220,908	-	-	268,412	-
Accrued compensated absences	2,017,762	1,605,679	102,755	101,516	2,120,517	1,707,195
Total OPEB Liability	39,183,831	40,576,045	2,501,096	2,589,960	41,684,927	43,166,005
Net pension liability	98,701,904	82,055,157	6,300,122	5,237,563	105,002,026	87,292,720
Total liabilities	140,454,365	124,633,385	8,903,973	7,929,039	149,358,338	132,341,516
Less current portion	(1,717,849)	(1,657,984)	(103,225)	(107,426)	(1,821,074)	(1,765,410)
Total noncurrent liabilities	<u>\$ 138,736,516</u>	<u>\$ 122,975,401</u>	<u>\$ 8,800,748</u>	<u>\$ 7,821,613</u>	<u>\$ 147,537,264</u>	<u>\$ 130,576,106</u>

Additional information on the State Bar's noncurrent liabilities can be found in Note 5 on page 45 of this report.

State Bar of Texas

Management's Discussion and Analysis (Unaudited)

May 31, 2021

Economic Factors and Next Year's Budget

For the General Fund, estimated revenues for fiscal year 2022 are \$43,405,178 and estimated expenditures and other uses are \$43,405,178. If these estimates are realized, the State Bar's budgetary General Fund balance is expected to decrease slightly due to the expenditures related to Board commitments of excess fund balance. Revenues are not at pre-pandemic levels, but are showing signs of returning to levels from 2019.

Contacting the State Bar's Financial Management

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

Basic Financial Statements

State Bar of Texas
Statement of Net Position
May 31, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents – cash in bank	\$ 24,938,568	\$ -	\$ 24,938,568
Investments	29,580,939	-	29,580,939
Receivables			
Sales, net of an allowance for uncollectibles of \$3,088 and \$92,781, respectively	58,675	869,618	928,293
Interest receivable	107,263	-	107,263
Other accounts receivable	5,502,698	-	5,502,698
Internal balances	(452,845)	452,845	-
Due from fiduciary fund	147,839	-	147,839
Inventories, net of obsolescence	11,680	315,127	326,807
Prepaid expenses	1,281,685	-	1,281,685
	<u>61,176,502</u>	<u>1,637,590</u>	<u>62,814,092</u>
Total current assets			
Noncurrent assets:			
Capital assets			
Land	1,413,874	-	1,413,874
Construction in progress	521,116	281,043	802,159
Buildings, net	2,772,580	-	2,772,580
Furniture, fixtures, computer equipment, software and other equipment, net	4,324,807	35,322	4,360,129
	<u>9,032,377</u>	<u>316,365</u>	<u>9,348,742</u>
Total noncurrent assets			
	<u>70,208,879</u>	<u>1,953,955</u>	<u>72,162,834</u>
Total assets			
DEFERRED OUTFLOWS OF RESOURCES			
OPEB related amounts	3,315,178	211,607	3,526,785
Pension related amounts	27,853,506	1,777,883	29,631,389
	<u>\$ 31,168,684</u>	<u>\$ 1,989,490</u>	<u>\$ 33,158,174</u>
Total deferred outflows of resources			

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas

Statement of Net Position – Continued

May 31, 2021

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 798,623	\$ -	\$ 798,623
Accrued liabilities	477,833	89,514	567,347
Due to custodial funds	936,953	-	936,953
Unearned revenue	14,009,720	9,486	14,019,206
Current portion capital lease obligations	80,408	-	80,408
Current portion OPEB liability	959,186	61,225	1,020,411
Current portion compensated absences	678,255	42,000	720,255
	<u>17,940,978</u>	<u>202,225</u>	<u>18,143,203</u>
Noncurrent liabilities			
Capital lease obligations	202,048	-	202,048
Deferred rent	268,412	-	268,412
OPEB liability	38,224,645	2,439,871	40,664,516
Compensated absences	1,339,507	60,755	1,400,262
Net pension liability	98,701,904	6,300,122	105,002,026
	<u>138,736,516</u>	<u>8,800,748</u>	<u>147,537,264</u>
	<u>156,677,494</u>	<u>9,002,973</u>	<u>165,680,467</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB related amounts	10,264,021	655,150	10,919,171
Pension related amounts	1,557,996	99,447	1,657,443
	<u>11,822,017</u>	<u>754,597</u>	<u>12,576,614</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	8,749,921	316,365	9,066,286
Unrestricted (deficit)	(75,871,869)	(6,130,490)	(82,002,359)
	<u>\$ (67,121,948)</u>	<u>\$ (5,814,125)</u>	<u>\$ (72,936,073)</u>

State Bar of Texas
Statement of Activities
Year Ended May 31, 2021

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	\$ 11,433,213	\$ 1,145,113	\$ -	\$ (10,288,100)	\$ -	\$ (10,288,100)
Public services	4,468,707	529,085	313,843	(3,625,779)	-	(3,625,779)
Member services	17,599,736	17,808,946	587,485	796,695	-	796,695
Public protection	13,856,544	579,118	8,122	(13,269,304)	-	(13,269,304)
Total governmental activities	<u>47,358,200</u>	<u>20,062,262</u>	<u>909,450</u>	<u>(26,386,488)</u>	<u>-</u>	<u>(26,386,488)</u>
Business type activities						
Books	3,858,757	2,096,118	-	-	(1,762,639)	(1,762,639)
Total business-type activities	<u>3,858,757</u>	<u>2,096,118</u>	<u>-</u>	<u>-</u>	<u>(1,762,639)</u>	<u>(1,762,639)</u>
Total primary government activities	<u>\$ 51,216,957</u>	<u>\$ 22,158,380</u>	<u>\$ 909,450</u>	<u>(26,386,488)</u>	<u>(1,762,639)</u>	<u>(28,149,127)</u>
General revenues						
Membership dues				25,295,939	-	25,295,939
Investment income				186,819	213	187,032
Royalty revenue				1,579,067	1,331,588	2,910,655
Other income				231,167	-	231,167
Transfers				(200,000)	200,000	-
Total general revenues				<u>27,092,992</u>	<u>1,531,801</u>	<u>28,624,793</u>
Change in net position				706,504	(230,838)	475,666
Net position (deficit) beginning of year, as restated				<u>(67,828,452)</u>	<u>(5,583,287)</u>	<u>(73,411,739)</u>
Net position (deficit), end of year				<u>\$ (67,121,948)</u>	<u>\$ (5,814,125)</u>	<u>\$ (72,936,073)</u>

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas
 Balance Sheet – Governmental Funds
 May 31, 2021

	General Fund	Sections and Divisions	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents, cash in bank	\$ 11,421,947	\$ 8,594,270	\$ 4,922,351	\$ 24,938,568
Investments	20,084,578	2,301,860	7,194,501	29,580,939
Receivables				
Sales to members and other, net of an allowance for uncollectibles of \$3,088	58,675	-	-	58,675
Interest receivable	68,432	106	38,725	107,263
Other accounts receivable	5,395,141	100,614	6,943	5,502,698
Due from other governmental funds	275,434	1,152,140	1,100,962	2,528,536
Due from fiduciary fund	147,839	-	-	147,839
Inventories	11,680	-	-	11,680
Prepaid items	969,050	53,143	259,492	1,281,685
TOTAL ASSETS	\$ 38,432,776	\$ 12,202,133	\$ 13,522,974	\$ 64,157,883
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts payable	\$ 697,911	\$ 91,096	\$ 9,616	\$ 798,623
Accrued liabilities	457,025	20,263	545	477,833
Due to other governmental funds	2,253,102	153,533	121,901	2,528,536
Due to enterprise fund	452,845	-	-	452,845
Due to custodial fund	936,953	-	-	936,953
Unearned revenue	11,665,750	1,277,084	1,066,886	14,009,720
Total current liabilities	16,463,586	1,541,976	1,198,948	19,204,510
Fund balances:				
Nonspendable	980,730	53,143	259,492	1,293,365
Committed	4,036,786	10,607,014	12,064,534	26,708,334
Unassigned	16,951,674	-	-	16,951,674
Total fund balances	21,969,190	10,660,157	12,324,026	44,953,373
TOTAL LIABILITIES AND FUND BALANCES	\$ 38,432,776	\$ 12,202,133	\$ 13,522,974	\$ 64,157,883

The Notes to the Financial Statement 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, 2021

Total fund balance - governmental funds	\$ 44,953,373
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, including accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,032,377
Employee benefit related liabilities, and related accounts, are not due and payable in the current period and are not included in the fund financial statements, but are reported in the governmental activities in the statement of net positions. These items include:	
Net pension liability	(98,701,904)
OPEB liability	(39,183,831)
Deferred outflows related to net OPEB liability	3,315,178
Deferred inflows related to net OPEB liability	(10,264,021)
Deferred outflows related to net pension liability	27,853,506
Deferred inflows related to net pension liability	(1,557,996)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These items include:	
Capital Lease Payable	(282,456)
Deferred Rent	(268,412)
Compensated Absences	(2,017,762)
Net position of governmental activities	<u><u>\$ (67,121,948)</u></u>

The Notes to the Financial Statement 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, 2021

	General Fund	Sections and Divisions	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Membership dues	\$ 21,252,132	\$ 2,553,767	\$ 1,490,040	\$ 25,295,939
Accounting and management fees	658,255	-	-	658,255
Texas Bar Journal	546,062	-	-	546,062
MCLE fees	3,405,087	-	-	3,405,087
Professional development	13,114,860	357,707	-	13,472,567
Minority affairs	76,750	-	-	76,750
Investment income	118,581	32,546	35,692	186,819
Grant revenue	-	-	397,043	397,043
Member benefits	957,886	-	-	957,886
Website	579,415	-	-	579,415
Advertising review	284,300	-	-	284,300
CDC disciplinary fees	579,118	-	-	579,118
Other income	1,025,964	543,476	378,612	1,948,052
Total revenues	42,598,410	3,487,496	2,301,387	48,387,293
EXPENDITURES				
Executive	2,673,136	-	-	2,673,136
Member and public service	1,811,214	-	-	1,811,214
Volunteer committees	64,681	-	-	64,681
Professional development	5,705,061	-	-	5,705,061
Legal and attorney services	1,967,894	-	-	1,967,894
Access to justice commission	531,109	-	-	531,109
Law practice and management division	166,709	-	-	166,709
Member benefits and research	211,934	-	-	211,934
Attorney compliance	1,830,018	-	-	1,830,018
Operations and security division	1,626,241	-	117,514	1,743,755
Finance and information technology	4,756,335	-	629,955	5,386,290
Communications	2,226,400	-	-	2,226,400
Public protection	9,929,638	-	539,508	10,469,146
Special services	-	1,762,738	1,768,585	3,531,323
Expenditures related to Board commitments	976,475	-	-	976,475
Capital outlay	6,663	-	3,643,724	3,650,387
Debt service				
Principal	-	-	218,017	218,017
Interest	-	-	14,448	14,448
Total expenditures	34,483,508	1,762,738	6,931,751	43,177,997
Excess (deficiency) of revenues over (under) expenditures	8,114,902	1,724,758	(4,630,364)	5,209,296
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	242,679	242,679
Transfers in	-	-	6,336,009	6,336,009
Transfers out	(6,536,009)	-	-	(6,536,009)
Total other financing sources (uses)	(6,536,009)	-	6,578,688	42,679
Net change in fund balances	1,578,893	1,724,758	1,948,324	5,251,975
FUND BALANCES, beginning of year,	20,390,297	8,935,399	10,375,702	39,701,398
FUND BALANCES, end of year	\$ 21,969,190	\$ 10,660,157	\$ 12,324,026	\$ 44,953,373

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities Year Ended May 31, 2021

Net change in fund balance - total governmental funds \$ 5,251,975

Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense:

Capital outlay	3,650,387
Depreciation and amortization expense	(872,482)

Current year capital asset disposals are shown as decreases in capital assets in the government-wide financial statements but have no effect on the fund statements. The effect of removing the loss on the capital asset disposals is to decrease net position (11,966)

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	(242,679)
Repayment of capital leases	135,819

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	(7,402,357)
Change in OPEB liability and related deferred inflows and outflows	657,394
Change in deferred rent	(47,504)
Change in compensated absences	(412,083)

Change in net position of governmental activities \$ 706,504

State Bar of Texas

Statement of Net Position – Proprietary Funds

May 31, 2021

	Texas Bar Books
ASSETS	
CURRENT ASSETS	
Accounts receivable, net of allowance for uncollectibles of \$92,781	\$ 869,618
Due from other funds	452,845
Inventories, net of obsolescence	315,127
Total current assets	<u>1,637,590</u>
NONCURRENT ASSETS	
Capital assets, net of accumulated depreciation of \$318,315	<u>316,365</u>
TOTAL ASSETS	<u>1,953,955</u>
DEFERRED OUTFLOWS OF RESOURCES	
OPEB related amounts	211,607
Pension related amounts	1,777,883
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,989,490</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued liabilities	89,514
Unearned revenue	9,486
OPEB Liability	61,225
Accrued compensated absences	42,000
Total current liabilities	<u>202,225</u>
NONCURRENT LIABILITIES	
Accrued compensated absences	60,755
OPEB Liability	2,439,871
Net pension liability	6,300,122
Total noncurrent liabilities	<u>8,800,748</u>
TOTAL LIABILITIES	<u>9,002,973</u>
DEFERRED INFLOWS OF RESOURCES	
OPEB related amounts	655,150
Pension related amounts	99,447
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>754,597</u>
NET POSITION (DEFICIT)	
Investment in capital assets	316,365
Unrestricted (deficit)	<u>(6,130,490)</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (5,814,125)</u>

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas

Statement of Revenues, Expenses and Changes in Net Position –
Proprietary Funds
Year Ended May 31, 2021

	Texas Bar Books
OPERATING REVENUES	
Charges for sale and services	
Book sales	\$ 2,096,118
Total operating revenues	<u>2,096,118</u>
OPERATING EXPENSES	
Costs of good sold	453,355
Salaries and benefits	2,144,700
Professional services	150,437
Administrative fee	550,452
Office, equipment, storage rentals	162,204
Postage and freight	119,685
Other administrative expenses	277,924
Total operating expenses	<u>3,858,757</u>
Operating loss	<u>(1,762,639)</u>
NONOPERATING REVENUES	
Investment income	213
Royalty revenue	1,331,588
Transfers in	200,000
Total nonoperating revenues	<u>1,531,801</u>
Change in net position	(230,838)
NET POSITION (DEFICIT), beginning of year, as restated	<u>(5,583,287)</u>
NET POSITION (DEFICIT), end of year	<u>\$ (5,814,125)</u>

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas
Statement of Cash Flows –
Proprietary Funds
Year Ended May 31, 2021

	Texas Bar Books
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,988,402
Payments to suppliers for goods and services	(1,623,343)
Payments to employees	(1,712,929)
	<hr/>
Net cash used in operating activities	(1,347,870)
	<hr/>
CASH FLOWS FROM NONCAPITAL FINANCING	
Interfund transactions	116,929
	<hr/>
Net cash provided by noncapital financing	116,929
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(100,860)
	<hr/>
Net cash flows used in capital and related financing activities	(100,860)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	213
Royalties received	1,331,588
	<hr/>
Net cash provided by investing activities	1,331,801
	<hr/>
Net change in cash and cash equivalents	-
	<hr/>
CASH AND CASH EQUIVALENTS, beginning of year	-
	<hr/>
CASH AND CASH EQUIVALENTS, end of year	\$ -
	<hr/> <hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (1,762,639)
Adjustments to reconcile operating loss to net cash used in operating activities	
Changes in assets and liabilities	
Accounts receivable	(107,716)
Inventories, net of obsolescence	87,519
Prepaid expenses	1,745
Accrued liabilities	(8,036)
Unearned revenue	9,486
Accrued compensated absences	1,239
OPEB liability	(41,961)
Net pension liability	472,493
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,347,870)
	<hr/> <hr/>

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas

Statement of Net Position –
Fiduciary Funds
May 31, 2021

	<u>Custodial Funds</u>	<u>State Bar of Texas Insurance Trust Private-Purpose Trust Fund</u>
ASSETS		
Cash in bank	\$ 67,588	\$ 680,611
Accounts receivable	-	10,550
Due from general fund	936,953	-
	<u>1,004,541</u>	<u>691,161</u>
TOTAL ASSETS	<u>1,004,541</u>	<u>691,161</u>
LIABILITIES		
Due to general fund	-	147,839
Due to other organizations	-	4,057
	<u>-</u>	<u>151,896</u>
TOTAL LIABILITIES	<u>-</u>	<u>151,896</u>
NET POSITION		
Restricted for:		
Access to Justice	1,004,541	-
Held in Trust for member group insurance benefits	-	539,265
	<u>-</u>	<u>539,265</u>
TOTAL NET POSITION	<u>\$ 1,004,541</u>	<u>\$ 539,265</u>

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas

Statement of Changes in Net Position – Fiduciary Funds Year Ended May 31, 2021

	Custodial Funds	State Bar of Texas Insurance Trust Private-Purpose Trust Fund
ADDITIONS		
Contributions of subscribers	\$ -	\$ 7,024,597
Contributions	620,010	-
Royalties	-	79,850
Service agreement revenue	-	750,000
	<hr/>	<hr/>
Total additions	620,010	7,854,447
	<hr/>	<hr/>
DEDUCTIONS		
Payments to Other Entities	528,268	-
Premiums to insurance carrier	-	7,024,598
Accounting fees	-	7,994
Insurance	-	500,636
Rent	-	7
Service agreement fee	-	250,000
	<hr/>	<hr/>
Total deductions	528,268	7,783,235
	<hr/>	<hr/>
Income before income tax benefit	91,742	71,212
	<hr/>	<hr/>
INCOME TAX BENEFIT	-	5,000
	<hr/>	<hr/>
Change in net position	91,742	66,212
	<hr/>	<hr/>
NET POSITION, beginning of year	-	473,053
Cumulative effect of adoption of GASB 84	912,799	-
	<hr/>	<hr/>
NET POSITION, end of year	\$ 1,004,541	\$ 539,265
	<hr/> <hr/>	<hr/> <hr/>

The Notes to the Financial Statement are an integral part of this statement.

State Bar of Texas

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

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 the State government, its primary responsibility is to cooperate in the regulation of the practice of law in the State of Texas. The State Bar is an administrative branch or department of the Supreme Court of Texas. This report includes the funds and account groups required to account for those activities, organizations and functions which are related to the State Bar and are controlled by the State Bar. The State Bar is included in the financial statements of the State of Texas as a component unit.

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

Component Units

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

The State Bar appoints a majority of members to the Texas Bar Foundation's (the Foundation) and the Texas Center for Legal Ethics' (the Center) 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 or the Center, and because no financial burden or benefit exists between the State Bar and the Foundation or the Center, they are not considered a component unit of the State Bar.

Blended Component Units

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

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

State Bar of Texas

Notes to the Financial Statements

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 because the services it provides, exclusively benefits the State Bar. Contact the Finance Division of the State Bar to obtain financial statements of the blended component units.

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

The State Bar evaluated GASB No. 61 and determined the Trust meets the criteria for inclusion in the reporting entity as a blended component unit.

The Trust was formed in 1973 to provide group insurance benefits to members of the State Bar, including their employees, employees of the State Bar and the Trust and families of all eligible participants.

Premiums for the group policies are collected by the Trust and are remitted to the insurance company, Prudential Insurance Company of America (Prudential), who underwrites the State Bar of Texas Insurance Program (the Program). Prudential is responsible for all claims.

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

Government-Wide 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. However, interfund services provided and used are not eliminated in process of consolidation. Governmental activities, which are supported by dues, fees, grants and other revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

State Bar of Texas

Notes to the Financial Statements

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

Membership dues are reported as general revenues as they are the primary revenue source of the State Bar and attorneys are required to pay this membership due in order to practice law in the State of Texas.

Fund Financial Statements

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

Fund Accounting

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

Fund Structure

Governmental Fund Types

The State Bar reports the following major governmental funds:

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

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

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

State Bar of Texas

Notes to the Financial Statements

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

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

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

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

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

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

Custodial Fund – The custodial fund used to account for reporting voluntary access to justice contributions.

Private-Purpose Trust Fund: Component Unit – Additional information about the blended presented component unit, the State Bar of Texas Insurance Trust and Affiliate, a private purpose trust fund, can be found on pages 26-27.

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

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

State Bar of Texas

Notes to the Financial Statements

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

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

Budget and budgetary accounting: The State Bar's budget is prepared annually by the Executive Director for the General Fund and is reviewed by the budget committee of the Board and adopted by the Board. The Sections and Divisions major fund and other special revenue funds do not have appropriated budgets since other means control the use of these resources. 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 audit and finance committee, the executive committee and the Board. Regulations do not prohibit the State Bar from having unfavorable variances.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balances/ Net Position

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

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

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

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

State Bar of Texas

Notes to the Financial Statements

Receivables

Receivables represents amounts due from sales to members and others. All receivables are shown net of an allowance for uncollectibles, if applicable. The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to net position. Losses are charged against the allowance when management believes the uncollectibility of a receivable is probable. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. At May 31, 2021, the State Bar governmental activities and business-type activities reported an allowance of \$3,088 and \$92,781 respectively.

Inventories

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

Prepaid Items

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

Capital Assets

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

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

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

State Bar of Texas

Notes to the Financial Statements

Accounts Payable

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

Unearned Revenue

The State Bar collects certain dues, fees and subscription revenue in advance for future events or for license, fees and memberships with periods beginning subsequent to year-end.

These receipts are accounted for as unearned revenue, which will be earned and recognized in the subsequent fiscal year, as the events occur and the licenses and memberships commence.

Capital Lease

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

Compensated Absences

The State Bar grants paid annual leave to its employees. The amount of annual leave that employees accrue depends on the length of State of Texas service as of the employee's anniversary date and accrued days and allowable carryover hours increases with the length of service. Subject to certain limitations and requirements, employees' accrued annual leave may be used while employed, through the transfer to another State of Texas agency, at the termination of employment, at death or retirement. The current and long-term liabilities for accumulated vacation are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds upon the occurrence of relevant events such as resignations, retirements and other uses of leave balances by covered employees. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid. Accrued annual leave of \$2,017,762 and \$102,755 was recorded as accrued compensated absences for governmental activities and business-type activities, respectively, for the year ended May 31, 2021.

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.

State Bar of Texas

Notes to the Financial Statements

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.

Deferred outflows of resources consists of items not yet charged to pension and OPEB expense and contributions from the State Bar after the measurement date but before the end of the State Bar's reporting period.

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

Net Position

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

Represents the remaining portion of net position.

Fund Balance

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

State Bar of Texas

Notes to the Financial Statements

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

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

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

State Bar of Texas

Notes to the Financial Statements

The following table details fund balances between the various categories as of May 31, 2021:

	General Fund	Sections and Divisions	Nonmajor Governmental Funds	Total
Fund balances				
Nonspendable				
Inventories	\$ 11,680	\$ -	\$ -	\$ 11,680
Prepaid items	969,050	53,143	259,492	1,281,685
Total nonspendable	<u>980,730</u>	<u>53,143</u>	<u>259,492</u>	<u>1,293,365</u>
Committed to				
Texas Law Center projects	-	-	4,685,704	4,685,704
Lavaca Building Operations & Renovations	1,000,000	-	-	1,000,000
Lavaca Building Purchase	226,124	-	-	226,124
Legal Reserve account	350,000	-	-	350,000
Access to Justice (ATJ) student loan repayment program	515,000	-	-	515,000
Presidential initiatives	150,404	-	-	150,404
Legal Access Division Programs	41,975	-	-	41,975
Client Security Fund	400,000	-	3,335,457	3,735,457
Technology Fund	513,398	-	-	513,398
Texas Opportunity and Justice Incubator Program	410,764	-	-	410,764
ABA Young Lawyers Division Summit	15,000	-	-	15,000
Referendum Reserve	71,657	-	-	71,657
Contingency fo SCBP	75,000	-	-	75,000
Public Information Campaign	20,000	-	-	20,000
Archives Digitization Project	51,500	-	-	51,500
Insurance Expenditures	114,674	-	-	114,674
Law Related Education Program	179	-	-	179
Run-off Election Reserve	70,000	-	-	70,000
Ethics initiatives	11,111	-	-	11,111
Sections	-	10,607,014	-	10,607,014
Information Technology	-	-	1,005,304	1,005,304
Special Revenue Funds	-	-	3,038,069	3,038,069
Total committed	<u>4,036,786</u>	<u>10,607,014</u>	<u>12,064,534</u>	<u>26,708,334</u>
Unassigned	<u>16,951,674</u>	<u>-</u>	<u>-</u>	<u>16,951,674</u>
Total fund balances	<u><u>\$ 21,969,190</u></u>	<u><u>\$ 10,660,157</u></u>	<u><u>\$ 12,324,026</u></u>	<u><u>\$ 44,953,373</u></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, 2021, is approximately \$12.9 million of the unassigned fund balance. The target level is based on 3.0 months of budgeted operating expenditures.

State Bar of Texas

Notes to the Financial Statements

Transfers

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

Reimbursements

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

Interfund Receivables and Payables

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

Interfund Sales and Purchases

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

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

Significant Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Accounting Standards

GASB Statement No. 84, Fiduciary Activities (GASB 84), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2018; however, issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95), extended the effective date of GASB 84 to reporting periods beginning after December 15, 2019, with earlier application encouraged. GASB 84 was implemented in the State Bar's Fiscal Year 2021 financial statements, resulting in a cumulative effect adjustment of \$912,799 as of June 1, 2020 to net position in the fiduciary fund financial statements. Restatement of prior periods was not performed as such restatement was not considered practicable.

State Bar of Texas
Notes to the Financial Statements

Note 2. Capital Assets

Capital asset activity for the year ended May 31, 2021, was as follows:

	Beginning Balance	Additions	Deletions	CIP Transfers and Adjustments	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	\$ 154,074	\$ 1,259,800	\$ -	\$ -	\$ 1,413,874
Construction in progress	604,551	132,210	-	(215,645)	521,116
Total capital assets not being depreciated	758,625	1,392,010	-	(215,645)	1,934,990
Capital assets being depreciated and amortized					
Buildings	6,489,602	2,009,035	-	-	8,498,637
Furniture, fixtures, computer equipment, software and other equipment	15,695,100	249,342	(205,784)	215,645	15,954,303
Total capital assets being depreciated and amortized	22,184,702	2,258,377	(205,784)	215,645	24,452,940
Less accumulated depreciation and amortization for					
Buildings	(5,708,675)	(6,630)	-	(10,752)	(5,726,057)
Furniture, fixtures, computer equipment, software and other equipment	(10,968,214)	(865,852)	193,818	10,752	(11,629,496)
Total accumulated depreciation and amortization	(16,676,889)	(872,482)	193,818	-	(17,355,553)
Total capital assets being depreciated and amortized, net	5,507,813	1,385,895	(11,966)	215,645	7,097,387
Governmental activities capital assets, net	\$ 6,266,438	\$ 2,777,905	\$ (11,966)	\$ -	\$ 9,032,377
Business-type activities					
Construction in progress	\$ 180,183	\$ 100,860	\$ -	\$ -	\$ 281,043
Furniture, fixtures, computer equipment, software and other equipment	353,637	-	-	-	353,637
Accumulated depreciation and amortization	(318,315)	-	-	-	(318,315)
Business-type activities capital assets, net	\$ 215,505	\$ 100,860	\$ -	\$ -	\$ 316,365

Depreciation and amortization expense for the year ended May 31, 2021, was allocated in the following manner:

Governmental Activities	
General government	\$ 825,125
Member services	47,357
	<hr/>
Total depreciation expense - governmental activities	\$ 872,482

There was no depreciation and amortization expense for business-type activities for the year ended May 31, 2021, because assets were fully depreciated. The remaining balance is considered salvage value.

State Bar of Texas

Notes to the Financial Statements

Note 3. Deposits, Investments and Repurchase Agreements

Deposits of Cash in Bank

As of May 31, 2021, the carrying amount of deposits totaled \$25,686,767 as presented below:

	Carrying Amount	Bank Balance
Governmental, business-type and fiduciary activities		
Cash in bank - carrying amount	\$ 17,497,687	\$ 17,664,669
Money market mutual funds - carrying amount at net asset value	8,189,080	8,189,080
Total cash in bank	\$ 25,686,767	\$ 25,853,749

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

Custodial Credit Risk

In the case of deposits, the risk is that in the event of a bank failure, the State Bar will not be able to recover deposits or collateral securities that are in the possession of an outside party. The State Bar has a deposit policy for custodial credit risk, which requires bank deposit accounts to be collateralized with pledge securities. There is no limit on the amount the State Bar may deposit in any one institution. As of May 31, 2021, the State Bar's deposits are not exposed to deposit custodial credit risk because they are collateralized with securities held by the Federal Reserve in the State Bar's name in the amount of approximately \$22.1 million. The State Bar does not have funds that are held in foreign currency.

Investments

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

Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities that the State Bar has the ability to access at the measurement date.

Level 2 inputs are observable inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

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

State Bar of Texas

Notes to the Financial Statements

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

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

Investments measured at fair value using NAV per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy.

As of May 31, 2021, the fair value of investments were as follows:

Governmental Activities

	Carrying Value	Fair Value Measurements Using			Amortized Cost
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fixed income securities					
US Treasury securities	\$ 6,103,583	\$ 6,103,583	\$ -	\$ -	\$ -
US government agency obligations	17,506,496	-	17,506,496	-	-
GNMA Pool	64,010	-	-	-	64,010
Certificates of deposit	5,906,850	-	-	-	5,906,850
Total investments at fair value	\$ 29,580,939	\$ 6,103,583	\$ 17,506,496	\$ -	\$ 5,970,860

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

Custodial Credit Risk

In the case of investments, there is a risk that in the event of the failure of a counterparty, the State Bar will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State Bar's investment policy requires that all deposits are fully insured or collateralized, as required by the Public Funds Collateral Act, 2257, of the Texas Government Code. The State Bar had no exposure to investment custodial credit risk at May 31, 2021, because all certificates of deposit were fully covered by Federal Deposit Insurance Corporation and all other investments are held in the State Bar's name.

State Bar of Texas

Notes to the Financial Statements

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Bar's investment policy allows for various types of investments including: United States government agency obligations, United States Treasury securities, certificates of deposit, Banker's acceptances, repurchase agreements, money market mutual funds and commercial paper. Investments in United States government agency obligations are not guaranteed by the United States government, but are government-sponsored enterprises. As of May 31, 2021, State Bar's credit quality distribution for securities was as follows:

Investment Type	Standard and Poor's Ratings			Total
	AAA	AA+	A-1	
US Treasury securities	\$ -	\$ 6,103,583	\$ -	\$ 6,103,583
US government agency obligations	-	17,506,496	-	17,506,496
Money market mutual funds	8,189,080	-	-	8,189,080
	<u>\$ 8,189,080</u>	<u>\$ 23,610,079</u>	<u>\$ -</u>	<u>31,799,159</u>
GNMA Pool - not applicable				64,010
Certificates of deposit - not rated				5,906,850
Less: cash and cash equivalents (money market mutual funds)				<u>(8,189,080)</u>
				<u>\$ 29,580,939</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. Banker's 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

State Bar of Texas

Notes to the Financial Statements

As of May 31, 2021, the State Bar's investments consist of the following:

Issuer	Fair Value	Percentage
US Treasury securities	\$ 6,103,583	21%
Federal Home Loan Mortgage Corp	2,785,563	9%
Fannie Mae	5,454,329	18%
Freddie Mac	9,266,604	31%
GNMA Pool	64,010	1%
Certificates of deposit	5,906,851	20%
Total investments	\$ 29,580,939	100%

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

As of May 31, 2021, the State Bar's investments exposure to interest rate risk was as follows:

Description	Fair Value	Weighted-Average Maturity (In Days)
US Treasury securities	\$ 6,103,583	101
US government agency obligations	17,506,496	381
GNMA Pool	64,010	
Certificates of deposit	5,906,850	59
Total investments	\$ 29,580,939	

Note 4. Short-Term Debt

The State Bar has no short-term debt to report for the fiscal year ended May 31, 2021.

State Bar of Texas
Notes to the Financial Statements

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities during the year ended May 31, 2021, is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
Capital lease obligations	\$ 175,596	\$ 242,679	\$ (135,819)	\$ 282,456	\$ 80,408	\$ 202,048
Deferred rent	220,908	47,504	-	268,412	-	268,412
Accrued compensated absences	1,605,679	1,043,064	(630,981)	2,017,762	678,255	1,339,507
Total OPEB liability	40,576,045	-	(1,392,214)	39,183,831	959,186	38,224,645
Net pension liability	82,055,157	18,558,542	(1,911,795)	98,701,904	-	98,701,904
Total governmental activities	\$ 124,633,385	\$ 19,891,789	\$ (4,070,809)	\$ 140,454,365	\$ 1,717,849	\$ 138,736,516
Business-type activities						
Accrued compensated absences	\$ 101,516	\$ 48,050	\$ (46,811)	\$ 102,755	\$ 42,000	\$ 60,755
Total OPEB liability	2,589,960	-	(88,864)	2,501,096	61,225	2,439,871
Net pension liability	5,237,563	1,184,588	(122,029)	6,300,122	-	6,300,122
Total business-type activities	\$ 7,929,039	\$ 1,232,638	\$ (257,704)	\$ 8,903,973	\$ 103,225	\$ 8,800,748

The liabilities for pension-related and OPEB debt and compensated absences are liquidated by the General Fund and the Texas Bar Books fund.

Note 6. Bonded Indebtedness

The State Bar has no bonded indebtedness to report for the fiscal year ended May 31, 2021.

Note 7. Derivatives

The State Bar has no derivatives to report for the fiscal year ended May 31, 2021.

Note 8. Leases

Capital Lease Obligations

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

A summary of original capitalized costs of all such property under lease in addition to the accumulated depreciation as of May 31, 2021, is presented below.

	Governmental Activities		
	Assets	Accumulated Depreciation	Total
Other equipment	\$ 549,831	\$ (184,830)	\$ 365,001
Total	\$ 549,831	\$ (184,830)	\$ 365,001

State Bar of Texas

Notes to the Financial Statements

Future minimum lease payments under the capital leases, together with the net present value of all minimum lease payments as of May 31, 2021, were as follows:

Year ending May 31:	Governmental Activities		
	Principal	Interest	Total Future Minimum Lease Payments
2022	\$ 80,408	\$ 14,123	\$ 94,531
2023	84,428	10,102	94,530
2024	74,972	5,881	80,853
2025	42,648	2,132	44,780
Total	\$ 282,456	\$ 32,238	\$ 314,694

Operating Leases

Rent expense incurred under all third-party office space and equipment-operating leases for the year ended May 31, 2021, totaled \$511,164 for governmental activities.

At May 31, 2021, the State Bar was obligated under operating leases for the regional Chief Disciplinary Counsel Department's and the Texas Board of Legal Specialization's office space, expiring through 2027. In addition, the State Bar has some short-term leases during the year May 31, 2021.

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

Years Ending May 31,	Governmental Activities
2022	\$ 632,373
2023	634,014
2024	531,143
2025	497,476
2026	412,483
2027-2031	749,547
	\$ 3,457,036

Note 9. Defined Benefit Pension Plans

Plan Description

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

State Bar of Texas

Notes to the Financial Statements

Plan Benefits

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

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

Contributions: The contribution rates for the state and the members for the ERS plan for the measurement date of August 31, 2020, are presented in the table below:

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

The amount of State Bar's contributions recognized by the ERS plan during the 2020 measurement period was \$2,033,824.

Net Pension Liability

The State Bar's net pension liability was measured as of August 31, 2020, 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, 2014 through August 31, 2019.

State Bar of Texas

Notes to the Financial Statements

The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2020:

Actuarial Methods and Assumptions	
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	3.62%
Investment rate of return	7.00%
Inflation	2.30%
Salary increase	0.0 to 8.8%
Mortality Rate:	
	2020 State Retirees of Texas (SRT) mortality table. Generational mortality improvements in accordance with ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries ("Scale U-MP") and projected from the year 2020. Rates for male LECO members are set forward one year.

Long-Term Expected Rate of Return on Assets

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

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

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global equity	37.00%	2.15%
Private Equity	13.00%	1.16%
Global credit	11.00%	0.39%
Opportunistic credit	3.00%	0.17%
Real Estate Investment Trust	3.00%	0.16%
Infrastructure/Land	7.00%	0.34%
Private Real Estate	9.00%	0.31%
Fixed Income - Rates	11.00%	-0.049%
Absolute Returns	5.00%	0.18%
Cash	1.00%	-0.019%
Total	100.00%	4.79%
Inflation		2.30%
Expected arithmetic nominal rate of return		7.09%

State Bar of Texas

Notes to the Financial Statements

Discount Rate

A single discount rate of 3.62% was applied to measure the total pension liability. The 3.62% discount rate incorporated a 7.0% long-term expected rate of return on pension plan investments and 2.33% 20-year municipal bond rate based on the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index". The long-term expected investment rate of return was applied to projected benefit payments through the fiscal year before the fiduciary net position is depleted and the municipal bond rate was applied to all benefit payments thereafter.

The projections 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 2015 to increase the state contributions for fiscal 2016 and 2017 and maintained the changes made by the 83rd legislative session in Senate Bill 1459, which established proportional decreases to the employee contribution 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. Projected employer contributions are based on fiscal year 2020 funding levels.

Sensitivity Analysis

The following presents the net pension liability of the State Bar, calculated using the discount rate of 3.62%, as well as what the State Bar's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate:

	1% Decrease	Rate	1% Increase
	2.62%	3.62%	4.62%
State Bar's proportionate share of net pension liability	\$ 133,695,936	\$ 105,002,026	\$ 81,881,040

Pension Plan Fiduciary Net Position

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

More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS' fiscal 2020ACFR:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207
www.ers.texas.gov

State Bar of Texas

Notes to the Financial Statements

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related To Pension

At May 31, 2021, the State Bar reported a liability of \$105,002,026 for its proportionate share of the net pension liability. The net pension liability was measured as of August 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State Bar's proportion of the net pension liability was based on a projection of the State Bar's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined.

There have been no changes to the benefit terms of the plan since the prior measurement date. The State Bar's proportion of the entire ERS plan was 0.27638898% in fiscal year 2021, as compared to the 0.29111975% in the prior fiscal year.

For the fiscal year ended May 31, 2021, the State Bar recognized pension expense of \$16,055,691. At May 31, 2021, State Bar reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,021,318	\$ (652,465)
Changes of assumptions	21,870,448	(728,629)
Net difference between projected and actual investment return	1,550,172	-
Change in proportion and contribution differences	3,671,646	(276,349)
Contributions subsequent to the measurement date	1,517,805	-
Total	\$ 29,631,389	\$ (1,657,443)

Contributions made subsequent to the measurement date are eligible employer contributions made from September 1, 2020 through May 31, 2021, totaling \$1,517,805, which is reported as deferred outflows of resources and will be recognized as a reduction in the net pension liability for the year ending May 31, 2022.

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

Years Ending May 31,	
2022	\$ 13,401,327
2023	9,897,544
2024	3,038,188
2025	119,082
	\$ 26,456,141

State Bar of Texas

Notes to the Financial Statements

Note 10. Deferred Compensation

The State Bar has no deferred compensation to report for the fiscal year ended May 31, 2021.

Note 11. Postemployment Benefits Other Than Pensions

In addition to the pension benefits described in Note 9, ERS provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. This program is governed by the same Board of Trustees who are also responsible for the defined benefit pension plans.

The State Bar employees participate in the State Retiree Health Plan (SRHP) administered by ERS. SRHP is a cost-sharing multiple-employer postemployment health care plan with a special funding situation. This plan covers retired employees of the State and other entities as specified by the State legislature. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and service requirements and have at least ten years of service at retirement to participate in the plan. The principal participating employer is the State of Texas. State agencies and universities employ 187,142, or 80.5%, or the employees covered by the SRHP. Participating entities are as follows:

State agencies	115
Universities	27
Junior and community colleges	50
Other entities	8
Total participating entities	200

The maximum monthly employer contributions toward eligible retirees' health and basic life premium are summarized as follows:

Retiree only	625
Retiree and spouse	1,341
Retiree and children	1,104
Retiree and family	1,820

Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the nonemployer contributing entity, the State of Texas pays part of the premiums for the junior and community college.

For the measurement period ending August 31, 2020, the amount of the State Bar's contributions recognized by SHRP was \$1,193,125. Fiscal year 2021 contributions were \$1,226,017.

The total OPEB liability is determined by an actuarial valuation. The methods and assumptions applied in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2014 through August 31, 2019, for state agency members and for the period September 1, 2010 through August 31, 2017, for higher education members.

State Bar of Texas

Notes to the Financial Statements

The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2020:

Actuarial Methods and Assumptions	
ERS Plan	
Actuarial valuation date	August 31, 2020
Actuarial cost method	Entry age
Actuarial assumptions:	
Discount rate	2.20%
Inflation	2.30%
Salary increase	2.30% to 9.05%, including inflation
Annual health care trend rate	8.80% for FY2022, 5.25% for FY2023, 5.00% for FY2024, 4.75% for FY2025, 4.60% for FY2026 decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2029 and later years
Retirement age	Experience based tables of rates that are specific to employee class
Mortality Rate:	
State Agency Members	
Service Retirees, Survivors and other Inactive Members	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020.
Disability Retirees	2020 State Retirees of Texas Mortality table with a 3 year set forward for males and females with minimum rates at all ages of 3.0% for males and 2.5% for females, respectively, and Ultimate MP Projection Scale projected from the year 2020.
Active Members	Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP Projection Scale from the year 2010.

The valuation reflects the minor benefit changes that will become effective January 1, 2021, since these changes were communicated to plan members in advance of the preparation of this report. These changes, which are not expected to have a significant impact on plan costs for fiscal year 2021, are provided for in the fiscal year 2021 Assumed Per Capita Health Benefit Costs.

Calculations are based on the benefit provided under the terms of the substantive plan in effect at the time of each valuation, and on the pattern of sharing of cost between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 2.20% for the measurement date ending August 31, 2020, as compared to a discount rate of 2.97% as of the beginning of the measurement period. The source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's AA. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

State Bar of Texas

Notes to the Financial Statements

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of State Bar's net OPEB liability. The result of the analysis is presented in the table below:

	1% Decrease	Rate	1% Increase
	1.20%	2.20%	3.20%
State Bar's proportionate share of the net OPEB liability	\$ 49,545,476	\$ 41,684,927	\$ 35,526,892

The initial healthcare trend rate is 8.8% and the ultimate rate is 4.3%. The sensitivity of the net OPEB liability to changes in the discount rate and health care trend rate is summarized below:

	1% Decrease (6.3%, Decreasing to 3.3%)	Current Health Care Cost Trend Rates Decreasing to 4.3%)	1% Increase (8.3%, Decreasing to 5.%)
State Bar's proportionate share of the net OPEB liability	\$ 34,887,542	\$ 41,684,927	\$ 50,595,589

The SHRP is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The ERS' board of trustees adopted the amendment to the investment policy in August 2017 to require that all funds in this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments is 2.4%.

More detailed information on SHRP may be obtained from ERS' fiscal 2020 ACFR:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207
www.ers.texas.gov

At May 31, 2021, the State Bar's recognized a total OPEB liability of \$41,684,927 for its proportionate share of the collective total OPEB liability. The State Bar's proportionate share of the total OPEB liability was 0.12614735% in fiscal year 2021, as compared to the 0.12489197% in the prior fiscal year, and was based on contributions to the OPEB plan relative to the contributions of all employers and the nonemployer contributing entity for the period.

At August 31, 2020, the State Bar's reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (1,630,318)
Change in proportionate share and contribution difference	184,197	(307,469)
Changes of assumptions	2,413,268	(8,981,384)
Net difference between projected and actual investment return	12,441	-
Contributions subsequent to the measurement date	916,879	-
Total	\$ 3,526,785	\$ (10,919,171)

State Bar of Texas

Notes to the Financial Statements

Contributions made subsequent to the measurement date are eligible employer contributions made from September 1, 2020 through May 31, 2021, totaling \$916,879, which is reported as deferred outflows of resources and will be recognized as a reduction in the total OPEB liability for the year ending May 31, 2022.

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense in the following years:

Years Ended	
May 31,	
<hr/>	
2022	\$ (3,782,575)
2023	(2,587,108)
2024	(1,057,596)
2025	(501,065)
2026	(380,921)
	<hr/>
	\$ (8,309,265)
	<hr/> <hr/>

Note 12. Interfund Balances/Activities

During the course of operations, numerous transactions occurred 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, 2021, is as follows:

Receivable Fund	Payable Fund	Amount
<hr/>		<hr/>
General Fund	Nonmajor governmental funds	\$ 121,901
General Fund	Sections and Division	153,533
General Fund	Fiduciary Fund - SBOTIT Private-Purpose Trust Fund	147,839
Sections and Divisions	General Fund	1,152,140
Nonmajor governmental funds	General Fund	1,100,962
Texas Bar Books	General Fund	452,845
Custodial Fund	General Fund	936,953
		<hr/>
Total		\$ 4,066,173
		<hr/> <hr/>

During the year, the General Fund transferred \$6,336,009 to nonmajor governmental funds to supplement operations, to fund the purchase of its new headquarter building, and to fund claims, technology projects, and future renovations to the Texas Law Center. The General Fund also transferred \$200,000 to the Texas Bar Books proprietary fund to supplement operations.

Note 13. Continuance Subject to Review

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

State Bar of Texas

Notes to the Financial Statements

Note 14. Adjustments to Net Position

During the fiscal year ended May 31, 2021, an error reported in OPEB related contributions was identified in the previously issued May 31, 2020 audited financial statements, which caused an overstatement of deferred outflows – OPEB related, for governmental activities, business-type activities, and the Texas Bar Books major proprietary fund. As a result, governmental activities, business-type activities, and the Texas Bar Books major proprietary fund beginning net positions decreased by \$3,860,106 and \$246,390, respectively. Additionally, the change in net position for the immediately preceding period of year ending May 31, 2020 would decrease (increase in deficit) by these same amounts of \$3,860,106 for governmental activities and \$246,390 for both the business-type activities and Texas Bar Books proprietary fund.

	Governmental Activities Net Position (Deficit)	Business-type Activities and Texas Bar Books Net Position (Deficit)
Beginning balance, as previously reported	\$ (63,968,346)	\$ (5,336,897)
Misstatement of deferred outflows - OPEB related amounts	(3,860,106)	(246,390)
Total prior period adjustment	(3,860,106)	(246,390)
Beginning balance, as restated	\$ (67,828,452)	\$ (5,583,287)

Note 15. Contingencies and Commitments

The State Bar has no contingencies or commitments to report for the fiscal year ended May 31, 2021.

Note 16. Subsequent Events

Management evaluated the need for disclosures and/or adjustments resulting from subsequent events through November 22, 2021, 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 purchases commercial insurance to cover risks associated with potential claims. For the fiscal year ended May 31, 2021, there were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

Health, Life and Dental

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

State Bar of Texas

Notes to the Financial Statements

Texas Employees Group Benefits Program

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

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

See pages 3-14 for MD&A.

Note 19. The Financial Reporting Entity

See pages 28-38.

Note 20. Stewardship, Compliance and Accountability

The State Bar had none to report.

Note 21. Placeholder Note

Note 22. Donor-Restricted Endowments

The State Bar has no donor-restricted endowments to report for the fiscal year ended May 31, 2021.

Note 23. Extraordinary and Special Items

The State Bar has no extraordinary or special items to report for the fiscal year ended May 31, 2021.

Note 24. Disaggregation of Receivable Balances

The State Bar had other accounts receivable at May 31, 2021, which consisted of the following:

General Fund	
Clerk of the Supreme Court	\$ 5,051,266
Texas Center for Legal Ethics	29,026
Texas Supreme Court Historical Society	25,718
Texas Bar Foundation	192
Other	288,939
	<hr/>
	5,395,141
	<hr/>
Sections and Divisions	
Family Law Royalties	47,594
Law Business Research	28,720
Other	24,300
	<hr/>
	100,614
	<hr/>
Nonmajor governmental funds	
Refundable deposits	6,943
	<hr/>
	6,943
	<hr/>
Total	\$ 5,502,698
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State Bar of Texas

Notes to the Financial Statements

Note 25. Termination Benefits

The State Bar has no termination benefits to report for the fiscal year ended May 31, 2021.

Note 26. Component Unit – State Bar of Texas Insurance Trust and Affiliate Agreement between Primary Government and Component Unit

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

Contributions of Subscribers and Premiums to Insurance Carrier

Contributions of subscribers, as required by the Program, are credited to net position. In turn, premiums for insurance coverage are charged against net position and are payable to the insurance carrier, in accordance with applicable policy provisions, in amounts based on rates established by the carrier.

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 collect the premiums.

Commissions

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

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

State Bar of Texas

Notes to the Financial Statements

Description of the Program

The Trust Program is a plan sponsor for association group insurance which provides for group term life, long-term disability, office overhead and personal accident benefits. The Trust Program, including all benefit charges are fully insured through contracts with Prudential. The Trust Program has no benefit obligations outstanding as of May 31, 2021.

Program Terminations

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

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

Contributions

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

Reserve for Premium Stabilization

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

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

The Program year under the contract with Prudential is June 1 through May 31. The stabilization fund totaled \$1,416,367.

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

Note 27. Service Concession Arrangements

The State Bar has no service concession arrangements to report for the fiscal year ended May 31, 2021.

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

See page 50 and 54.

State Bar of Texas

Notes to the Financial Statements

Note 29. Troubled Debt Restructuring

The State Bar has no troubled debt restructurings to report for the fiscal year ended May 31, 2021.

Note 30. Nonexchange Financial Guarantees

The State Bar has no nonexchange financial guarantees to report for the fiscal year ended May 31, 2021.

Note 31. Tax Abatements

The State Bar has no tax abatements to report for the fiscal year ended May 31, 2021.

Note 32. Governmental Fund Balances

See page 37.

**Required Supplemental Information
(Unaudited)**

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund Year Ended May 31, 2021

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Membership dues	\$ 21,348,853	\$ 21,348,853	\$ 21,252,132	\$ (96,721)
Accounting and management fees	658,255	658,255	658,255	-
Texas bar journal	632,545	632,545	546,062	(86,483)
MCLE fees	3,460,950	3,460,950	3,405,087	(55,863)
Professional development	14,251,844	14,251,844	13,114,860	(1,136,984)
Minority affairs	381,815	381,815	76,750	(305,065)
Investment income	400,000	400,000	118,581	(281,419)
Member benefits	911,308	911,308	957,886	46,578
Website	445,000	445,000	579,415	134,415
Advertising review	368,000	368,000	284,300	(83,700)
CDC disciplinary fees	564,853	564,853	579,118	14,265
Other income	968,129	968,129	1,025,964	57,835
Total revenues	44,391,552	44,391,552	42,598,410	(1,793,142)
EXPENDITURES				
Executive				
Office of executive director	684,300	684,300	594,986	89,314
Associate executive director/legal counsel	700,889	700,889	691,711	9,178
Deputy executive director	236,649	236,649	219,109	17,540
Deputy Executive Director/External affairs	265,280	265,280	243,014	22,266
Officers and directors	970,817	970,817	597,695	373,122
Human resources	308,161	308,161	307,020	1,141
Training/Tuition	71,133	71,133	19,601	51,532
Total executive	3,237,229	3,237,229	2,673,136	564,093
Member and Public Services				
Center for legal history	160,623	160,623	83,277	77,346
Law related education	523,895	523,895	426,087	97,808
Governmental relations	311,496	311,496	182,570	128,926
Texas young lawyers association	1,022,902	1,022,902	569,358	453,544
LeadershipSBOT	98,672	98,672	8,459	90,213
Sections	343,782	343,782	325,736	18,046
Local bars	459,225	459,225	209,663	249,562
Special events	73,604	73,604	185	73,419
Law student department	20,266	20,266	5,879	14,387
Total member and public services	3,014,465	3,014,465	1,811,214	1,203,251
SBOT volunteer committees	317,812	317,812	64,681	253,131
Total SBOT volunteer committees	\$ 317,812	\$ 317,812	\$ 64,681	\$ 253,131

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, 2021

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES (continued)				
Professional development				
TexasBarCLE	\$ 10,101,604	\$ 10,101,604	\$ 5,426,494	\$ 4,675,110
Minority affairs	523,115	523,115	285,230	237,885
Total professional development	10,624,719	10,624,719	5,711,724	4,912,995
Legal and Attorney Services				
Legal and attorney services director	237,184	237,184	227,393	9,791
Texas lawyers assistance program	496,731	496,731	474,528	22,203
Legal access division	1,539,040	1,539,040	1,265,973	273,067
Total legal and attorney services	2,272,955	2,272,955	1,967,894	305,061
Access to justice commission	752,981	752,981	531,109	221,872
Total Access to Justice Commission	752,981	752,981	531,109	221,872
Law Practice and Management Division	182,184	182,184	166,709	15,475
Total Law Practice and Management Division	182,184	182,184	166,709	15,475
Member benefits and research analysis				
Member benefits	172,585	172,585	45,182	127,403
Research and analysis	239,952	239,952	166,752	73,200
Total member benefits and research analysis	412,537	412,537	211,934	200,603
Attorney compliance				
Office of attorney compliance director	190,181	190,181	181,151	9,030
Advertising review	151,275	151,275	143,814	7,461
Client attorney assistance program	545,713	545,713	556,549	(10,836)
Lawyer referral	376,086	376,086	375,405	681
MCLE	628,338	628,338	573,099	55,239
Total attorney compliance	1,891,593	1,891,593	1,830,018	61,575
Operations and security division				
Purchasing and facilities	1,294,796	1,294,796	1,241,829	52,967
Customer Service	404,132	404,132	384,412	19,720
Total operations and security division	1,698,928	1,698,928	1,626,241	72,687
Finance				
Accounting	1,049,448	1,049,448	989,217	60,231
Membership	612,834	612,834	621,904	(9,070)
Other administrative	2,042,188	2,042,188	2,089,346	(47,158)
Total finance	3,704,470	3,704,470	3,700,467	4,003
Information technology				
Information technology	1,252,657	1,252,657	1,055,868	196,789
Total information technology	\$ 1,252,657	\$ 1,252,657	\$ 1,055,868	\$ 196,789

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, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
EXPENDITURES (continued)				
Communications				
Office of communications director	\$ 265,364	\$ 265,364	\$ 232,830	\$ 32,534
Texas bar journal	1,298,114	1,298,114	1,275,420	22,694
Public information/Printing and Graphics	518,289	518,289	427,534	90,755
Web management	421,753	421,753	290,616	131,137
Total communications	2,503,520	2,503,520	2,226,400	277,120
Public protection				
Chief disciplinary counsel	10,076,552	10,076,552	9,298,657	777,895
Ombudsman	87,932	87,932	86,912	1,020
Committee on disciplinary rules and referendum	9,000	9,000	5,348	3,652
Grievance oversight committee	48,800	48,800	15,863	32,937
Unauthorized practice of law	170,000	170,000	58,244	111,756
Professional ethics commission	12,000	12,000	3,766	8,234
Board of disciplinary appeals	632,418	632,418	460,848	171,570
Total public protection	11,036,702	11,036,702	9,929,638	1,107,064
Expenditures related to Board commitments				
Texas student loan repayment assistance program	515,000	515,000	515,000	-
Texas opportunity and justice incubator program	489,141	489,141	78,376	410,765
Presidential initiatives	186,776	186,776	61,372	125,404
Statewide pro-bono recruitment campaign	141,975	141,975	-	141,975
Future board commitment reserve	866,667	866,667	-	866,667
Legal counsel reserve	100,000	100,000	-	100,000
Sheeran Crowley trust	225,000	225,000	225,000	-
Southern conference of bar presidents reserve	75,000	75,000	-	75,000
Rules vote fund	150,000	150,000	78,343	
Runoff election reserve	70,000	70,000	-	70,000
Public information project	20,000	20,000	-	20,000
Professionalism and ethics initiatives	11,495	11,495	384	11,111
Lavaca building purchase	226,124	226,124	-	226,124
Archives digitization project	63,500	63,500	12,000	51,500
Law related education projects	6,179	6,179	6,000	179
Total expenditures related to Board commitments	3,146,857	3,146,857	976,475	2,098,725
Total expenditures	46,049,609	46,049,609	34,483,508	11,494,444
Excess (deficiency) of revenues over (under) expenditures	(1,658,057)	(1,658,057)	8,114,902	9,772,959
Other financing sources (uses)				
Transfers in (out) to:				
Building & Equipment Fund	(288,800)	(288,800)	(288,800)	-
Technology Fund	(500,000)	(500,000)	(500,000)	-
Client Security Fund	(5,747,209)	(5,747,209)	(5,747,209)	-
Total other financing sources (uses)	(6,536,009)	(6,536,009)	(6,536,009)	-
Net change in fund balances	(8,194,066)	(8,194,066)	1,578,893	9,772,959
FUND BALANCE, beginning of year	20,390,297	20,390,297	20,390,297	-
FUND BALANCE, end of year	\$ 12,196,231	\$ 12,196,231	\$ 21,969,190	\$ 9,772,959

State Bar of Texas

Note to Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget (GAAP Basis) and Actual – General Fund
Year Ended May 31, 2021

Note 1. Basis of Presentation

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

The State Bar is not legally required to adopt a budget for Sections and Divisions, which is listed as a major Special Revenue Fund and, therefore, a budget compared to actual is not included.

The State Bar's budget for the General Fund is prepared using the GAAP basis of accounting.

State Bar of Texas

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

	August 31,						
	2021	2020	2019	2018	2017	2016	2015
Measurement date	August 31, 2020	August 31, 2019	August 31, 2018	August 31, 2017	August 31, 2016	August 31, 2015	August 31, 2014
State Bar's proportionate share of the net pension liability	0.2763890%	0.2911198%	0.28934813%	0.27637361%	0.27324143%	0.29402350%	0.30057126%
State Bar's proportionate share of the net pension liability balance at August 31	<u>\$ 105,002,026</u>	<u>\$ 87,292,720</u>	<u>\$ 58,442,218</u>	<u>\$ 60,427,988</u>	<u>\$ 53,984,064</u>	<u>\$ 39,006,462</u>	<u>\$ 43,465,009</u>
State Bar's covered payroll*	<u>\$ 19,785,126</u>	<u>\$ 20,225,911</u>	<u>\$ 22,361,932</u>	<u>\$ 20,632,468</u>	<u>\$ 19,977,021</u>	<u>\$ 19,590,734</u>	<u>\$ 19,402,731</u>
State Bar's proportionate share of the net pension liability as a percentage of covered payroll	<u>530.71%</u>	<u>431.59%</u>	<u>261.36%</u>	<u>292.88%</u>	<u>27023.00%</u>	<u>199.11%</u>	<u>224.01%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>42.38%</u>	<u>47.70%</u>	<u>57.89%</u>	<u>54.67%</u>	<u>55.32%</u>	<u>64.40%</u>	<u>63.40%</u>

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

The schedule of changes in State Bar's proportionate share of net position liability 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 – Net Pension Liability

Fiscal Years Ended May 31,	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$ 2,015,232	\$ 2,015,232	-	\$ 20,309,262	9.92%
2020	2,040,744	2,040,744	-	20,727,003	9.85%
2019	2,027,891	2,027,891	-	21,023,817	9.65%
2018	2,482,803	2,482,803	-	20,638,696	12.03%
2017	2,371,089	2,371,089	-	19,794,416	11.98%
2016	2,293,610	2,293,610	-	19,507,265	11.76%
2015	1,845,751	1,845,751	-	19,427,203	9.50%
2014	1,665,702	1,665,702	-	19,032,960	8.75%
2013	1,376,433	1,376,433	-	18,584,172	7.41%
2012	1,341,923	1,341,923	-	17,763,494	7.55%
2011	1,373,078	1,373,078	-	16,932,249	8.11%

State Bar of Texas

Notes to Net Pension Liability

May 31, 2021

Note 1. Changes of Benefit Terms – Pension Plan

For the year ended August 31, 2015, during the most recent legislative session, the Texas Legislature enacted House Bill 9 (HB-9). HB-9 increased the member contribution rate for ERF members to 9.5% of member's compensation for service after August 31, 2015. HB-9 also eliminated the 90-day waiting period to become a member of ERF and LECOSRF. In conjunction with HB-9, the State's contribution appropriation to ERF also increased to 9.5% of pay.

For the years ended August 31, 2014 through 2020, there were no changes to the plan provisions.

Note 2. Changes of Assumptions – Pension Plan

For the year ended August 31, 2020, other than the difference in the discount rate decrease to 3.62%, all other actuarial methods and assumptions are the same for both funding and financial reporting purposes.

For the year ended August 31, 2019, other than the difference in the discount rate decrease to 4.42%, all other actuarial methods and assumptions are the same for both funding and financial reporting purposes.

For the year ended August 31, 2018, other than the difference in the discount rate increase to 5.69%, all other actuarial methods and assumptions are the same for both funding and financial reporting purposes.

For the year ended August 31, 2017, the following assumptions have been changed since the previous pension valuation:

- Decrease the investment return assumption from 8.0% to 7.5%
- Decrease the inflation assumption from 3.5% to 2.5%
- Establish a general wage inflation assumption of 0.5% above inflation, or 3.0%
- Mortality assumptions updated from 1994 Group Annuity Mortality table to most recently published national tables, RP-2014 Mortality tables for employees and disability retirees
- Modified the application of Entry Age Normal (EAN) actuarial cost method from Ultimate EAN, the normal cost rate based on the benefits payable to a new member and the entry age characteristics of the current active membership, to individual EAN which bases the normal cost rate on benefits payable to each individual active member

For the years ended August 31, 2014, 2015, and 2016, other than the difference in the discount rate (6.07% for 2014, 6.86% for 2015 and 5.73% in 2016), all other actuarial methods and assumptions are the same for both funding and financial reporting purposes.

State Bar of Texas

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

	<u>August 31, 2021</u>	<u>August 31, 2020</u>	<u>August 31, 2019</u>
Measurement date	August 31, 2020	August 31, 2019	August 31, 2018
State Bar's proportionate share of the OPEB liability	0.12614735%	0.12489197%	0.12339085%
State Bar's proportionate share of the net OPEB liability balance at August 31	<u>\$ 41,684,927</u>	<u>\$ 43,166,005</u>	<u>\$ 36,570,262</u>
State Bar's covered payroll*	<u>\$ 15,964,258</u>	<u>\$ 15,386,726</u>	<u>\$ 14,865,101</u>
State Bar's proportionate share of the net OPEB liability as a percentage of its covered payroll	<u>261.11%</u>	<u>280.54%</u>	<u>246.01%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.32%</u>	<u>0.17%</u>	<u>1.27%</u>

*The covered payroll is the payroll of employees that are provided with OEPB through the OPEB plan for each plan year, the measurement period.

The schedule of changes in State Bar's proportionate share of net OPEB liability 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 – Net OPEB Liability

<u>Fiscal Years Ended May 31,</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions in Relation to the Actuarially Determined Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2021	\$ 1,193,125	\$ 1,193,125	\$ -	\$ 20,309,262	5.87%
2020	1,065,054	1,065,054	-	20,727,003	5.14%
2019	1,016,477	1,016,477	-	21,023,817	4.83%
2018	976,371	976,371	-	20,638,696	4.73%
2017	895,157	895,157	-	19,794,416	4.52%
2016	763,559	763,559	-	19,507,265	3.91%
2015	636,780	636,780	-	19,427,203	3.28%

The information disclosed for each fiscal year is reported as of the fiscal year-end date.

The information for all periods for the ten year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

Note 1. Changes of Benefit Terms – OPEB Plan

For the year ended August 31, 2020, minor benefit revisions have been adopted since the prior valuation. These changes, which are not expected to have a significant impact on plan costs for FY2021, are provided for in the FY2021 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

For the year ended August 31, 2019, there were no changes to the benefit terms.

For the year ended August 31, 2018, the following benefit revisions have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans.

For the year ended August 31, 2017, the following benefit revisions have been adopted since the prior valuation: (a) an increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility, (b) an elimination of the copayment for virtual visits, (c) a copay reduction for Airrosti and for out-of-state participants and (d) elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits. These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

For the year ended August 31, 2016, the following benefit revisions have been adopted since the prior valuation: (a) an increase in the overall annual out-of-pocket maximum in accordance with the requirements of the Affordable Care Act (ACA) (effective January 1, 2017) and (b) implementation of (i) a program under which HealthSelect participants can consult with a licensed physician from their mobile device and (ii) an online weight-loss program available to eligible HealthSelect participants not enrolled in Medicare Part B. These minor benefit changes have been reflected in the fiscal year 2017 Assumed Per Capita Health Benefit Costs. These changes became effective September 1, 2016 (except as noted) and are incorporated into this valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements No. 43 and No. 45 on Other Postemployment Benefits.

For the year ended August 31, 2015, the following benefit revisions have been adopted since the prior valuation: (a) an increase to the total network annual out-of-pocket maximum, (b) an elimination of the requirement for referrals in order to see ophthalmologists and optometrists, (c) a copay reduction for a mental health office visit and (d) effective January 1, 2016, the inclusion of medical and pharmacy deductibles, coinsurance and copays in the total network out-of-pocket maximum. These changes became effective September 1, 2015 (unless otherwise noted) and are incorporated into this valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements No. 43 and No. 45 on Other Postemployment Benefits. These minor benefit changes have been reflected in the fiscal year 2016 Assumed Per Capita Health Benefit Costs.

For the year ended August 31, 2014, the following benefit revisions have been adopted since the prior valuation: (a) implementation of an overall annual out-of-pocket maximum in accordance with the requirements of the ACA, (b) mental health benefit changes; (c) benefit enhancements for hearing aids and breast pumps and (d) copay reductions for generic prescription drugs. These changes became effective September 1, 2014 (except for the out-of-pocket maximum, which becomes effective January 1, 2015) and are incorporated into this valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements No. 43 and No. 45 on Other Postemployment Benefits. The new benefit provisions are expected to have no impact on the employer's cost.

State Bar of Texas

Notes to OPEB Liability

May 31, 2021

Note 2. Changes of Assumptions – OPEB Plan

For the year ended August 31, 2020, the following assumptions have been changed since the previous OPEB valuation:

- Demographic Assumptions, assumed rates of pre-retirement and post-disability mortality for all State Agency members, assumed rates of termination and retirement for certain CPO/CO members and assumed salary and aggregate payroll increases have been updated to reflect assumptions adopted by the ERS Trustees since the last valuation date. These new assumptions were adopted to reflect an experience study on the ERS retirement plan performed by the ERS retirement plan actuary.

In addition, the following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- I. Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
 - II. Proportion of future female retirees assumed to be married and electing coverage for their spouse.
 - III. Proportion of future retirees assumed to cover dependent children.
- Economic Assumptions, assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.
 - The Patient-Centered Outcome Research Institute (PCORI) fees payable under the ACA have been updated since the previous valuation to reflect IRS Notice 2020-44 published June 8, 2020.
 - Assumed inflation has been updated to reflect an assumption adopted by the ERS Trustees since the last valuation date. This new assumption was adopted to reflect an experience study on the ERS retirement plan performed by the ERS retirement plan actuary.
 - Other Inputs, the discount rate was changed from 2.97% to 2.20% as a result of requirements by GASB No. 74 to reflect the yield or index rate for 20-year, tax-exempt general obligation bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.
 - The change in the discount rate was made to comport with the requirements of GASB No. 74.

For the year ended August 31, 2019, the following assumptions have been changed since the previous OPEB valuation:

- The discount rate assumption was decreased from 3.96% to 2.97% as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.
- Assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on short-term expectations.

State Bar of Texas

Notes to OPEB Liability

May 31, 2021

- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence, the percentage of future retirees assumed to be married and electing coverage for their spouse, and the percentage of future retirees and future retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.

For the year ended August 31, 2018, the following assumptions have been changed since the previous OPEB valuation:

- Demographic assumptions (including rates of retirement, disability, termination, mortality and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the trustees from TRS.
- Assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence and the percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.
- The discount rate assumption was increased from 3.51% to 3.96% as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

For the year ended August 31, 2017, the following assumptions have been changed since the previous OPEB valuation:

- Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study.
- The percentage of current and future retirees and retirees spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends.
- Assumptions for administrative expenses, assumed per Capita Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience.
- Effects in short-term expectations and revised assumed rate of general inflation.
- For the year ended August 31, 2016, the following assumptions have been changed since the previous OPEB valuation:
 - Assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution Trends have been updated to reflect recent experience and its effects on our short-term expectations.

State Bar of Texas

Notes to OPEB Liability

May 31, 2021

- The percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence.
- The proportion of future retirees covering dependent children and the percentage of future retirees and retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.

For the year ended August 31, 2015, the following assumptions have been changed since the previous OPEB valuation:

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience.
- The percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends.
- Assumed salary increases and rates of mortality, termination, disability and retirement for Higher Education members were updated to remain consistent with the assumptions, which were adopted by the TRS board earlier this year for use by the TRS retirement plan actuary; and the Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience. The following benefit revisions have been adopted since the prior valuation: (a) an increase to the total network annual out-of-pocket maximum, an elimination of the requirement for referrals in order to see ophthalmologists and optometrists, a copay reduction for a mental health office visit and (d) effective January 1, 2016, the inclusion of medical and pharmacy deductibles, coinsurance and copays in the total network out-of-pocket maximum. These changes became effective September 1, 2015 (unless otherwise noted) and are incorporated into this valuation in accordance with Question Number 49 of the Guide to Implementation of GASB Statements No. 43 and No. 45 on Other Postemployment Benefits. These minor benefit changes have been reflected in the fiscal year 2016 Assumed Per Capita Health Benefit Costs.

For the year ended August 31, 2014, the following assumptions have been changed since the previous OPEB valuation:

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience.
- The percentage of future retirees electing coverage for their spouses, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence and the percentage of future retirees assumed to use tobacco have been updated to reflect recent plan experience and expected trends.
- Assumed rates of retirements for Higher Education members who are not grandfathered under current TRS Care eligibility provisions as of August 31, 2014, were updated to remain consistent with the assumptions used by the TRS retirement plan actuary.
- The Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience.

Other Supplemental Information

State Bar of Texas
Combining Balance Sheet – Nonmajor Governmental Funds
May 31, 2021

	Texas Board of Legal Specialization Fund	Texas Bar College	Annual Meeting	Client Security Fund	Texas Law Center	Technology Fund	Project Grants Fund	Hatton W. Summers Grants Fund	Law Focused Education	Total Nonmajor Governmental Funds
ASSETS										
Current assets										
Cash and cash equivalents	\$ 1,960,953	\$ 567,136	\$ 291,289	\$ 82,561	\$ 1,340,726	\$ -	\$ -	\$ 679,686	\$ -	\$ 4,922,351
Investments	700,000	-	-	3,135,916	3,358,585	-	-	-	-	7,194,501
Receivables										
Interest receivable	2,095	-	-	20,075	16,555	-	-	-	-	38,725
Other accounts receivable	6,943	-	-	-	-	-	-	-	-	6,943
Due from other governmental funds	-	-	-	96,905	-	848,040	128,517	-	27,500	1,100,962
Prepaid items	11,574	-	86,045	-	-	161,873	-	-	-	259,492
TOTAL ASSETS	\$ 2,681,565	\$ 567,136	\$ 377,334	\$ 3,335,457	\$ 4,715,866	\$ 1,009,913	\$ 128,517	\$ 679,686	\$ 27,500	\$ 13,522,974
LIABILITIES AND FUND BALANCES										
Current liabilities										
Accounts Payable	\$ 7	\$ -	\$ -	\$ -	\$ 5,000	\$ 4,609	\$ -	\$ -	\$ -	\$ 9,616
Accrued liabilities	-	545	-	-	-	-	-	-	-	545
Due to other governmental funds	55,736	16,148	3,200	-	25,162	-	-	21,655	-	121,901
Unearned revenue	-	193,124	59,714	-	-	-	128,517	658,031	27,500	1,066,886
Total liabilities	55,743	209,817	62,914	-	30,162	4,609	128,517	679,686	27,500	1,198,948
Fund balances										
Nonspendable	11,574	-	86,045	-	-	161,873	-	-	-	259,492
Committed	2,614,248	357,319	228,375	3,335,457	4,685,704	843,431	-	-	-	12,064,534
Total fund balances	2,625,822	357,319	314,420	3,335,457	4,685,704	1,005,304	-	-	-	12,324,026
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,681,565	\$ 567,136	\$ 377,334	\$ 3,335,457	\$ 4,715,866	\$ 1,009,913	\$ 128,517	\$ 679,686	\$ 27,500	\$ 13,522,974

State Bar of Texas

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds Year Ended May 31, 2021

	Texas Board of Legal Specialization Fund	Texas Bar College	Annual Meeting	Client Security Fund	Texas Law Center	Technology Fund	Project Grants Fund	Halton W. Summers Grants Fund	Law Focused Education	Total Nonmajor Governmental Funds
REVENUES										
Membership dues	\$ 1,490,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,490,040
Investment income	2,452	383	65	16,141	16,227	-	-	424	-	35,692
Grant revenue	-	-	-	-	-	-	75,700	313,843	7,500	397,043
Other income	20,010	350,350	130	8,122	-	-	-	-	-	378,612
Total revenues	<u>1,512,502</u>	<u>350,733</u>	<u>195</u>	<u>24,263</u>	<u>16,227</u>	<u>-</u>	<u>75,700</u>	<u>314,267</u>	<u>7,500</u>	<u>2,301,387</u>
EXPENDITURES										
Special services	1,088,470	216,232	66,416	-	-	-	75,700	314,267	7,500	1,768,585
Administration	-	-	-	-	117,514	-	-	-	-	117,514
Finance and information technology	-	-	-	-	-	629,955	-	-	-	629,955
Public Protection Division	-	-	-	539,508	-	-	-	-	-	539,508
Capital Outlay	-	-	-	-	3,268,835	374,889	-	-	-	3,643,724
Debt Service										
Principal	-	-	-	-	-	218,017	-	-	-	218,017
Interest	-	-	-	-	-	14,448	-	-	-	14,448
Total expenditures	<u>1,088,470</u>	<u>216,232</u>	<u>66,416</u>	<u>539,508</u>	<u>3,386,349</u>	<u>1,237,309</u>	<u>75,700</u>	<u>314,267</u>	<u>7,500</u>	<u>6,931,751</u>
Excess (deficiency) of revenues over (under) expenditures	<u>424,032</u>	<u>134,501</u>	<u>(66,221)</u>	<u>(515,245)</u>	<u>(3,370,122)</u>	<u>(1,237,309)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,630,364)</u>
OTHER FINANCING SOURCES										
Proceeds from capital leases	-	-	-	-	-	242,679	-	-	-	242,679
Transfers in	-	-	-	1,033,333	3,562,676	1,740,000	-	-	-	6,336,009
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,033,333</u>	<u>3,562,676</u>	<u>1,982,679</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,578,688</u>
Net change in fund balances	<u>424,032</u>	<u>134,501</u>	<u>(66,221)</u>	<u>518,088</u>	<u>192,554</u>	<u>745,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,948,324</u>
FUND BALANCES, beginning of year	<u>2,201,790</u>	<u>222,818</u>	<u>380,641</u>	<u>2,817,369</u>	<u>4,493,150</u>	<u>259,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,375,702</u>
FUND BALANCES, end of year	<u>\$ 2,625,822</u>	<u>\$ 357,319</u>	<u>\$ 314,420</u>	<u>\$ 3,335,457</u>	<u>\$ 4,685,704</u>	<u>\$ 1,005,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,324,026</u>

State Bar of Texas

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds Year Ended May 31, 2021

	General Fund	Sections and Divisions	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Membership dues	\$ 21,252,132	\$ 2,553,767	\$ 1,490,040	\$ 25,295,939
Accounting and management fees	658,255	-	-	658,255
Texas Bar Journal	546,062	-	-	546,062
MCLE fees	3,405,087	-	-	3,405,087
Professional development	13,114,860	357,707	-	13,472,567
Minority affairs	76,750	-	-	76,750
Investment income	118,581	32,546	35,692	186,819
Grant revenue	-	-	397,043	397,043
Member benefits	957,886	-	-	957,886
Website	579,415	-	-	579,415
Advertising review	284,300	-	-	284,300
CD disciplinary fees	579,118	-	-	579,118
Other income	1,025,964	543,476	378,612	1,948,052
Total revenues	<u>42,598,410</u>	<u>3,487,496</u>	<u>2,301,387</u>	<u>48,387,293</u>
EXPENDITURES				
Salaries	17,982,369	-	537,753	18,520,122
Benefits	6,422,032	-	191,968	6,614,000
Travel	103,525	18,768	440	122,733
Meetings and conferences	126,552	188,434	22,994	337,980
Professional services	3,129,022	675,201	443,844	4,248,067
Court fees	47,434	-	-	47,434
Publicity and advertising	319,891	15,724	101,764	437,379
Dues, subscriptions and licenses	669,330	837	35,744	705,911
Education and training	63,791	77,180	340	141,311
Supplies, awards, gifts and specialty items	354,286	38,044	129,026	521,356
Rentals - office, equipment and storage	601,430	2,388	150,770	754,588
Maintenance and repairs	485,575	-	577,201	1,062,776
Utilities	182,626	-	394	183,020
Postage and freight	693,431	35,706	26,136	755,273
Telephone	366,756	50,447	19,954	437,157
Insurance	789,739	166	250	790,155
Claims and adjustments	-	-	539,508	539,508
Administrative	1,039,957	515,470	220,782	1,776,209
Printing and copying	874,099	144,373	33,492	1,051,964
Capital outlay	6,663	-	3,666,926	3,673,589
Debt service:				
Principal	-	-	218,017	218,017
Interest	-	-	14,448	14,448
Total expenditures	<u>34,258,508</u>	<u>1,762,738</u>	<u>6,931,751</u>	<u>42,952,997</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,339,902</u>	<u>1,724,758</u>	<u>(4,630,364)</u>	<u>5,434,296</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	242,679	242,679
Transfers in	-	-	6,336,009	6,336,009
Transfers out	(6,761,009)	-	-	(6,761,009)
Other financing sources (uses)	<u>(6,761,009)</u>	<u>-</u>	<u>6,578,688</u>	<u>(182,321)</u>
Net change in fund balances	<u>1,578,893</u>	<u>1,724,758</u>	<u>1,948,324</u>	<u>5,251,975</u>
FUND BALANCE, beginning of year	<u>20,390,297</u>	<u>8,935,399</u>	<u>10,375,702</u>	<u>39,701,398</u>
FUND BALANCE, end of year	<u>\$ 21,969,190</u>	<u>\$ 10,660,157</u>	<u>\$ 12,324,026</u>	<u>\$ 44,953,373</u>