

State Bar of Texas

Financial Report
May 31, 2017

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
State Bar of Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State Bar of Texas (the State Bar), an agency of The State of Texas, as of and for the year ended May 31, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 14 to the basic financial statements, the State Bar restated beginning net position of the governmental activities, the business-type activities and the Law Practice Resource Management major fund to correct an error in the allocation of the net pension liability, deferred inflows of resources – pension and deferred outflows of resources—pension. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplemental Information***

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

Other Supplemental Information

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

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

RSM US LLP

Austin, Texas
November 20, 2017

State Bar of Texas

Management's Discussion and Analysis (Unaudited) May 31, 2017

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, 2017. This section is only an introduction and should be read in conjunction with the State Bar's financial statements, which immediately follow this section.

Financial Highlights

- The State Bar is in a strong financial position with no debt carried on the balance sheet, strong and consistent revenues and controlled expenses.
- The assets of the State Bar were below its liabilities for fiscal year ended May 31, 2017 by \$5,945,297 (net position). This amount includes all State Bar-related assets, including the reserves, all capital assets, all assets related to the Law Practice Resource Management, previously known as TexasBarBook Fund, the Sections and all special revenue funds and capital project funds.
- The State Bar's total net position decreased by \$2,155,127 from the end of fiscal year 2016 to the end of fiscal year 2017. The decrease in net position was due to a \$2.7 million entry to pension expense.
- As of the close of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$31,613,541 an increase of \$1,105,903 in comparison with the prior year. This increase in fund balance is primarily due to the strong performance of TexasBarCLE and a savings in salaries and benefits due to employee turnover and high vacancy rate during the fiscal year. Of this amount, \$11,078,378 is reserved for ongoing expenses (unassigned fund balance). The amount includes the General Fund, the Client Security Fund and the Sections.
- At the end of the current fiscal year, the fund balance for the General Fund was \$15,920,656 or 40 percent of the total General Fund expenditures for the year ended May 31, 2017. Of this amount, \$4,316,992 is subject to the Board of Director's (the Board) approval on how the funds may be used, and \$525,286 is nonspendable.

Overview of the Financial Statements

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

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

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

State Bar of Texas

Management's Discussion and Analysis (Unaudited) May 31, 2017

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

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

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

The State Bar has three types of funds:

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

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

The State Bar maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Client Security Fund and Sections, all of 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, Texas Law Center, Technology Fund, Project Grants Fund, Hatton W. Sumners Grants Fund, Law Focused Education and Department of Public Service. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the other supplemental section of this report.

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Management's Discussion and Analysis (Unaudited) May 31, 2017

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

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

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

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29 through 57 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 60 through 66 of this report.

Other supplemental information: In addition to the basic financial statements, accompanying notes and required supplemental information this report also presents certain other supplemental information. The combining balance sheet—nonmajor governmental funds, combining statement of revenues, expenditures and changes in fund balances—nonmajor governmental funds are provided to give additional information for each nonmajor fund. The combining statement of revenues, expenditures and changes in fund balances—governmental funds is provided to give additional information by expenditure type. Other supplemental information is provided on pages 68 through 70.

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Management's Discussion and Analysis (Unaudited)
May 31, 2017

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, 2017, with comparison totals as of May 31, 2016:

Table A-1
The State Bar's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 49,763,962	\$ 47,753,179	\$ 1,996,125	\$ 2,022,748	\$ 51,760,087	\$ 49,775,927
Capital assets, net	7,687,316	8,360,327	35,322	35,324	7,722,638	8,395,651
Total assets	\$ 57,451,278	\$ 56,113,506	\$ 2,031,447	\$ 2,058,072	\$ 59,482,725	\$ 58,171,578
Deferred outflows of resources	\$ 13,999,475	\$ 6,829,567	\$ 893,583	\$ 435,930	\$ 14,893,058	\$ 7,265,497
Current liabilities	\$ 18,754,603	\$ 17,844,979	\$ 74,027	\$ 134,202	\$ 18,828,630	\$ 17,979,181
Noncurrent liabilities	51,734,767	37,731,865	3,294,412	2,399,225	55,029,179	40,131,090
Total liabilities	\$ 70,489,370	\$ 55,576,844	\$ 3,368,439	\$ 2,533,427	\$ 73,867,809	\$ 58,110,271
Deferred inflows of resources	\$ 6,075,475	\$ 10,449,956	\$ 387,796	\$ 667,018	\$ 6,463,271	\$ 11,116,974
Net position:						
Net investment in capital assets	\$ 7,556,231	\$ 8,184,927	\$ 35,322	\$ 35,324	\$ 7,591,553	\$ 8,220,251
Unrestricted (deficit), as restated	(12,670,323)	(11,268,654)	(866,527)	(741,767)	(13,536,850)	(12,010,421)
Total net position	\$ (5,114,092)	\$ (3,083,727)	\$ (831,205)	\$ (706,443)	\$ (5,945,297)	\$ (3,790,170)

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 \$7,556,231 of total net position. The State Bar uses these capital assets to provide services to members; consequently, these assets are not available for future spending. Although the State Bar's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Upon implementation of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, the State Bar restated unrestricted net position and recognized a \$39 million net pension liability on the statement of net position beginning in fiscal year 2016. This liability increased to \$54 million in fiscal year 2017 primarily due to changes in actuarial assumptions. This liability is also reported on the State of Texas' Comprehensive Annual Financial Report. The contributions to the plan are set by the State of Texas' Legislature and are not under the financial purview of the State Bar.

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Management's Discussion and Analysis (Unaudited)
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Changes in net position: The following schedule shows the changes in net position for the year ended May 31, 2017 with comparison totals for the year ended May 31, 2016. The difference between revenues and expenditures represents the change in net position.

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

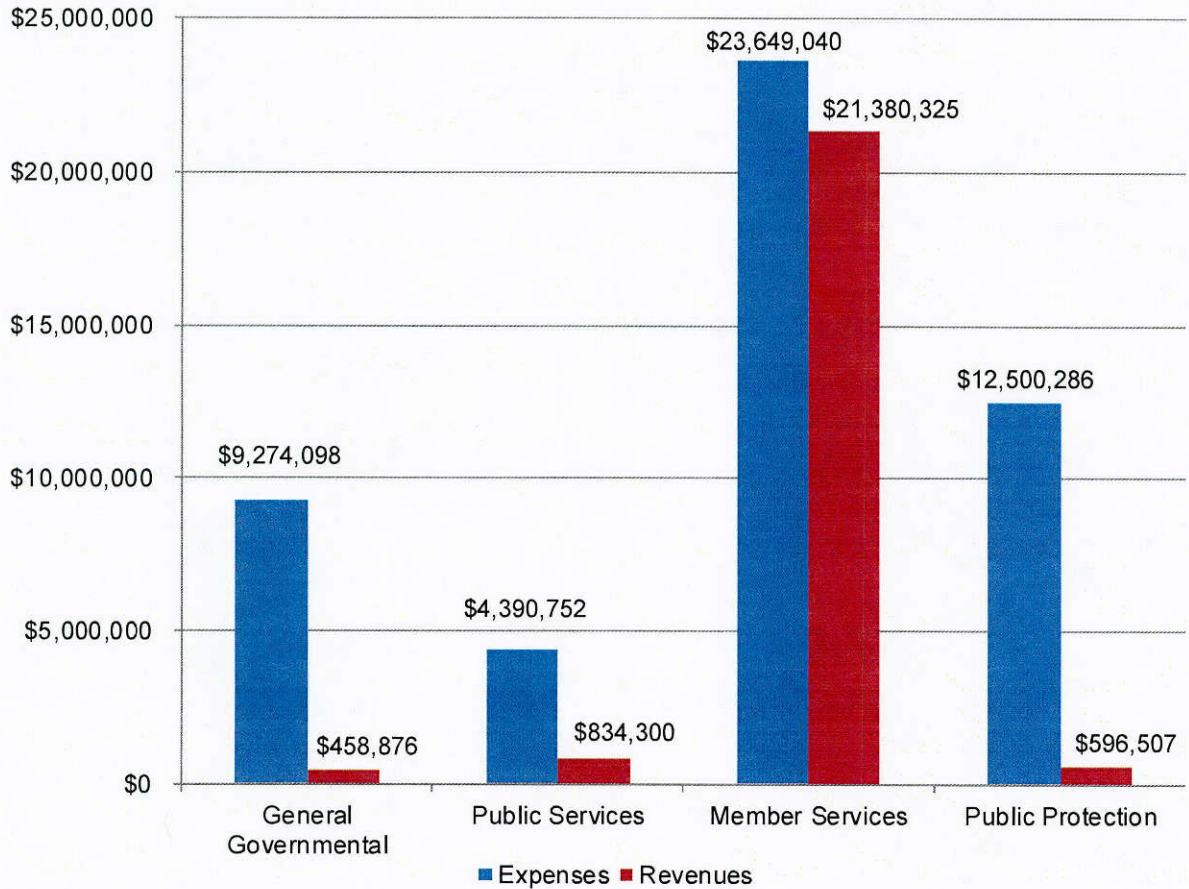
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 21,748,077	\$ 21,647,454	\$ 2,399,481	\$ 2,454,752	\$ 24,147,558	\$ 24,102,206
Operating grants and contributions	1,521,931	1,458,166	-	-	1,521,931	1,458,166
General revenues:						
Membership dues	22,740,436	22,375,233	-	-	22,740,436	22,375,233
Investment income	229,232	159,371	2,677	1,212	231,909	160,583
Royalty revenue	1,246,784	806,770	959,028	980,425	2,205,812	1,787,195
Other income	299,150	1,514,484	-	128	299,150	1,514,612
Loss on disposal of capital assets	(1,799)	(9,026)	-	-	(1,799)	(9,026)
Total revenues	<u>47,783,811</u>	<u>47,952,452</u>	<u>3,361,186</u>	<u>3,436,517</u>	<u>51,144,997</u>	<u>51,388,969</u>
Expenses:						
General government	9,274,098	8,568,837	-	-	9,274,098	8,568,837
Public services	4,390,752	4,062,150	-	-	4,390,752	4,062,150
Member services	23,649,040	22,162,246	-	-	23,649,040	22,162,246
Public protection	12,500,286	10,846,304	-	-	12,500,286	10,846,304
Books	-	-	3,485,948	3,160,489	3,485,948	3,160,489
Total expenses	<u>49,814,176</u>	<u>45,639,537</u>	<u>3,485,948</u>	<u>3,160,489</u>	<u>53,300,124</u>	<u>48,800,026</u>
Increase (decrease) in net position	(2,030,365)	2,312,915	(124,762)	276,028	(2,155,127)	2,588,943
Net position at beginning of year, as restated	(3,083,727)	(5,396,642)	(706,443)	(982,471)	(3,790,170)	(6,379,113)
Net position at end of year	<u>\$ (5,114,092)</u>	<u>\$ (3,083,727)</u>	<u>\$ (831,205)</u>	<u>\$ (706,443)</u>	<u>\$ (5,945,297)</u>	<u>\$ (3,790,170)</u>

As mentioned earlier in this section, net position decreased from prior year due to a \$2.7 million entry to pension expense. From fiscal year 2016 to fiscal year 2017, the Employee's Retirement System pension plan (the Plan) for state employees reported significant changes to actuarial assumptions. The single rate used to measure the total pension liability was adjusted by the Plan's actuaries from 6.86 percent to 5.73 percent from last year to this fiscal year. This change caused the Plan's projected future contributions to fund the plan through year 2050 instead of 2053. The cost of borrowing at a municipal bond rate of 2.84 percent was used for the remainder of the benefit payments made after 2050. This caused the pension liability and the amount of pension expense recognized each year to increase significantly. Additional information on the actuarial assumptions is included in the notes to the financial statements.

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Management's Discussion and Analysis (Unaudited)
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Expense and Program Revenues—Governmental Activities

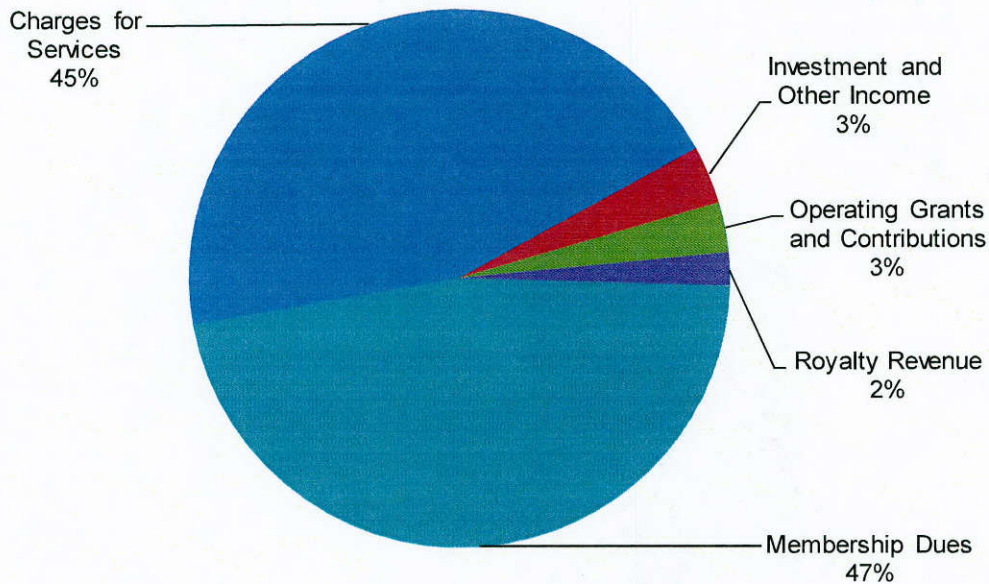


This chart depicts the program revenues and expenses as presented in the statement of activities on page 18 of the financial statements. These represent the revenues and related expenses for these programs. The State Bar also collects membership dues, investment income, royalty revenue and other income that totaled \$25,475,508 for the year ended May 31, 2017.

State Bar of Texas

Management's Discussion and Analysis (Unaudited)
May 31, 2017

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 2017 were \$20,299,356 compared to \$20,073,248 in the prior fiscal year. The State Bar anticipates a slowing growth in the revenue from dues because the projected number of licensed attorneys will likely stabilize over the next five years.

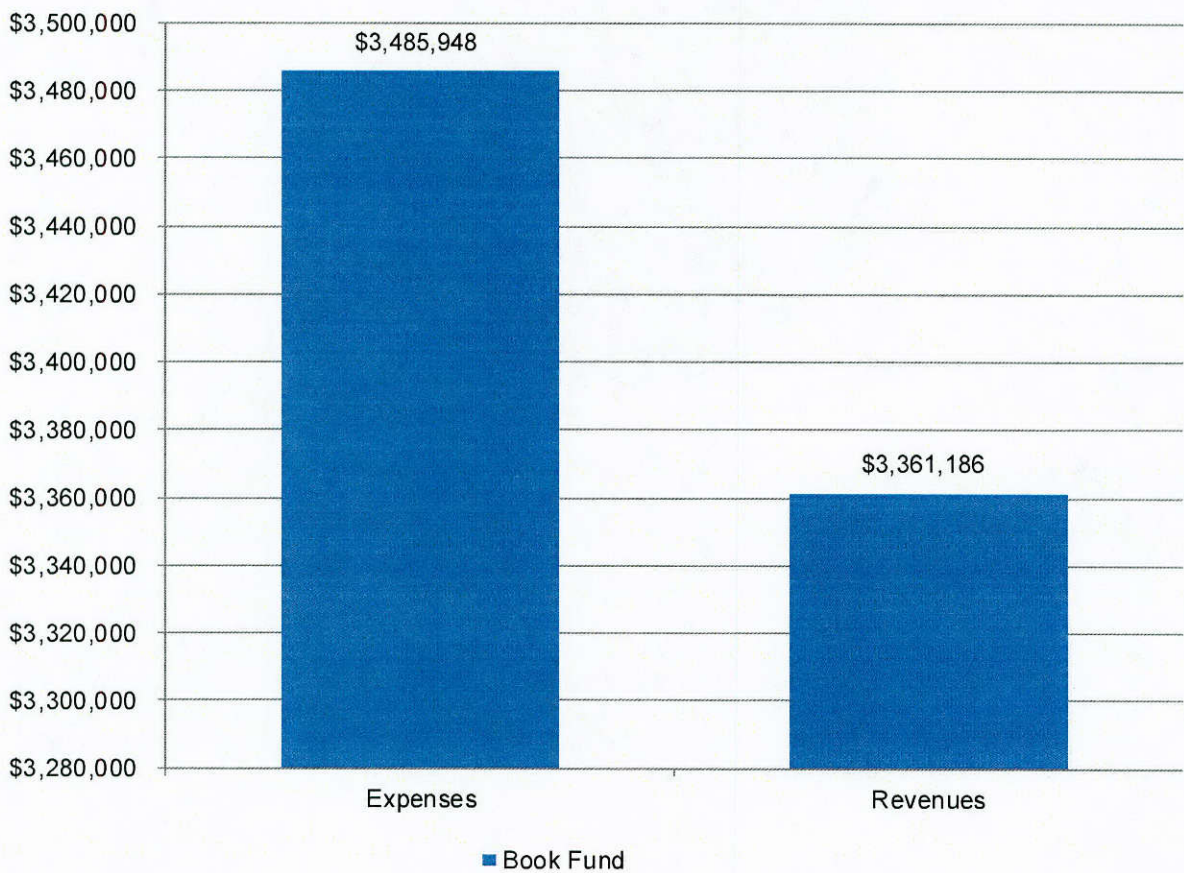
TexasBarCLE charges for services remain strong at \$13,591,618 for fiscal year 2017 compared to \$13,779,371 in revenue from fiscal year 2016. The continuing legal education offered by TexasBarCLE has continued to provide stable income for the Bar to supplement other strategic goals that may not generate revenue, but provide a valuable service to lawyers and the public of the State of Texas. Other charges for services include Minimum Continuing Legal Education (MCLE) fees, Texas Board of Legal Specialization fees and Bar Journal fees.

State Bar of Texas

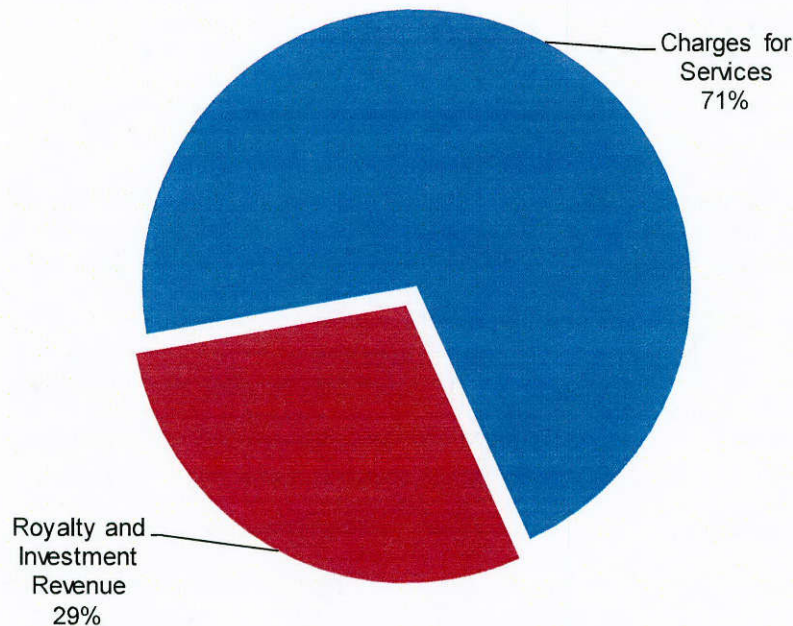
Management's Discussion and Analysis (Unaudited)
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Business-type activities: Business-type activities decreased the State Bar's net position by \$124,762. The Law Practice Resource Management Fund, which includes the Law Practice Resource Management, shows steady income and expenses although the change in net position is slightly lower this year than last year's \$(706,443). 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



Revenues by Source—Business Activities



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

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$31,613,541, an increase of \$1,105,903 in comparison with the prior year. Of this amount, \$850,455 is nonspendable for inventories and prepaid items and \$19,684,708 is committed for specific uses by the Board.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) May 31, 2017

The General Fund is the chief operating fund of the State Bar. At the end of the current fiscal year, the total fund balance of the General Fund was \$15,920,656, which is 70 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 28 percent of total General Fund expenditures. During the current fiscal year, the fund balance of the State Bar's General Fund increased by \$1,283,653.

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

At the end of the current fiscal year, net position of the Law Practice Management totaled (\$831,205). The total decrease in net position was (\$124,762). 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 \$660,650 above budgeted amounts. The most significant positive variances resulted from other income revenue and professional development revenue, which were offset by a negative variance from membership dues revenue. The State Bar's actual expenditures for the General Fund were \$1,930,825 below budgeted amounts. The most significant positive variance resulted from board commitment expenditures.

Capital asset administration:

Capital assets: The State Bar's investment in capital assets for its governmental activities and business-type activities as of May 31, 2017, amounts to \$7,722,638 (net of accumulated depreciation and amortization). This investment in capital assets includes land; buildings and systems; and furniture, equipment, digital publication, and other assets.

Table A-3
State Bar's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 154,074	\$ 154,074	\$ -	\$ -	\$ 154,074	\$ 154,074
Construction in progress	617,584	455,977	-	-	617,584	455,977
Building and systems, net	824,028	824,028	-	-	824,028	824,028
Furniture, equipment, digital publication and other, net	6,091,630	6,926,248	35,322	35,324	6,126,952	6,961,572
	<u>\$ 7,687,316</u>	<u>\$ 8,360,327</u>	<u>\$ 35,322</u>	<u>\$ 35,324</u>	<u>\$ 7,722,638</u>	<u>\$ 8,395,651</u>

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

State Bar of Texas

**Management's Discussion and Analysis (Unaudited)
May 31, 2017**

Long-term liabilities: At the end of the current fiscal year, the State Bar had capital leases of \$131,085 and accrued compensated absences of \$1,551,287. The net pension liability increased by \$15 million due to changes to actuarial assumptions discussed previously in this section. The current portion of liabilities, or liabilities that are due within one year include capital lease payments and estimated payouts of vacation leave to employees. The following table presents a summary of the State Bar's Long-term liabilities for the year ended May 31, 2017, with comparative information as of May 31, 2016:

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Capital lease payable	\$ 131,085	\$ 175,400	\$ -	\$ -	\$ 131,085	\$ 175,400
Accrued compensated absences	1,462,844	1,489,829	87,166	89,235	1,550,010	1,579,064
Net pension liability	50,745,020	36,666,074	3,239,044	2,340,388	53,984,064	39,006,462
Total liabilities	52,338,949	38,331,303	3,326,210	2,429,623	55,665,159	40,760,926
Less current portion	(604,182)	(599,438)	(31,798)	(30,398)	(635,980)	(629,836)
Total noncurrent liabilities	\$ 51,734,767	\$ 37,731,865	\$ 3,294,412	\$ 2,399,225	\$ 55,029,179	\$ 40,131,090

Additional information on the State Bar's noncurrent liabilities can be found in Note 5 on page 44 of this report.

Economic Factors and Next Year's Budget

For the General Fund, estimated revenues for fiscal year 2018 are \$41,730,040 and estimated expenditures and other uses are \$44,333,640. If these estimates are realized, and the General Fund transfers \$1,088,800 to other funds as budgeted, the State Bar's budgetary General Fund balance is expected to decrease slightly due to the expenditures related to Board commitments of excess fund balance.

Contacting the State Bar's Financial Management

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

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Basic Financial Statements

State Bar of Texas

Statement of Net Position
May 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents—cash in bank	\$ 15,038,147	\$ -	\$ 15,038,147
Investments	32,337,821	-	32,337,821
Receivables:			
Sales to members and others, net of an allowance for uncollectibles of \$1,361 and \$57,895	25,855	469,636	495,491
Interest receivable	99,343	-	99,343
Other accounts receivable	2,283,844	-	2,283,844
Internal balances	(871,503)	871,503	-
Inventories	8,796	654,986	663,782
Prepaid items	841,659	-	841,659
Total current assets	49,763,962	1,996,125	51,760,087
Noncurrent assets:			
Capital assets:			
Land	154,074	-	154,074
Construction in progress	617,584	-	617,584
Buildings, net	824,028	-	824,028
Furniture, fixtures, computer equipment, software, digital publication and other equipment, net	6,091,630	35,322	6,126,952
Total noncurrent assets	7,687,316	35,322	7,722,638
Total assets	\$ 57,451,278	\$ 2,031,447	\$ 59,482,725
Deferred outflows of resources:			
Deferred outflows on pension liability	\$ 13,999,475	\$ 893,583	\$ 14,893,058
Total deferred outflows of resources	\$ 13,999,475	\$ 893,583	\$ 14,893,058

See notes to financial statements.

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,391,468	\$ -	\$ 1,391,468
Accrued liabilities	1,406,927	42,229	1,449,156
Due to agency funds	843,135	-	843,135
Unearned revenue	14,508,891	-	14,508,891
Capital lease obligations	46,530	-	46,530
Accrued compensated absences	557,652	31,798	589,450
Total current liabilities	<u>18,754,603</u>	<u>74,027</u>	<u>18,828,630</u>
Noncurrent liabilities:			
Capital lease obligations	84,555	-	84,555
Accrued compensated absences	905,192	55,368	960,560
Net pension liability	50,745,020	3,239,044	53,984,064
Total noncurrent liabilities	<u>51,734,767</u>	<u>3,294,412</u>	<u>55,029,179</u>
Total liabilities	<u>\$ 70,489,370</u>	<u>\$ 3,368,439</u>	<u>\$ 73,857,809</u>
Deferred inflows of resources:			
Deferred inflows on pension liability (Note 9)	\$ 6,075,475	\$ 387,796	\$ 6,463,271
Total deferred inflows of resources	<u>\$ 6,075,475</u>	<u>\$ 387,796</u>	<u>\$ 6,463,271</u>
Net Position			
Net investment in capital assets	\$ 7,556,231	\$ 35,322	\$ 7,591,553
Unrestricted (deficit)	(12,670,323)	(866,527)	(13,536,850)
Total net position	<u>\$ (5,114,092)</u>	<u>\$ (831,205)</u>	<u>\$ (5,945,297)</u>

State Bar of Texas

Statement of Activities
Year Ended May 31, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 9,274,098	\$ 458,876	\$ -	\$ (8,815,222)	\$ -	\$ (8,815,222)
Public services	4,390,752	455,885	378,415	(3,556,452)	-	(3,556,452)
Member services	23,649,040	20,236,809	1,143,516	(2,268,715)	-	(2,268,715)
Public protection	12,500,286	596,507	-	(11,903,779)	-	(11,903,779)
Total governmental activities	49,814,176	21,748,077	1,521,931	(26,544,168)	-	(26,544,168)
Business-type activities:						
Books	3,485,948	2,399,481	-	-	(1,086,467)	(1,086,467)
Total business-type activities	3,485,948	2,399,481	-	-	(1,086,467)	(1,086,467)
Total primary government activities	\$ 53,300,124	\$ 24,147,558	\$ 1,521,931	(26,544,168)	(1,086,467)	(27,630,635)
General revenues:						
Membership dues				22,740,436	-	22,740,436
Investment income				229,232	2,677	231,909
Royalty revenue				1,246,784	959,028	2,205,812
Other income				299,150	-	299,150
Loss on disposal of capital assets				(1,799)	-	(1,799)
Total general revenues				24,513,803	961,705	25,475,508
Change in net position				(2,030,365)	(124,762)	(2,155,127)
Net position at beginning of year, as restated				(3,083,727)	(706,443)	(3,790,170)
Net position at end of year				\$ (5,114,092)	\$ (831,205)	\$ (5,945,297)

See notes to financial statements.

State Bar of Texas

Balance Sheet—Governmental Funds
May 31, 2017

	General Fund	Client Security Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Current assets:					
Cash and cash equivalents—cash in bank	\$ 6,173,399	\$ 73,894	\$ 6,166,870	\$ 2,623,984	\$ 15,038,147
Investments	23,797,010	2,849,962	1,925,157	3,765,692	32,337,821
Receivables:					
Sales to members and others, net of an allowance for uncollectibles of \$1,361	25,855	-	-	-	25,855
Interest receivable	82,601	4,423	2,242	10,077	99,343
Other accounts receivable	2,220,247	-	35,240	28,357	2,283,844
Due from other governmental funds	472,302	-	728,061	669,322	1,869,685
Inventories	8,796	-	-	-	8,796
Prepaid items	516,490	-	41,113	284,056	841,659
Total assets	\$ 33,296,700	\$ 2,928,279	\$ 8,898,683	\$ 7,381,488	\$ 52,505,150
Liabilities and Fund Balance					
Current liabilities:					
Accounts payable	\$ 1,313,876	\$ -	\$ 77,592	\$ -	\$ 1,391,468
Accrued liabilities	1,284,921	-	121,506	500	1,406,927
Due to other governmental funds	1,397,383	344,590	-	127,712	1,869,685
Due to enterprise fund	871,503	-	-	-	871,503
Due to agency fund	843,135	-	-	-	843,135
Unearned revenue	11,665,226	-	1,343,526	1,500,139	14,508,891
Total liabilities	17,376,044	344,590	1,542,624	1,628,351	20,891,609
Fund balances:					
Nonspendable	525,286	-	41,113	284,056	850,455
Committed	4,316,992	2,583,689	7,314,946	5,469,081	19,684,708
Unassigned	11,078,378	-	-	-	11,078,378
Total fund balances	15,920,656	2,583,689	7,356,059	5,753,137	31,613,541
Total liabilities and fund balances	\$ 33,296,700	\$ 2,928,279	\$ 8,898,683	\$ 7,381,488	\$ 52,505,150

See notes to financial statements.

State Bar of Texas

**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
May 31, 2017**

Total fund balance—Governmental Funds balance sheet	\$ 31,613,541
Amounts reported for governmental activities in the statement of net position are difference because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	7,687,316
The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Pension liability and related deferred inflows and outflows	(42,821,020)
Capital lease payable	(131,085)
Accrued compensated absences	(1,462,844)
	<hr/>
Net position of governmental activities—statement of net position	<u>\$ (5,114,092)</u>

See notes to financial statements.

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds
Year Ended May 31, 2017

	General Fund	Client Security Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Membership dues	\$ 20,299,356	\$ -	\$ 2,441,080	\$ -	\$ 22,740,436
Accounting and management fees	678,653	-	-	-	678,653
Texas Bar Journal	556,882	-	-	-	556,882
MCLE fees	3,159,576	-	-	-	3,159,576
Professional development	13,591,618	-	-	-	13,591,618
Minority affairs	332,415	-	-	-	332,415
Investment income	180,378	12,907	14,337	21,610	229,232
Grant revenue	-	-	-	445,415	445,415
Member benefits	860,252	-	-	-	860,252
Website	415,493	-	-	-	415,493
Advertising review	362,200	-	-	-	362,200
Other income	1,541,754	10,476	1,278,646	2,201,320	5,032,196
Total revenues	41,978,577	23,383	3,734,063	2,668,345	48,404,368
Expenditures:					
Executive	2,333,902	-	-	-	2,333,902
External affairs	1,267,013	-	-	-	1,267,013
Special services	-	-	3,483,658	2,389,467	5,873,125
Member and public service	1,919,187	-	-	-	1,919,187
Professional development	10,016,731	-	-	-	10,016,731
Legal and attorney services	1,960,876	-	-	-	1,960,876
Access to justice commission	729,175	-	-	-	729,175
Attorney compliance	1,780,202	-	-	-	1,780,202
Administration	1,878,049	-	-	19,467	1,897,516
Finance and information technology	5,100,698	-	-	764,933	5,865,631
Communications	2,122,313	-	-	-	2,122,313
Public protection	10,006,366	934,816	-	-	10,941,182
Expenditures related to Board commitments	591,612	-	-	-	591,612
Total expenditures	39,706,124	934,816	3,483,658	3,173,867	47,298,465
Excess (deficiency) of revenues over (under) expenditures	2,272,453	(911,433)	250,405	(505,522)	1,105,903
Other financing sources (uses):					
Transfers in	-	300,000	-	688,800	988,800
Transfers out	(988,800)	-	-	-	(988,800)
Total other financing sources (uses)	(988,800)	300,000	-	688,800	-
Net change in fund balances	1,283,653	(611,433)	250,405	183,278	1,105,903
Fund balances at beginning of year	14,637,003	3,195,122	7,105,654	5,569,859	30,507,638
Fund balances at end of year	\$ 15,920,656	\$ 2,583,689	\$ 7,356,059	\$ 5,753,137	\$ 31,613,541

See notes to financial statements.

**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, 2017**

Net change in fund balance—total Governmental Funds	\$ 1,105,903
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital outlay—exclusive of noncapitalized items	222,351
Depreciation expense	(893,563)
Loss on disposal of capital assets	(1,799)
Proceeds from capital leases provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the statement of net position; repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net position:	
Repayment of capital leases	44,315
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	(2,534,557)
Change in compensated absences	26,985
	<hr/>
Change in net position of governmental activities—statement of activities	<u><u>\$ (2,030,365)</u></u>

See notes to financial statements.

State Bar of Texas

Statement of Net Position—Proprietary Fund
May 31, 2017

Law Practice
Resource
Management

Assets	
Current assets:	
Accounts receivable, net of allowance for uncollectibles of \$57,895	\$ 469,636
Due from other funds	871,503
Inventories	654,986
Total current assets	<u>1,996,125</u>
Noncurrent assets:	
Capital assets—furniture, fixtures, computer equipment, digital publication and other equipment, net of accumulated depreciation and amortization of \$318,315	35,322
Total assets	<u><u>\$ 2,031,447</u></u>
Deferred Outflows of Resources—pension liability	<u><u>\$ 893,583</u></u>
Liabilities	
Current liabilities:	
Accrued liabilities	\$ 42,229
Accrued compensated absences	31,798
Total current liabilities	<u>74,027</u>
Noncurrent liabilities:	
Accrued compensated absences	55,368
Net pension liability	3,239,044
Total noncurrent liabilities	<u>3,294,412</u>
Total liabilities	<u>3,368,439</u>
Deferred Inflows of Resources—pension liability	<u>387,796</u>
Net Position	
Net investment in capital assets	35,322
Unrestricted	(866,527)
Total net position	<u>(831,205)</u>
Total liabilities and net position	<u><u>\$ 2,537,234</u></u>

See notes to financial statements.

State Bar of Texas

**Statement of Revenues, Expenses and Changes in Net Position—Proprietary Fund
Year Ended May 31, 2017**

	Law Practice Resource Management
<hr/>	
Operating revenues:	
Charges for sales and services:	
Book sales	\$ 2,399,481
Royalty revenue	959,028
Total operating revenues	<u>3,358,509</u>
Operating expenses:	
Salaries	1,299,383
Professional services	48,909
Education and training	18,814
Costs of goods sold	713,039
Administrative	549,446
Benefits	374,973
Dues, subscriptions and licenses	45,840
Insurance	5,510
Meetings and conferences	834
Postage and freight	198,381
Publicity and advertising	1,700
Rentals—office, equipment and storage	153,827
Repair and maintenance	22,561
Supplies, awards, gifts and specialty items	13,867
Telephone	3,866
Travel	34,998
Total operating expenses	<u>3,485,948</u>
Operating income	<u>(127,439)</u>
Nonoperating revenues:	
Investment income	2,677
Total nonoperating revenues	<u>2,677</u>
Change in net position	(124,762)
Net position at beginning of year, as restated	<u>(706,443)</u>
Net position at end of year	<u>\$ (831,205)</u>

See notes to financial statements.

State Bar of Texas

**Statement of Cash Flows—Proprietary Fund
Year Ended May 31, 2017**

	Law Practice Resource Management
Cash flows from operating activities:	
Receipts from customers	\$ 2,630,297
Receipts from royalties	959,028
Payments to suppliers for goods and services	(3,438,831)
Payments to employees	(153,171)
Net cash used in operating activities	<u>(2,677)</u>
Cash flows from investing activities:	
Interest received	2,677
Net cash provided by investing activities	<u>2,677</u>
Net change in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ (127,439)
Bad-debt expense	(10,481)
Adjustments to reconcile operating income to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts receivable	241,297
Due from other funds	(223,694)
Inventories—lower of cost or market	19,501
Accrued liabilities	(61,573)
Accrued compensated absences	(2,069)
Net pension liability	898,656
Deferred outflows of resources	(457,653)
Deferred inflows of resources	(279,222)
Net cash used in operating activities	<u><u>\$ (2,677)</u></u>

See notes to financial statements.

State Bar of Texas

Statement of Net Position—Fiduciary Funds
May 31, 2017

	Agency Funds	State Bar of Texas Insurance Trust
Assets		
Cash in bank	\$ -	\$ 223,148
Restricted cash in bank	109,840	-
Accounts receivable	-	49,534
Prepaid items	-	9,058
Due from general fund	843,135	-
	<hr/>	<hr/>
Total assets	\$ 952,975	\$ 281,740
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Accounts payable and accrued expenses	\$ -	\$ 64,500
Due to other organizations	952,975	-
	<hr/>	<hr/>
Total liabilities	\$ 952,975	\$ 64,500
	<hr/> <hr/>	<hr/> <hr/>
Net Position	\$ -	\$ 217,240
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

State Bar of Texas

Statement of Changes in Net Position—Fiduciary Funds
May 31, 2017

	State Bar of Texas Insurance Trust
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Additions:	
Contributions of subscribers	\$ 6,463,318
Royalties	56,749
Rental	179,273
Commissions	14,815
Other income	17,511
Service agreement revenue	250,000
Total additions	<u>6,981,666</u>
Deductions:	
Premiums to insurance carrier	6,463,318
Accounting fees	25,800
Actuarial services	3,812
Insurance	19,163
Printing, postage, supplies and miscellaneous	41,902
Rent	193,878
Service agreement fee	250,000
Total deductions	<u>6,997,873</u>
Income before income tax benefit	(16,207)
Income tax benefit	9,000
Change in net position	<u>(25,207)</u>
Net position at beginning of year	<u>242,447</u>
Net position at end of year	<u>\$ 217,240</u>

See notes to financial statements.

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State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

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

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

The fund structure:

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

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

Special Revenue Funds: The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The following special revenue funds were reported as major governmental funds:

- *Client Security Fund:* The client security fund is a special revenue funds that accounts for the payments associated with losses related to a lawyer's dishonest conduct or dishonest act against an individual. The client security fund must maintain a corpus of \$2,000,000, in accordance with resolutions of the State Bar's Board. The fund did not meet the criteria for a major fund; however, management decided to include it as a major fund in the interest of the users of the financial statements.
- *The Sections:* The Sections are a special revenue fund. The Sections include all entities created by the State Bar's Board, which serve the individual members of the State Bar in certain legal specialization areas. The Sections' officers are elected by the members of the individual sections and are responsible for maintaining and administering their operations. Although the Sections collect a portion of their revenues and pay expenditures for administration and operations individually, the State Bar administers the collection of dues for the Sections. The State Bar believes it is unlikely that it will be required to use its assets to satisfy future claims of the Sections; however, the State Bar is liable for any claims should they occur.

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 Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Assets:

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Receivables: Receivables represents amounts due from sales to members and others. All receivables are shown net of an allowance for uncollectibles, if applicable. The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to net position. Losses are charged against the allowance when management believes the uncollectability of a received is confirmed. Subsequent recoveries, if any, are credit to the allowance. The allowance for doubtful accounts is evaluated on a regular basis on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. At May 31, 2017, the State Bar governmental activities and business-type activities reported an allowance of \$1,361 and \$57,895, 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 fund balance reserve 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. Capital assets are defined by the State Bar as assets with an initial cost of at least \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Liabilities:

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

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

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

Compensated absences: The State Bar grants paid annual leave to its employees. The amount of annual leave that employees accrue depends on the length of State of Texas service as of the employee's anniversary date, and accrued days and allowable carryover hour's increases with the length of service. Subject to certain limitations and requirements, employees' accrued annual leave may be used while employed, through the transfer to another State of Texas agency, at the termination of employment, at death or retirement. The current and long-term liabilities for accumulated vacation are accrued when incurred in the governmental-wide and proprietary funds' financial statements. A liability for these amounts is reported in governmental funds upon the occurrence of relevant events such as resignations, retirements and other uses of leave balances by covered employees. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid. Accrued annual leave of \$1,462,844 and \$87,166 was recorded as accrued compensated absences for governmental activities and business-type activities, respectively, for the year ended May 31, 2017.

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

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund balance/net position:

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

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation and 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 statements. Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund statements.

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

The following table details fund balances between the various categories:

	General Fund	Client Security Fund	Sections	Nonmajor Governmental Funds	Total
Fund balances:					
Nonspendable:					
Inventories	\$ 8,796	\$ -	\$ -	\$ -	\$ 8,796
Prepaid items	516,490	-	41,113	284,056	841,659
Total nonspendable	525,286	-	41,113	284,056	850,455
Committed to:					
Texas Law Center projects	16,525	-	-	3,347,782	3,364,307
Access to Justice (ATJ) student loan repayment program	350,000	-	-	-	350,000
Legal Access Fellowship Program	4,618	-	-	-	4,618
Texas Court Records Preservation Task Force	50,000	-	-	-	50,000
Presidential initiatives	301,753	-	-	-	301,753
Statewide Pro Bono Recruitment Campaign	174,265	-	-	-	174,265
Professionalism and ethics initiatives	17,131	-	-	-	17,131
Sheeran Crowley Memorial Trust	250,000	-	-	-	250,000
Texas Opportunity and Justice Incubator Program	1,000,000	-	-	-	1,000,000
Legal Access Division Programs	1,102,700	-	-	-	1,102,700
Referendum reserve	100,000	-	-	-	100,000
Supreme Court equipment replacement	100,000	-	-	-	100,000
Archives Digitization Project	100,000	-	-	-	100,000
Technology Fund	750,000	-	-	-	750,000
Client Security Fund expenditures	-	2,583,689	-	-	2,583,689
Sections expenditures	-	-	7,314,946	-	7,314,946
Information technology projects	-	-	-	637,305	637,305
Special revenue funds	-	-	-	1,483,994	1,483,994
Total committed	4,316,992	2,583,689	7,314,946	5,469,081	19,684,708
Unassigned	11,078,378	-	-	-	11,078,378
Total fund balances	\$ 15,920,656	\$ 2,583,689	\$ 7,356,059	\$ 5,753,137	\$ 31,613,541

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, 2017, is approximately \$9.2 million of the unassigned fund balance. The target level is based on 2.7 months of budgeted operating expenditures.

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Interfund activities and balances: The State Bar has the following types of transactions between funds:

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

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

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 2. Capital Assets

Capital asset activity for the year ended May 31, 2017, was as follows:

	Beginning Balance	Completed CIP	Additions	Deletions	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 154,074	\$ -	\$ -	\$ -	\$ 154,074
Construction in progress	455,977	-	161,607	-	617,584
Total capital assets not being depreciated	610,051	-	161,607	-	771,658
Capital assets being depreciated:					
Buildings	6,489,602	-	-	-	6,489,602
Furniture, fixtures, computer equipment software and other equipment	15,031,283	-	60,744	(63,721)	15,028,306
Total capital assets being depreciated and amortized	21,520,885	-	60,744	(63,721)	21,517,908
Less accumulated depreciation for:					
Buildings	(5,665,574)	-	-	-	(5,665,574)
Furniture, fixtures, computer equipment software and other equipment	(8,105,035)	-	(893,563)	61,922	(8,936,676)
Total accumulated depreciation and amortization	(13,770,609)	-	(893,563)	61,922	(14,602,250)
Total capital assets being depreciated, net	7,750,276	-	(832,819)	(1,799)	6,915,658
Governmental activities capital assets, net	\$ 8,360,327	\$ -	\$ (671,212)	\$ (1,799)	\$ 7,687,316
Business-type activities:					
Digital publication—intangible	\$ 300,659	\$ -	\$ -	\$ (300,659)	\$ -
Furniture, fixtures, computer equipment software and other equipment	375,680	-	-	(22,043)	353,637
Accumulated depreciation and amortization	(641,017)	-	-	322,702	(318,315)
Business-type activities capital assets, net	\$ 35,322	\$ -	\$ -	\$ -	\$ 35,322

Depreciation and amortization expense for the year ended May 31, 2017, for governmental activities totaled \$893,563 which was allocated in the following manner:

Functions/programs:	
General government	\$ 877,014
Member services	16,549
	<u>\$ 893,563</u>

There was no depreciation and amortization expense for business-type activities for the year ended May 31, 2017, because all capital assets were fully depreciated.

State Bar of Texas

Notes to Financial Statements

Note 3. Deposits, Investments and Repurchase Agreements

Deposits of cash in bank: As of May 31, 2017, the carrying amount of deposits was \$15,371,135 as presented below:

	Carrying Amount	Bank Balance
Governmental, business-type, and fiduciary activities:		
Cash in bank—carrying amount	\$ 4,199,307	\$ 4,653,698
Money market funds—carrying amount at amortized cost	11,171,828	11,176,740
Total cash in bank	<u>\$ 15,371,135</u>	<u>\$ 15,830,438</u>

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

Custodial credit risk: In the case of deposits, the risk is that in the event of a bank failure, the State Bar will not be able to recover deposits or collateral securities that are in the possession of an outside party. The State Bar has a deposit policy for custodial credit risk, which requires bank deposit accounts to be collateralized with pledge securities. There is no limit on the amount the State Bar may deposit in any one institution. As of May 31, 2017, 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 \$17.8 million. The State Bar does not have funds that are held in foreign currency.

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

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities that the State Bar has the ability to access at the measurement date.
- Level 2 inputs are observable inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 inputs are unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the State Bar's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

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

State Bar of Texas

Notes to Financial Statements

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

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 net asset value do not have significant terms or conditions for redemption or commitments for additional funding.

As of May 31, 2017, the fair value of investments were:

Governmental activities:

	Carrying Value	Fair Value Measurements Using			Amortized Cost	Net Asset Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Fixed Income securities:						
U.S. Treasury securities	\$ 6,433,273	\$ 6,433,273	\$ -	\$ -	\$ -	\$ -
U.S. government agency obligations	11,724,729	-	11,724,729	-	-	-
Commercial paper	6,979,534	-	6,979,534	-	-	-
Certificates of deposit	7,200,285	-	-	-	7,200,285	-
Total investments	\$ 32,337,821	\$ 6,433,273	\$ 18,704,263	\$ -	\$ 7,200,285	\$ -

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, 2017, because all deposits were fully covered by Federal Deposit Insurance Corporation or pledged securities.

State Bar of Texas

Notes to Financial Statements

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

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Bar's investment policy allows for various types of investments including: United States government agency obligations, United States Treasury securities and money market funds investments. Investments in United States government agency obligations are not guaranteed by the United States government, but are government sponsored enterprises. As of May 31, 2017, State Bar's credit quality distribution for securities was:

Investment Type	Standard and Poor's Ratings			Total
	AA+	A-1+	A-1	
U.S. Treasury securities	\$ 6,433,273	\$ -	\$ -	\$ 6,433,273
U.S government agency obligations	9,590,805	1,978,052	-	11,568,857
Commercial paper	-	1,195,208	5,784,326	6,979,534
	<u>\$ 16,024,078</u>	<u>\$ 3,173,260</u>	<u>\$ 5,784,326</u>	<u>24,981,664</u>
GNMA Pool—not rated				155,872
Certificates of deposit—not rated				7,200,285
				<u>\$ 32,337,821</u>

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

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

State Bar of Texas**Notes to Financial Statements****Note 3. Deposits, Investments, and Repurchase Agreements (Continued)**

As of May 31, 2017, the State Bar's investments consist of the following:

Issuer	Fair Value	Percentage
U.S. Treasury securities	\$ 6,433,274	20%
Federal Home Loan Bank	3,979,755	12%
Federal Home Loan Mortgage Corp.	5,611,049	17%
Federal Farm Credit Bank	1,978,052	6%
GNMA Pool	155,872	0%
Commercial paper	6,979,534	22%
Certificates of deposit	7,200,285	22%
Total investments	<u>\$ 32,337,821</u>	<u>100%</u>

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

As of May 31, 2017, the State Bar's investments exposure to interest rate risk was as follows:

Description	Fair Value	Weighted Average Maturity (In Days)
U.S. Treasury securities	\$ 6,433,273	214
U.S. government agency obligations	11,724,729	476
Commercial paper	6,979,534	93
Certificates of deposit	7,200,285	79
Total investments	<u>\$ 32,337,821</u>	

Note 4. Short-Term Debt

The State Bar has no short-term debt to report for the fiscal year ended May 31, 2017.

State Bar of Texas

Notes to Financial Statements

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities during the year ended May 31, 2017 is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Capital lease obligations	\$ 175,400	\$ -	\$ (44,315)	\$ 131,085	\$ 46,530
Accrued compensated absences	1,489,829	908,999	(935,984)	1,462,844	557,652
Net pension liability	36,666,074	18,712,510	(4,633,564)	50,745,020	-
Total governmental activities	\$ 38,331,303	\$ 19,621,509	\$ (5,613,863)	\$ 52,338,949	\$ 604,182
Business-type activities:					
Accrued compensated absences	\$ 89,235	\$ 56,768	\$ (58,837)	\$ 87,166	\$ 31,798
Net pension liability	2,340,388	898,656	-	3,239,044	-
Total business-type activities	\$ 2,429,623	\$ 955,424	\$ (58,837)	\$ 3,326,210	\$ 31,798

Note 6. Bonded Indebtedness

The State Bar has no bonded indebtedness to report for the fiscal year ended May 31, 2017.

Note 7. Derivatives

The State Bar has no derivatives to report for the fiscal year ended May 31, 2017.

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, 2017 is presented below.

	Governmental Activities		
	Assets	Accumulated Depreciation	Total
Other equipment	\$ 241,319	\$ (44,028)	\$ 197,291
Total	\$ 241,319	\$ (44,028)	\$ 197,291

State Bar of Texas

Notes to Financial Statements

Note 8. Leases (Continued)

Future minimum lease payments under the capital leases, together with the net present value of all minimum lease payments as of May 31, 2017:

	Governmental Activities		
	Principal	Interest	Total Future Minimum Lease Payments
Years ending May 31:			
2018	\$ 46,530	\$ 6,555	\$ 53,085
2019	46,571	4,228	50,799
2020	37,984	1,899	39,883
Totals	<u>\$ 131,085</u>	<u>\$ 12,682</u>	<u>\$ 143,767</u>

Operating leases: Rent expense incurred under all third-party office space and equipment operating leases for the year ended May 31, 2017, totaled \$581,110 for governmental activities and \$193,878 for fiduciary activities.

At May 31, 2017, the State Bar was obligated under operating leases for the regional Chief Disciplinary Counsel Department's and the Texas Board of Legal Specialization's office space. At May 31, 2016, the State Bar entered into long-term leases for financing the purchase of certain equipment.

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

	Governmental Activities
Years ending May 31:	
2018	\$ 551,436
2019	559,731
2020	505,701
2021	424,340
2022	350,564
2023-2027	1,052,623
	<u>\$ 3,444,395</u>

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

	Minimum Lease Commitments	Sublease Income	Net Lease Commitments
Year ending May 31:			
2018	\$ 81,019	\$ 88,788	\$ (7,769)
	<u>\$ 81,019</u>	<u>\$ 88,788</u>	<u>\$ (7,769)</u>

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans

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

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

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

ERS plan's membership as of the measurement date of August 31, 2016, is presented in the table below:

ERS Plan membership:

Inactive plan members and beneficiaries currently receiving benefits	103,758
Inactive plan members entitled to but not yet receiving benefits	108,873
Active plan members	146,390
Total plan members	359,021

Contributions: The contribution rates for the state and the members for the ERS plan for the measurement period of fiscal 2016 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 fiscal 2016 measurement period was \$1,876,522.

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

Net pension liability: The State Bar's net pension liability was measured as of August 31, 2016, and the total pension liability is used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2006, through August 31, 2011. Additionally, the actuarial valuation as of August 31, 2016.

The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2016:

Actuarial Methods and Assumptions	
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, open
Actuarial assumptions:	
Discount rate	5.73%
Investment rate of return	8.00%
Inflation	3.50%
Salary increase	0.00% to 11.50%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living adjustments	None—Employee 3.5%—Elected

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

Discount rate: A single discount rate of 5.73 percent was applied to measure the total pension liability as of August 31, 2016. The 5.73 percent discount rate incorporated an 8.00 percent long-term expected rate of return on pension plan investments and 2.84 percent 20-year municipal bond rate based on Federal Reserve Statistical Release H. 15. The long-term expected investment rate of return was applied to projected benefit payments through fiscal year 2050 and the municipal bond rate was applied to all benefit payments thereafter.

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

Changes in net pension liability: State Bar's total pension liability is based on an actuarial valuation performed as of August 31, 2016. For fiscal 2017 reporting, the measurement date of State Bar's net pension liability is August 31, 2016. The schedule of changes in State Bar's net pension liability for the fiscal year ended May 31, 2017, is presented below:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at August 31, 2015	\$ 109,567,637	\$ 70,561,175	\$ 39,006,462
Changes for the year:			
Service cost	3,133,509	-	3,133,509
Interest on total pension liability	6,892,858	-	6,892,858
Effect of differences between expected and actual experience	364,933	-	364,933
Effect of assumption changes or inputs	14,487,166 *	-	14,487,166
Employer contributions	-	1,876,522	(1,876,522)
Member contributions	-	1,843,500	(1,843,500)
Investment income net of investment expense	-	3,479,493	(3,479,493)
Benefit payments/refunds of contributions	(5,867,332)	(5,867,332)	-
Change in proportion	(7,744,423)	(4,987,381)	(2,757,042)
Administrative expenses	-	(55,693)	55,693
Net changes	11,266,711	(3,710,891)	14,977,602
Balances at August 31, 2016	\$ 120,834,348	\$ 66,850,284	\$ 53,984,064

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

Sensitivity analysis: The following presents the net pension liability of the State Bar, calculated using the discount rate of 5.73 percent, as well as what State Bar's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.73 percent) or 1 percentage point higher (6.73 percent) than the current rate:

	1% Decrease 4.73%	Rate 5.73%	1% Increase 6.73%
State Bar's proportionate share of net pension liability	\$ 69,527,198	\$ 53,984,064	\$ 41,018,829

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

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

More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS' fiscal 2016 CAFR:

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

Pension expense and deferred outflows of resources and deferred inflows of resources related to pension: For the year ended May 31, 2017, State Bar recognized pension expense of \$2,655,644.

Service cost	\$ 3,133,509
Interest on total pension liability	6,892,858
Recognition of experience changes	(380,981)
Recognition of assumption changes	2,462,901
Projected investment return	(5,157,776)
Recognition of difference in investment return	573,414
Member contributions	(1,843,500)
Recognition of effect of change in proportion and contribution difference	(1,142,329)
Administrative expenses	55,874
Employer contributions	(1,938,326)
Pension expense	\$ 2,655,644

At May 31, 2017, State Bar reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 251,951	\$ 375,702
Changes of assumptions	10,279,210	3,820,100
Net difference between projected and actual investment return	2,937,032	-
Change in proportion and contribution differences	-	2,267,469
Contributions subsequent to the measurement date	1,424,865	-
Total	\$ 14,893,058	\$ 6,463,271

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

Contributions made subsequent to the measurement date are eligible employer contributions made from September 1, 2016, through May 31, 2017, totaling \$1,424,865, 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, 2018.

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:	
2018	\$ 856,785
2019	3,512,467
2020	2,300,034
2021	335,636
	<u>\$ 7,004,922</u>

The remaining balance to be recognized in future years, if any will be impacted by additional future deferred inflows and outflows of resources.

	Original Amount	Date Established	Original Recognition Period	Amount Recognized in May 31, 2017 Expenses (1)	Balance of Deferred Outflows May 31, 2017	Balance of Deferred Inflows May 31, 2017
Investment gains (losses)	\$ 4,405,675	8/31/2014	5.00	\$ 881,135	\$ -	\$ 1,762,270
Investment gains (losses)	(5,594,460)	8/31/2015	5.00	(1,118,892)	(3,356,676)	-
Investment gains (losses)	(1,678,284)	8/31/2016	5.00	(335,658)	(1,342,626)	-
Net deferred outflows/inflows for investment gains (losses)					(2,937,032)	
Experience changes	1,597,580	8/31/2014	3.22	493,963	-	375,702
Experience changes	(364,933)	8/31/2016	3.22	(112,982)	(251,951)	-
Assumption changes or inputs	(3,604,052)	8/31/2014	3.22	(1,109,022)	(277,234)	-
Assumption changes or inputs	10,082,558	8/31/2015	3.22	3,131,229	-	3,820,100
Assumption changes or inputs	(14,487,166)	8/31/2016	3.22	(4,485,190)	(10,001,976)	-
Change in proportion and contribution differences	946,528	8/31/2015	3.22	293,953	-	358,622
Change in proportion and contribution differences	2,757,223	8/31/2016	3.22	848,376	-	1,908,847
Employer contributions made subsequent to measurement date	1,424,865				(1,424,865)	
Total					<u>\$ (14,893,058)</u>	<u>\$ 6,463,271</u>

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

Note 10. Deferred Compensation

The State Bar has no deferred compensation to report for the fiscal year ended May 31, 2017.

State Bar of Texas

Notes to Financial Statements

Note 11. Postemployment Health Care and Life Insurance Benefits

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

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

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

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

Funding Policy: The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the State Bar pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above the State Bar's contributions. The Bar's contributions to the SRHP are directly paid to ERS. The maximum monthly employer contribution toward the health and basic life premiums of eligible retirees is disclosed in the following table.

**Contribution Rates
Retiree Health and Basic Life Premium
For the Fiscal Year 2017**

ERS SRHP

<u>Level of Coverage—Employer/Plan Member</u>	<u>Employer</u>	<u>Retiree</u>
Retiree only	\$ 617.30	\$ -
Retiree/spouse	970.98	353.68
Retiree/children	854.10	236.80
Retiree/family	1,207.78	590.48

State Bar of Texas

Notes to Financial Statements

Note 12. Interfund Activity and Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds. The composition of interfund balances as of May 31, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor governmental funds	\$ 127,712
General Fund	Client Security Fund	344,590
Nonmajor governmental funds	General Fund	669,322
Sections	General Fund	728,061
Agency Fund	General Fund	843,135
Enterprise Fund	General Fund	871,503
Total		<u>\$ 3,584,323</u>

During the year, the General Fund transferred \$300,000 to the Client Security Fund and \$688,800 to nonmajor governmental funds to supplement operations and to fund claims, technology projects and future renovations to the Texas Law Center.

Note 13. Continuance Subject to Review

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

Note 14. Restatement

The State Bar implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*, in the prior year. The implementation of the statement resulted in the State Bar recognizing a net pension liability, deferred inflow of resources—pension and deferred outflow of resource—pension. Generally accepted accounting principles require an allocation of these amounts between governmental activities and proprietary funds/business-type activities. This allocation was erroneously not done. As a result, the beginning net position balances were restated, as noted below. The effect on the change in net position previously reported is an increase in the change in net position of governmental activities by \$41,466 and decrease in the change in net position of the Law Practice Resource Management major fund and business-type activities by \$41,466.

	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources	Net Position
Governmental activities:				
Balances as previously reported	\$ 7,265,497	\$ 39,006,462	\$ 11,116,974	\$ (5,655,203)
Allocation related to net pension liability	(435,930)	(2,340,388)	(667,018)	2,571,476
Balances as restated	<u>\$ 6,829,567</u>	<u>\$ 36,666,074</u>	<u>\$ 10,449,956</u>	<u>\$ (3,083,727)</u>
Law Practice Resource Management Fund/ Business-type activities:				
Balances as previously reported	\$ -	\$ -	\$ -	\$ 1,865,033
Allocation related to net pension liability	435,930	2,340,388	667,018	(2,571,476)
Balances as restated	<u>\$ 435,930</u>	<u>\$ 2,340,388</u>	<u>\$ 667,018</u>	<u>\$ (706,443)</u>

State Bar of Texas

Notes to Financial Statements

Note 15. Contingencies and Commitments

The State Bar has no contingencies or commitments to report for the fiscal year ended May 31, 2017.

Note 16. Subsequent Events

Management evaluated the need for disclosures and/or adjustments resulting from subsequent events through November 20, 2017, the date the financial statements were available to be issued.

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

Note 17. Risk Management

The State Bar is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The State Bar purchased commercial insurance to cover risks associated with potential claims in 2017. 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. Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

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

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

See pages 3-13 for MD&A.

Note 19. The Financial Reporting Entity

See pages 29-38.

Note 20. Stewardship, Compliance and Accountability

The State Bar overspent, as compared to its budget, in the following category: executive, due to payout of accrued compensated absences for a retiree at May 31, 2017.

Note 21. Not Applicable

Note 22. Donor-Restricted Endowments

The State Bar has no donor-restricted endowments to report for the fiscal year ended May 31, 2017.

Note 23. Extraordinary and Special Items

The State Bar has no extraordinary or special items to report for the fiscal year ended May 31, 2017.

State Bar of Texas

Notes to Financial Statements

Note 24. Disaggregation of Receivable and Payable Balances

The State Bar had other accounts receivable at May 31, 2017, which consisted of the following:

General Fund:	
Clerk of the Supreme Court	\$ 1,808,425
WeWork	40,050
Texas Center for Legal Ethics	41,265
Texas Supreme Court Historical Society	21,251
SBOT Insurance Trust	62,500
Texas Bar Foundation	74,274
Texas Access to Justice Foundation	80,767
USI	25,000
	<u>66,715</u>
	<u>2,220,247</u>
The Sections:	
Sponsorships	19,685
Other	15,555
	<u>35,240</u>
Nonmajor governmental funds:	
Dues from members	19,575
Other	8,782
	<u>28,357</u>
Total	<u>\$ 2,283,844</u>

Note 25. Termination Benefits

The State Bar has no termination benefits to report for the fiscal year ended May 31, 2017.

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

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

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

State Bar of Texas

Notes to Financial Statements

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

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

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

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

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

Income taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and noncurrent based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. The Trust's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At May 31, 2017, no interest or penalties have been or are required to be accrued. The Trust, generally, is no longer subject to income tax examinations by federal authorities for years prior to December 31, 2013.

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

Description of the program: The Program is a multiple-employer welfare arrangement, which provides for in-hospital disability income, group term life, long-term disability, office overhead and personal accident benefits. The Program, including all claims and incurred, but not reported claims, are fully insured through contracts with Prudential. The Trust has no benefit obligations outstanding as of May 31, 2017.

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

State Bar of Texas

Notes to Financial Statements

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

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

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

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

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

The Program year under the contract with Prudential is July 1 through June 30. The stabilization fund totaled \$2,111,611.

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

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

Note 27. Service Concession Arrangements

The State Bar has no service concession arrangements to report for the fiscal year ended May 31, 2017.

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

See page 49.

Note 29. Troubled Debt Restructuring

The State Bar has no troubled debt restructurings to report for the fiscal year ended May 31, 2017.

Note 30. Nonexchange Financial Guarantees

The State Bar has no nonexchange financial guarantees to report for the fiscal year ended May 31, 2017.

State Bar of Texas

Notes to Financial Statements

Note 31. Tax Abatements

The State Bar has no tax abatements to report for the fiscal year ended May 31, 2017.

Note 32. Fund Balances

See pages 35-36.

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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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Membership dues	\$ 20,584,855	\$ 20,584,855	\$ 20,299,356	\$ (285,499)
Accounting and management fees	700,907	700,907	678,653	(22,254)
Texas Bar Journal	567,475	567,475	556,882	(10,593)
MCLE fees	3,018,500	3,018,500	3,159,576	141,076
Professional development	13,258,520	13,258,520	13,591,618	333,098
Minority affairs	307,700	307,700	332,415	24,715
Investment income	90,000	90,000	180,378	90,378
Member benefits	757,184	757,184	860,252	103,068
Website	360,000	360,000	415,493	55,493
Advertising review	373,500	373,500	362,200	(11,300)
Other income	1,299,286	1,299,286	1,541,754	242,468
Total revenues	41,317,927	41,317,927	41,978,577	660,650
Expenditures:				
Executive:				
Office of Executive Director	712,548	712,548	577,501	135,047
Deputy Director and Legal Counsel	608,201	608,201	719,537	(111,336)
Assistant Deputy Director	195,224	195,224	198,710	(3,486)
Officers and directors	761,836	761,836	838,154	(76,318)
Total executive	2,277,809	2,277,809	2,333,902	(56,093)
External Affairs:				
External Affairs Officer	241,902	241,902	229,125	12,777
Governmental relations	355,843	355,843	190,343	165,500
SBOT Leadership Academy	94,000	94,000	88,436	5,564
Sections	289,374	289,374	290,883	(1,509)
Local bars	435,648	435,648	399,654	35,994
Special events	73,604	73,604	68,572	5,032
Total external affairs	1,490,371	1,490,371	1,267,013	223,358
Member and public services:				
Member and Public Services Director	165,525	165,525	165,448	77
Center for Legal History	139,557	139,557	118,705	20,852
Law Related Education	461,823	461,823	409,132	52,691
Law Student Department	20,266	20,266	20,444	(178)
Texas Young Lawyers Association	907,927	907,927	933,197	(25,270)
SBOT Volunteer Committees	231,980	231,980	272,261	(40,281)
Total member and public services	1,927,078	1,927,078	1,919,187	7,891
Professional development:				
TexasBarCLE	9,858,541	9,858,541	9,544,207	314,334
Minority affairs	465,036	465,036	472,524	(7,488)
Total professional development	10,323,577	10,323,577	10,016,731	306,846
Legal and attorney services:				
Legal and Attorney Services Director	209,798	209,798	203,667	6,131
Texas Lawyers Assistance Program	374,471	374,471	399,913	(25,442)
Legal Access Division	1,378,803	1,378,803	1,357,296	21,507
Total legal and attorney services	1,963,072	1,963,072	1,960,876	2,196

(Continued)

**Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund (Continued)
Year Ended May 31, 2017**

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget
Expenditures (continued):				
Access to Justice Commission	\$ 730,300	\$ 730,300	\$ 729,175	\$ 1,125
Total Access to Justice Commission	730,300	730,300	729,175	1,125
Attorney compliance:				
Office of Attorney Compliance Director	166,277	166,277	160,802	5,475
Advertising review	177,903	177,903	176,853	1,050
Client Attorney Assistance Program	554,131	554,131	547,444	6,687
Lawyer referral	336,291	336,291	339,094	(2,803)
MCLE	564,620	564,620	556,009	8,611
Total attorney compliance	1,799,222	1,799,222	1,780,202	19,020
Administration:				
Human resources	265,363	265,363	259,701	5,662
Training and tuition	71,133	71,133	46,692	24,441
Member benefits	213,018	213,018	245,794	(32,776)
Purchasing and facilities	1,218,314	1,218,314	1,185,026	33,288
Research and analysis	157,987	157,987	140,836	17,151
Total administration	1,925,815	1,925,815	1,878,049	47,766
Finance:				
Accounting	1,215,396	1,215,396	1,045,594	169,802
Membership	785,379	785,379	825,550	(40,171)
Other administrative	1,548,352	1,548,352	1,616,070	(67,718)
Total finance	3,549,127	3,549,127	3,487,214	61,913
Information technology:				
Information technology	1,352,960	1,352,960	1,252,346	100,614
Customer service	360,917	360,917	361,138	(221)
Total information technology	1,713,877	1,713,877	1,613,484	100,393
Communications:				
Office of Communications Director	234,675	234,675	222,883	11,792
Texas Bar Journal	1,278,427	1,278,427	1,143,468	134,959
Public information	444,948	444,948	445,068	(120)
Web management	385,100	385,100	310,894	74,206
Total communications	2,343,150	2,343,150	2,122,313	220,837
Public protection:				
Chief Disciplinary Counsel	9,469,093	9,469,093	9,209,181	259,912
Grievance Oversight Committee	48,800	48,800	41,658	7,142
Unauthorized Practice of Law	170,000	170,000	173,613	(3,613)
Professional Ethics Commission	11,080	11,080	18,800	(7,720)
Board of Disciplinary Appeals	586,756	586,756	563,114	23,642
Total public protection	10,285,729	10,285,729	10,006,366	279,363

(Continued)

Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund (Continued)
Year Ended May 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures (continued):				
Expenditures related to Board commitments:				
Presidential initiatives	\$ 379,611	\$ 379,611	\$ 77,858	\$ 301,753
Statewide pro-bono recruitment campaign	190,401	190,401	16,136	174,265
Legal access fellowship program	150,000	150,000	145,382	4,618
Texas court records preservation task force	201,917	201,917	-	201,917
Access to Justice (ATJ) student loan repayment program	350,000	350,000	350,000	-
Law related education (LRE)—website	864	864	864	-
Texas Law Center renovations	16,525	16,525	-	16,525
Professionalism and ethics initiatives	18,504	18,504	1,372	17,132
Total expenditures related to Board commitments	1,307,822	1,307,822	591,612	716,210
Total expenditures	41,636,949	41,636,949	39,706,124	1,930,825
Excess (deficiency) of revenues over (under) expenditures	(319,022)	(319,022)	2,272,453	(1,270,175)
Other financing sources (uses):				
Transfers in (out) to:				
Technology Fund	(400,000)	(400,000)	(400,000)	-
Texas Law Center	(288,800)	(288,800)	(288,800)	-
Client Security Fund	(300,000)	(300,000)	(300,000)	-
Total other financing sources (uses)	(988,800)	(988,800)	(988,800)	-
Net change in fund balances	(1,307,822)	(1,307,822)	1,283,653	2,591,475
Fund balance at beginning of year	14,637,003	14,637,003	14,637,003	-
Fund balance at end of year	\$ 13,329,181	\$ 13,329,181	\$ 15,920,656	\$ 2,591,475

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, 2017**

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 Client Security Fund and Sections, which are listed as major special revenue funds and therefore a budget compared to actual is not included.

State Bar of Texas

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

	2017	2016	2015
Total pension liability:			
Service cost	\$ 3,133,509	\$ 3,620,026	\$ 3,424,863
Interest on total pension liability	6,892,858	6,979,675	6,985,815
Effect of benefit changes	-	(258,254)	-
Effect of differences between expected and actual experience	364,933	(837,235)	(760,345)
Effect of assumption changes or inputs*	14,487,166	(10,082,558)	3,604,054
Benefit payments/refunds of contributions	(5,867,332)	(6,025,397)	(5,901,661)
Change in proportion	(7,744,423)	(2,587,078)	-
Net changes	11,266,711	(9,190,821)	7,352,726
Total pension liability balance at August 31, 2015	109,567,637	118,758,458	111,405,732
Total pension liability balance at August 31, 2016	\$ 120,834,348	\$ 109,567,637	\$ 118,758,458
Plan fiduciary net position:			
Employer contributions	\$ 1,876,522	\$ 1,471,279	\$ 1,449,472
Member contributions	1,843,500	1,358,858	1,294,244
Investment income net of investment expense	3,479,493	167,419	9,775,831
Benefit payments/refunds of contributions	(5,867,332)	(6,025,397)	(5,901,661)
Change in proportion	(4,987,381)	(1,640,220)	-
Administrative expenses	(55,693)	(64,213)	(60,700)
Net changes	(3,710,891)	(4,732,274)	6,557,186
Plan fiduciary net position balance at August 31, 2015	70,561,175	75,293,449	68,736,263
Plan fiduciary net position balance at August 31, 2016	\$ 66,850,284	\$ 70,561,175	\$ 75,293,449
Net pension liability balance at August 31, 2015	\$ 39,006,462	\$ 43,465,009	\$ 42,669,469
Net pension liability balance at August 31, 2016	\$ 53,984,064	\$ 39,006,462	\$ 43,465,009
State Bar's covered-employee payroll **	\$ 18,422,328	\$ 19,402,731	\$ 17,900,403
State Bar's proportionate share of the net pension liability as a percentage of its covered-employee payroll	293.04%	201.40%	226.83%
Plan fiduciary net position as a percentage of total pension liability	55.32%	64.40%	63.40%

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

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

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

State Bar of Texas

Schedule of Employer Contributions

Plan Years Ended May 31,	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2015	\$ 2,187,835	\$ 1,449,472	\$ 738,363	\$ 19,402,731	7.47%
2016	2,167,280	1,471,279	696,001	19,590,734	7.51%
2017	1,857,512	1,876,522	(19,010)	19,977,021	9.39%

Note: Presented years since implementation of GASB Statement No. 68.

State Bar of Texas

**Notes to Net Pension Liability
May 31, 2017**

Actuarial Method cost method	Entry age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	31 years
Asset valuation method	20.00% of market plus 80.00% of expected actuarial value
Discount rate	5.73%
Investment rate of return	8.00%
Inflation	3.50%
Salary increases	0.00% to 11.50%
Retirement age	Experience-based table of rates that are specific to the class of employee. Last updated for the 2013 valuation pursuant to an experience study of the five-year period from September 1, 2006 through August 31, 2011.
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Notes	Actuarially determined contributions are adjusted for actual payroll and administrative expenses Members and employers contribute based on statutorily fixed rates. The covered employee payroll is the actual annual payroll for the fiscal year as reported by ERS.

Other Supplemental Information

State Bar of Texas

Combining Balance Sheet—Nonmajor Governmental Funds
May 31, 2017

	Texas Board of Legal Specialization Fund	Texas Bar College	Annual Meeting	Texas Law Center	Technology Fund	Project Grants Fund	Hatton W. Summers Grants Fund	Law Focused Education	Department of Public Service	Total Nonmajor Governmental Funds
Assets										
Current assets:										
Cash and cash equivalents—cash in bank	\$ 1,226,791	\$ 353,485	\$ 684,510	\$ 64,013	\$ -	\$ -	\$ 294,671	\$ -	\$ 514	\$ 2,623,984
Investments	492,000	-	-	3,273,692	-	-	-	-	-	3,765,692
Receivables:										
Interest receivable	-	-	-	10,077	-	-	-	-	-	10,077
Other accounts receivable	28,357	-	-	-	-	-	-	-	-	28,357
Due from other governmental funds	-	-	-	-	637,305	32,017	-	-	-	669,322
Prepaid items	8,343	3,500	177,834	-	94,379	-	-	-	-	284,056
Total assets	\$ 1,755,491	\$ 356,985	\$ 862,344	\$ 3,347,782	\$ 731,684	\$ 32,017	\$ 294,671	\$ -	\$ 514	\$ 7,381,488
Liabilities and Fund Balances										
Current liabilities:										
Accrued liabilities	\$ -	\$ 5	\$ 495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500
Due to other governmental funds	82,462	10,615	12,788	-	-	-	21,847	-	-	127,712
Unearned revenue	624,458	144,728	425,598	-	-	32,017	272,824	-	514	1,500,139
Total liabilities	706,920	155,348	438,881	-	-	32,017	294,671	-	514	1,628,351
Fund balances:										
Nonspendable	8,343	3,500	177,834	-	94,379	-	-	-	-	284,056
Committed	1,040,228	198,137	245,629	3,347,782	637,305	-	-	-	-	5,469,081
Total fund balances	1,048,571	201,637	423,463	3,347,782	731,684	-	-	-	-	5,753,137
Total liabilities and fund balances	\$ 1,755,491	\$ 356,985	\$ 862,344	\$ 3,347,782	\$ 731,684	\$ 32,017	\$ 294,671	\$ -	\$ 514	\$ 7,381,488

State Bar of Texas

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Governmental Funds
Year Ended May 31, 2017

	Texas Board of Legal Specialization Fund	Texas Bar College	Annual Meeting	Texas Law Center	Technology Fund	Project Grants Fund	Hatton W. Summers Grants Fund	Law Focused Education	Department of Public Service	Total Nonmajor Governmental Funds
Revenues:										
Investment income	\$ 2,975	\$ 151	\$ 681	\$ 17,481	\$ -	\$ -	\$ 122	\$ -	\$ -	\$ 21,610
Grant revenue	-	-	-	-	-	67,000	351,434	-	26,981	445,415
Other income	1,354,670	258,961	587,439	250	-	-	-	-	-	2,201,320
Total revenues	1,357,645	259,112	588,320	17,731	-	67,000	351,556	-	26,981	2,668,345
Expenditures:										
Special services	1,199,317	235,471	509,142	-	-	67,000	351,556	-	26,981	2,389,467
Administration	-	-	-	19,467	-	-	-	-	-	19,467
Finance and information technology	-	-	-	-	764,933	-	-	-	-	764,933
Total expenditures	1,199,317	235,471	509,142	19,467	764,933	67,000	351,556	-	26,981	3,173,867
Excess (deficiency) of revenues over (under) expenditures	158,328	23,641	79,178	(1,736)	(764,933)	-	-	-	-	(505,522)
Other financing sources:										
Transfers in	-	-	-	288,800	400,000	-	-	-	-	688,800
Total other financing sources	-	-	-	288,800	400,000	-	-	-	-	688,800
Net change in fund balances	158,328	23,641	79,178	287,064	(364,933)	-	-	-	-	183,278
Fund balances at beginning of year	890,243	177,996	344,285	3,080,718	1,096,617	-	-	-	-	5,569,859
Fund balances at end of year	\$ 1,048,571	\$ 201,637	\$ 423,463	\$ 3,347,782	\$ 731,684	\$ -	\$ -	\$ -	\$ -	\$ 5,753,137

State Bar of Texas

Combining Statement of Revenues, Expenditures and Changes in Fund Balance—
 Governmental Funds
 Year Ended May 31, 2017

	General Fund	Client Security Fund	Sections	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Membership dues	\$ 20,299,356	\$ -	\$ 2,441,080	\$ -	\$ 22,740,436
Accounting and management fees	678,653	-	-	-	678,653
Texas Bar Journal	556,882	-	-	-	556,882
MCLE fees	3,159,576	-	-	-	3,159,576
Professional development	13,591,618	-	-	-	13,591,618
Minority affairs	332,415	-	-	-	332,415
Investment income	180,378	12,907	14,337	21,610	229,232
Grant revenue	-	-	-	445,415	445,415
Member Benefits	860,252	-	-	-	860,252
Website	415,493	-	-	-	415,493
Advertising Review	362,200	-	-	-	362,200
Other income	1,541,754	10,476	1,278,646	2,201,320	5,032,196
Total revenues	41,978,577	23,383	3,734,063	2,668,345	48,404,368
Expenditures:					
Salaries	16,943,483	-	-	510,768	17,454,251
Benefits	5,804,906	-	-	192,780	5,997,686
Travel	2,059,003	-	399,903	227,317	2,686,223
Meetings and conferences	4,264,129	-	1,198,517	487,376	5,950,022
Professional services	3,031,994	-	521,028	344,380	3,897,402
Court fees	81,207	-	-	-	81,207
Publicity and advertising	571,955	-	153,255	128,717	853,927
Dues, subscriptions and licenses	603,964	-	-	23,495	627,459
Education and training	129,687	-	39,279	310	169,276
Supplies, awards, gifts and specialty items	540,581	-	32,051	123,854	696,486
Rentals—office, equipment and storage	1,116,776	-	-	110,832	1,227,608
Maintenance and repairs	592,840	-	-	337,662	930,502
Utilities	243,149	-	-	-	243,149
Postage and freight	753,676	-	10,387	29,302	793,365
Telephone	344,341	-	3,354	19,626	367,321
Insurance	427,560	-	-	-	427,560
Claims and judgments	-	934,816	-	-	934,816
Administrative	933,329	-	613,570	162,473	1,709,372
Printing and copying	1,263,544	-	512,314	45,207	1,821,065
Capital outlay	-	-	-	376,683	376,683
Debt service:					
Principal	-	-	-	50,838	50,838
Interest	-	-	-	2,247	2,247
Total expenditures	39,706,124	934,816	3,483,658	3,173,867	47,298,465
Excess (deficiency) of revenues over (under) expenditures	2,272,453	(911,433)	250,405	(505,522)	1,105,903
Other financing sources (uses):					
Transfers in	-	300,000	-	688,800	988,800
Transfers out	(988,800)	-	-	-	(988,800)
Other financing sources (uses)	(988,800)	300,000	-	688,800	-
Net change in fund balances	1,283,653	(611,433)	250,405	183,278	1,105,903
Fund balance at beginning of year	14,637,003	3,195,122	7,105,654	5,569,859	30,507,638
Fund balance at end of year	\$ 15,920,656	\$ 2,583,689	\$ 7,356,059	\$ 5,753,137	\$ 31,613,541

