

STATE BAR OF TEXAS - FINANCE DIVISION



Dashboard of Key Financial Trends

General Fund Operating Results for the Six Months Ended November 30, 2019

Chart A contains the State Bar's General Fund Budget to Actual Variance for the financial period. This indicates the overall earnings incurred from current year operations.

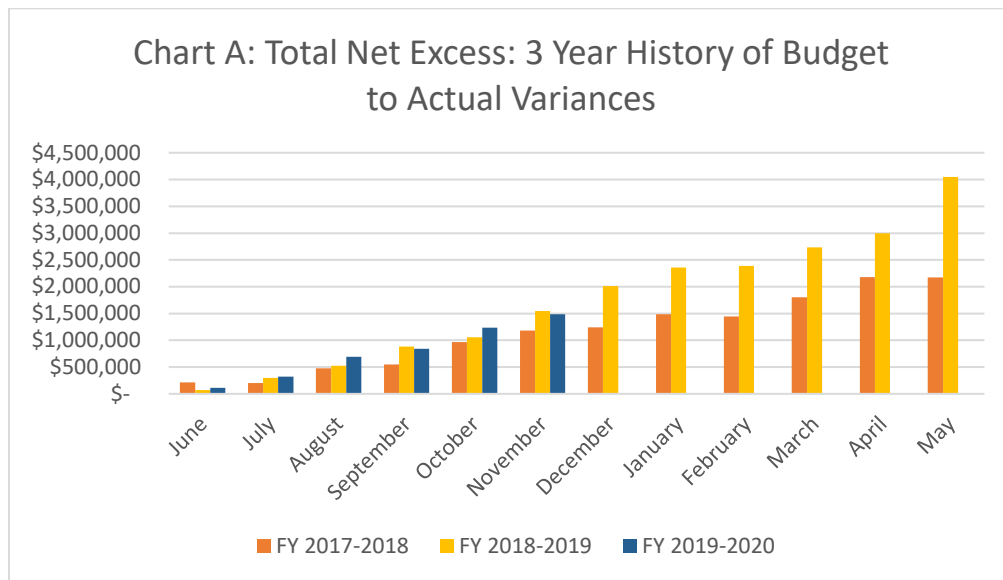


Table 1 contains details of data presented in Chart A above:

Operations of General Fund: Budget to Actual Variances (cumulative)

| | FY 2017-2018 | FY 2018-2019 | FY 2019-2020 |
|-----------|--------------|--------------|--------------|
| June | \$ 216,672 | \$ 70,915 | \$ 111,071 |
| July | \$ 201,736 | \$ 295,712 | \$ 322,750 |
| August | \$ 477,125 | \$ 524,480 | \$ 689,283 |
| September | \$ 546,656 | \$ 885,337 | \$ 841,894 |
| October | \$ 969,094 | \$ 1,056,344 | \$ 1,233,358 |
| November | \$ 1,178,479 | \$ 1,546,381 | \$ 1,485,161 |
| December | \$ 1,242,976 | \$ 2,010,521 | |
| January | \$ 1,487,407 | \$ 2,359,057 | |
| February | \$ 1,441,399 | \$ 2,387,072 | |
| March | \$ 1,804,426 | \$ 2,733,334 | |
| April | \$ 2,176,267 | \$ 2,999,300 | |
| May | \$ 2,169,908 | \$ 4,048,722 | |

Chart B presents the total Revenues and Expenditures of the State Bar’s General Fund over the previous three years.

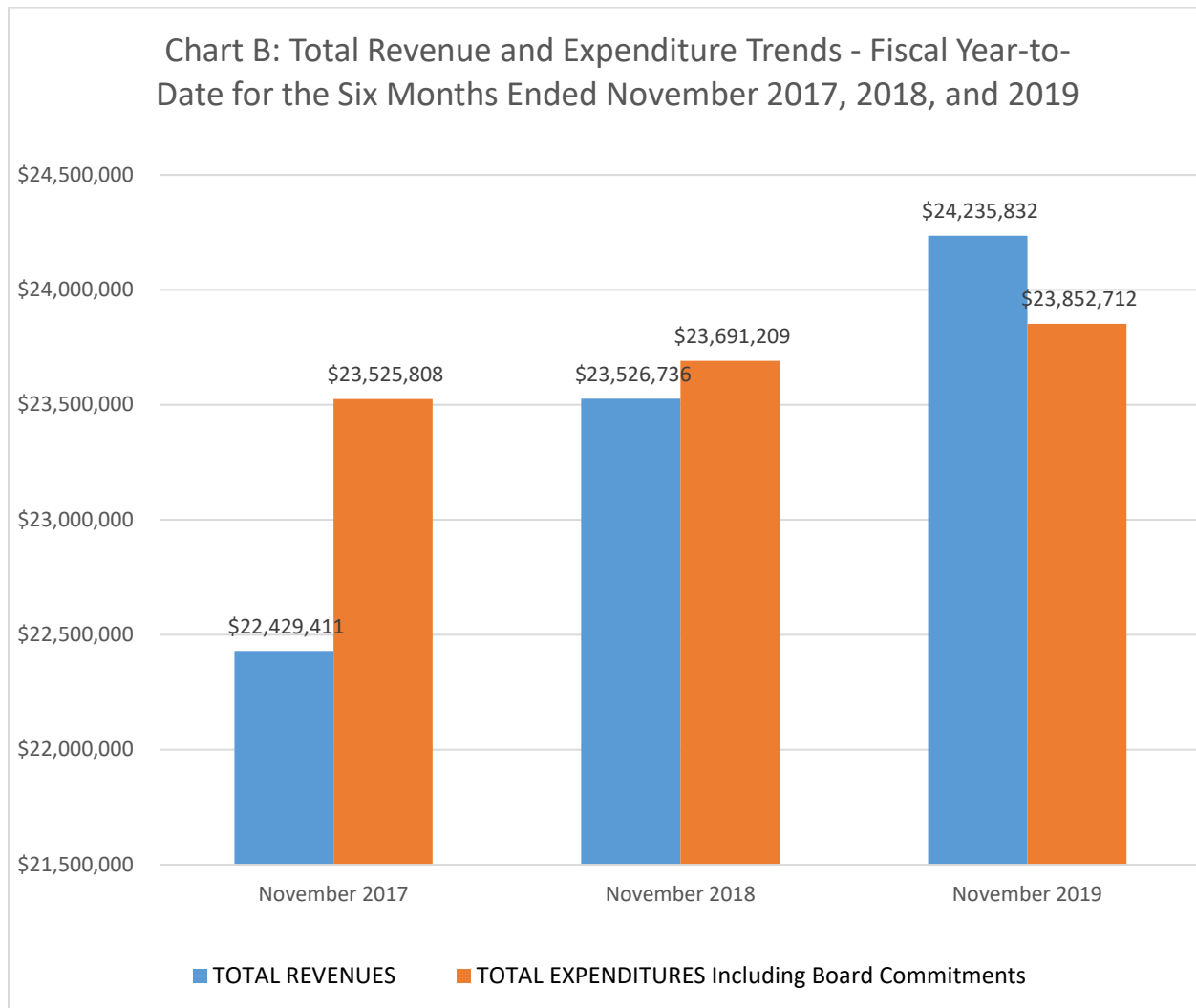


Chart C presents the total revenues by department of the State Bar's General Fund over the previous three years.

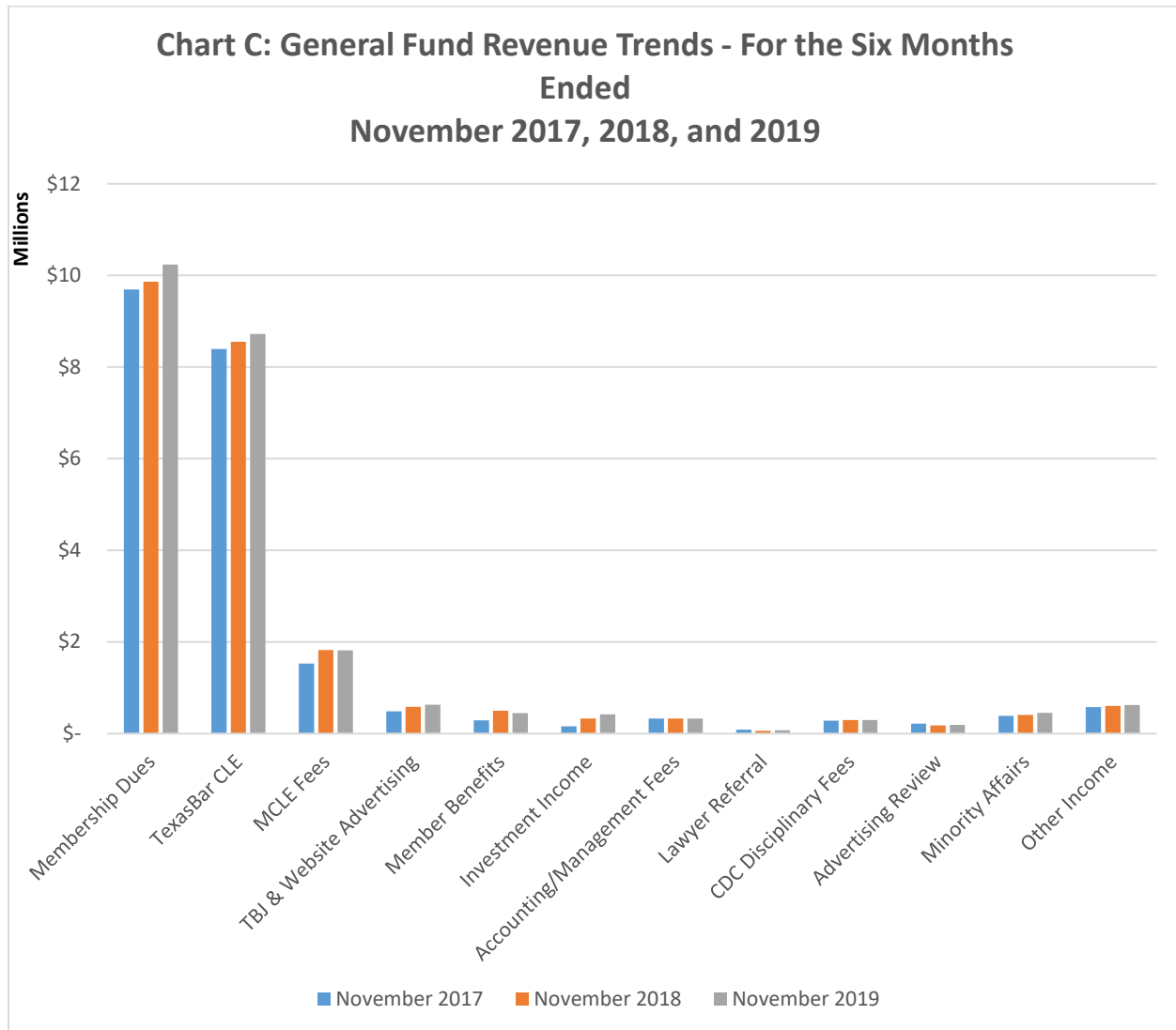
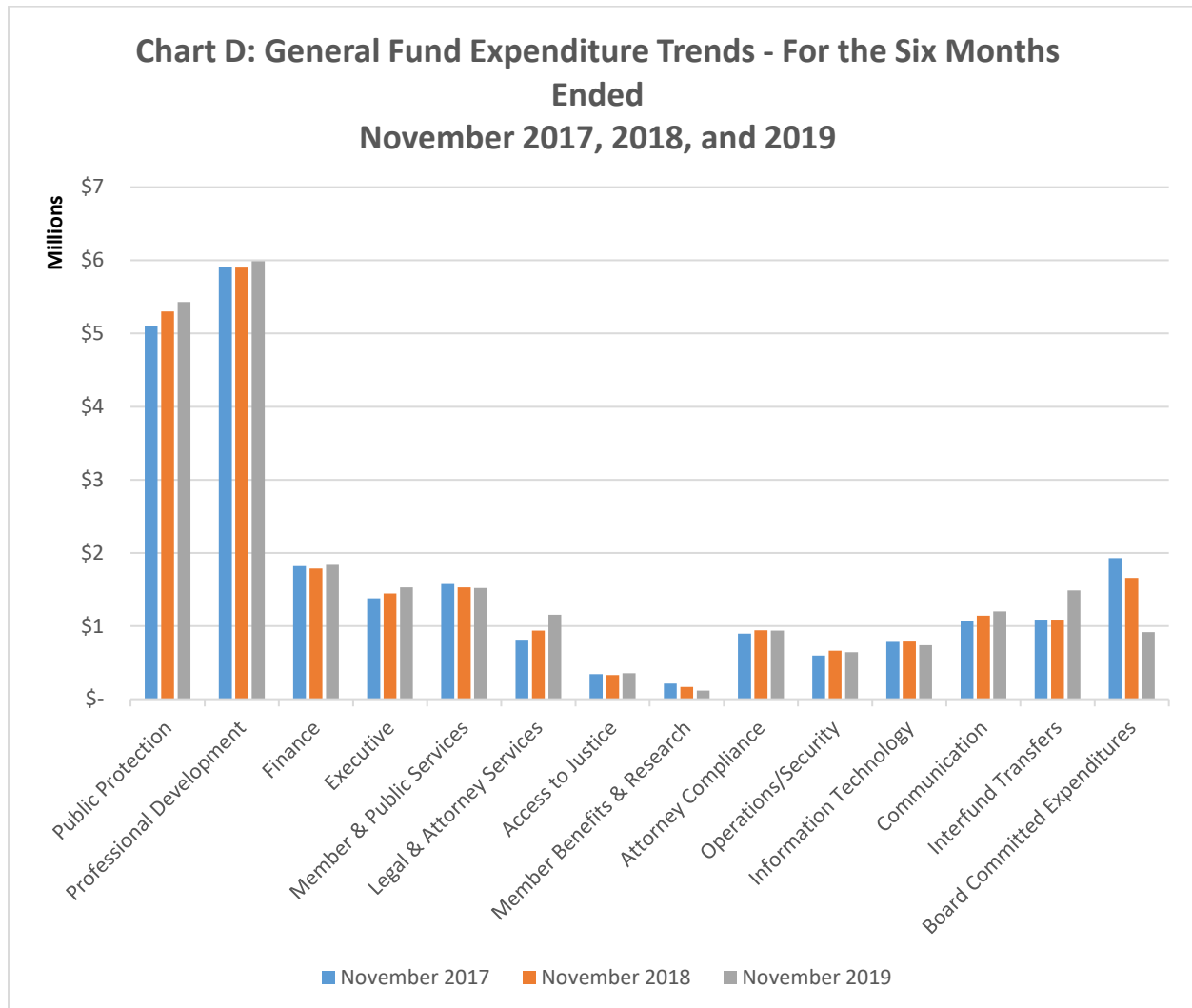


Chart D presents the total revenues by department of the State Bar's General Fund over the previous three years.



**State Bar of Texas General Fund
Financial Highlights
For the Six Months Ended November 30, 2019**

Total General Fund YTD results – As of November 30, 2019, the General Fund had a net excess of revenues over expenditures and transfers of \$1,298,541 compared to a budgeted net loss of (\$185,882). This resulted in a positive overall variance of \$1,484,423.

| | Actual | Budget | Variance | % Variance |
|----------------------------------|--------------------|--------------------|--------------------|-------------------|
| Total Revenues | \$24,235,833 | \$22,925,543 | \$1,310,290 | 6% |
| Total Expenditures and Transfers | 22,937,292 | 23,111,425 | 174,133 | 1% |
| Net Excess | \$1,298,541 | (\$185,882) | \$1,484,423 | |

Revenues

For the period ending November 30, 2019, total revenues exceeded the budget by \$1,310,290 or 6%, thereby producing a positive actual to budget variance. An analysis of the revenues shows that six departments had a positive revenue variance in excess of \$100,000 or 10%, and 10% for the period ending November 30, 2019.

- Member Dues – Total Positive Revenue Variance: \$411,913 or 4% - This positive variance results primarily from higher than anticipated dues collection.
- MCLE Department – Total Positive Revenue Variance: \$230,052 or 15% - This positive variance results primarily from higher than anticipated number of course accreditation fees.
- Investment Income – Total Positive Revenue Variance: \$72,075 or 21% - This positive variance is due to a higher than anticipated yield on the State Bar's investment portfolio for the current fiscal year.
- Office of the Chief Disciplinary Counsel – Total Positive Revenue Variance: \$35,593 or 14% - This positive variance results primarily from higher than anticipated attorney fees collected for the Austin, Dallas and Houston offices.
- Minority Affairs – Total Positive Revenue Variance: \$112,888 or 33% - This positive revenue variance results from a higher than expected number of sponsorships for the Texas Minority Counsel Program.
- Texas Young Lawyers Association – Total Positive Revenue Variance: \$33,840 or 61% from higher than anticipated revenue from the National Trial Competition.

Expenditures

For the period ending November 30, 2019, total expenditures were under the allocated budget by \$174,133 or 1%, which resulted in a positive actual to budget variance.

An analysis of the expenditures shows that four departments, Local Bars, Access to Justice Commission, Advertising Review and Information Technology had large positive expenditure variances in excess of \$10,000 and 10% in salaries and benefits due to open positions and/or reduction in salary expenses due to replacing long-term employees.

An analysis of expenditures shows that two departments had negative expenditure variances in excess of (\$10,000) and (10%) for the period ending November 30, 2019.

- **SBOT Volunteer Committees** – Total Negative Variance: (\$24,118) or (17%) – This negative variance results from an additional unexpected venue cost for the Supreme Court Advisory Committee, as usual venue was not available.
- **Minority Affairs** – Total Negative Expenditure Variance: (\$90,043) or (26%) – This negative variance results from an increase in additional conference expenses which were off-set by additional revenue collected from sponsorship and contributions.

TexasBarCLE (TBCLE)

For the period ending November 30, 2019, TexasBarCLE's net revenues over expenditures amount exceeded its budget target by \$652,093 or 26%, thereby producing a negative actual to budget variance.

| | Actual | Budget | Variance | % Variance |
|-------------------------|--------------------|--------------------|------------------|-------------------|
| TBCLE Revenues | \$8,724,072 | \$8,352,655 | \$371,417 | 4% |
| TBCLE Expenditures | 5,529,678 | 5,810,354 | 280,676 | 5% |
| Net TBCLE Income | \$3,194,394 | \$2,542,301 | \$652,093 | 26% |

In comparing TBCLE's performance to previous years, it is appropriate to make two comparisons: (1) compare the current fiscal year 19-20 to the previous fiscal year 18-19; and (2) compare the current fiscal year 19-20 to fiscal year 17-18. Fiscal years ending in odd numbers are considered to be "non-legislative years", in other words, they do not follow a legislative session. Fiscal years ending in even numbers are considered to be "legislative years" because they do follow a legislative session and TBCLE generally sees a surge in revenues following a legislative year. The surge in revenue generally results from legal issues arising during the legislative process; thereby creating a need for new or revised CLE programs.

In comparing actual revenues and expenditure amounts for the period ending November 30, 2019 to the prior period ending November 30, 2018, we see an increase in revenues of \$172,146 or

2%, and a decrease in expenditures of (\$26,273) or (0%) for an overall increase in net revenues of \$145,873 or 5%. This is showing the difference between financial performances based on a comparison to a “non-legislative year”.

In comparing actual revenues and expenditure amounts for the current period ending November 30, 2020, to the period ending November 30, 2018, we see an increase in revenue of \$330,549 or 4% and an increase in expenditures of \$37,421 or 1% for an overall increase in net revenues of \$367,970 or 13%. This is showing the difference between financial performances based on a comparison of two “legislative years.”

Salaries and Benefits

For FY 2019-2020, the salaries and benefits budget totals \$24,381,427 or 56.6% of the overall \$43,109,214 General Fund budget before budgeted board commitments. The \$24,381,427 includes a 4% vacancy rate. The actual vacancy factor for the period ending November 30, 2019 was 3.9%. The actual salary and benefit expenditures had a (\$65,310) negative variance to budget at the end of November 2019.

| | |
|----------|--------------------|
| Budget | \$12,198,397 |
| Actual | <u>12,263,707</u> |
| Variance | <u>\$ (65,310)</u> |

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Six Months Ending November 30, 2019

| | Annual Budget | YTD Budget | YTD Actual | YTD Variance \$ Fav/(Unfav) | YTD Variance % Fav/(Unfav) | YTD Budget Prior Year | YTD Actual Prior Year | YTD Prior Year Variance \$ Fav/(Unfav) | YTD Prior Year Variance % Fav/(Unfav) |
|--|--------------------------|-----------------------|-----------------------|--|---|--------------------------------------|--------------------------------------|---|--|
| REVENUES: | | | | | | | | | |
| Membership Dues | \$20,783,246 | \$9,822,665 | \$10,234,578 | \$411,913 | 4% | \$9,597,842 | \$9,863,337 | \$265,495 | 3% |
| Accounting/Management Fees | 650,351 | 325,676 | 325,676 | | | 325,676 | 325,676 | | |
| Texas Bar Journal | 629,878 | 292,633 | 299,859 | 7,226 | 2% | 301,805 | 305,543 | 3,738 | 1% |
| Leadership SBOT | 10,000 | 4,998 | 7,000 | 2,002 | 40% | 4,998 | 3,000 | (1,998) | (40%) |
| MCLE Fees | 3,257,183 | 1,586,247 | 1,816,299 | 230,052 | 15% | 1,567,127 | 1,823,801 | 256,674 | 16% |
| TexasBar CLE | 13,955,703 | 8,352,655 | 8,724,072 | 371,417 | 4% | 8,181,868 | 8,551,926 | 370,058 | 5% |
| Investment Income | 350,000 | 350,000 | 422,075 | 72,075 | 21% | 185,000 | 331,579 | 146,579 | 79% |
| Lawyer Referral | 190,000 | 75,000 | 73,721 | (1,279) | (2%) | 61,500 | 61,445 | (55) | (0%) |
| Member Benefits | 844,909 | 433,392 | 445,933 | 12,541 | 3% | 491,119 | 497,382 | 6,263 | 1% |
| CDC Disciplinary Fees | 553,240 | 257,571 | 293,164 | 35,593 | 14% | 283,840 | 293,305 | 9,465 | 3% |
| Membership | 14,475 | 7,200 | 7,406 | 206 | 3% | 6,510 | 8,001 | 1,491 | 23% |
| Local Bars | 12,600 | 12,600 | 6,700 | (5,900) | (47%) | 12,500 | 17,550 | 5,050 | 40% |
| Minority Affairs | 350,000 | 341,500 | 454,388 | 112,888 | 33% | 327,000 | 406,445 | 79,445 | 24% |
| Information Technology Dept. | 1,200 | 600 | 600 | | | 600 | 600 | | |
| Website | 405,000 | 313,250 | 328,993 | 15,743 | 5% | 273,250 | 279,797 | 6,547 | 2% |
| Legal Access Division | 23,000 | 23,000 | 17,275 | (5,725) | (25%) | 11,000 | 16,800 | 5,800 | 53% |
| Law Related Education | 9,256 | 4,250 | 4,700 | 450 | 11% | 500 | 600 | 100 | 20% |
| TYLA | 60,000 | 55,500 | 89,340 | 33,840 | 61% | 60,800 | 90,650 | 29,850 | 49% |
| Law Student Division | 6,000 | 3,900 | 5,235 | 1,335 | 34% | 3,900 | 5,780 | 1,880 | 48% |
| Purchasing & Facilities | 46,500 | 22,430 | 20,232 | (2,198) | (10%) | 24,337 | 23,570 | (767) | (3%) |
| Advertising Review | 380,000 | 186,342 | 193,750 | 7,408 | 4% | 181,276 | 180,395 | (881) | (0%) |
| Miscellaneous, Sales Tax Discounts, Etc. | 74,000 | 37,798 | 34,286 | (3,512) | (9%) | 28,398 | 25,005 | (3,393) | (12%) |
| Credit Card Processing Fees | 330,000 | 330,000 | 344,215 | 14,215 | 4% | 290,000 | 328,215 | 38,215 | 13% |
| Rent | 172,673 | 86,336 | 86,336 | | | 89,720 | 86,336 | (3,384) | (4%) |
| TOTAL REVENUES | 43,109,214 | 22,925,543 | 24,235,833 | 1,310,290 | 6% | 22,310,566 | 23,526,738 | 1,216,172 | 5% |
| EXPENDITURES | | | | | | | | | |
| Executive Division | | | | | | | | | |
| Executive Director | 670,896 | 338,247 | 325,301 | 12,946 | 4% | 309,507 | 307,973 | 1,534 | 0% |
| Associate Executive Director/Legal Counsel | 661,868 | 301,955 | 283,106 | 18,849 | 6% | 259,309 | 279,403 | (20,094) | (8%) |
| Deputy Executive Director | 226,500 | 113,698 | 106,060 | 7,638 | 7% | 112,977 | 102,758 | 10,219 | 9% |
| Deputy Executive Director/External Affairs | 261,955 | 130,928 | 123,496 | 7,432 | 6% | 137,033 | 122,484 | 14,549 | 11% |
| Special Financial Advisor | 193,491 | 96,495 | 97,477 | (982) | (1%) | 37,500 | 73,628 | (36,128) | (96%) |
| Officers & Directors | 850,117 | 396,067 | 422,162 | (26,095) | (7%) | 403,628 | 410,622 | (6,994) | (2%) |
| Human Resources | 294,760 | 145,706 | 144,099 | 1,607 | 1% | 138,891 | 142,936 | (4,045) | (3%) |
| Training/Tuition | 71,133 | 23,000 | 27,690 | (4,690) | (20%) | 13,000 | 4,411 | 8,589 | 66% |
| Total Executive Division | 3,230,720 | 1,546,096 | 1,529,391 | 16,705 | 1% | 1,411,845 | 1,444,215 | (32,370) | (2%) |

| | Annual Budget | YTD Budget | YTD Actual | YTD Variance \$ Fav/(Unfav) | YTD Variance % Fav/(Unfav) | YTD Budget Prior Year | YTD Actual Prior Year | YTD Prior Year Variance \$ Fav/(Unfav) | YTD Prior Year Variance % Fav/(Unfav) |
|---|------------------|---------------|---------------|-----------------------------------|----------------------------------|-----------------------------|-----------------------------|---|--|
| Member & Public Services Division | | | | | | | | | |
| Member & Public Services Division Director | | | | | | 59,847 | | 59,847 | 100% |
| Center for Legal History | 154,037 | 77,440 | 78,792 | (1,352) | (2%) | 76,447 | 73,182 | 3,265 | 4% |
| Law Related Education | 512,851 | 282,067 | 270,129 | 11,938 | 4% | 268,443 | 246,087 | 22,356 | 8% |
| Governmental Relations | 173,238 | 84,385 | 79,473 | 4,912 | 6% | 76,694 | 73,740 | 2,954 | 4% |
| Texas Young Lawyers Association | 1,010,999 | 445,890 | 418,522 | 27,368 | 6% | 463,751 | 476,618 | (12,867) | (3%) |
| LeadershipSBOT | 98,672 | 60,610 | 53,882 | 6,728 | 11% | 54,074 | 62,604 | (8,530) | (16%) |
| Sections | 335,660 | 169,294 | 160,801 | 8,493 | 5% | 160,424 | 149,367 | 11,057 | 7% |
| Local Bars | 455,312 | 289,938 | 259,015 | 30,923 | 11% | 261,067 | 238,234 | 22,833 | 9% |
| Special Events | 73,604 | 21,396 | 28,529 | (7,133) | (33%) | 36,896 | 40,240 | (3,344) | (9%) |
| Law Student Department | 20,266 | 9,206 | 5,133 | 4,073 | 44% | 12,966 | 9,649 | 3,317 | 26% |
| SBOT Volunteer Committees | 280,510 | 142,882 | 167,000 | (24,118) | (17%) | 152,476 | 159,559 | (7,083) | (5%) |
| Total Member & Public Services Division | 3,115,149 | 1,583,108 | 1,521,276 | 61,832 | 4% | 1,623,085 | 1,529,280 | 93,805 | 6% |
| Legal & Attorney Services Division | | | | | | | | | |
| Legal & Attorney Services Division Director | 229,745 | 115,703 | 111,402 | 4,301 | 4% | 112,316 | 109,420 | 2,896 | 3% |
| Texas Lawyers Assistance Program | 401,146 | 201,102 | 198,942 | 2,160 | 1% | 227,185 | 202,010 | 25,175 | 11% |
| Legal Access Division | 1,521,608 | 817,220 | 844,685 | (27,465) | (3%) | 651,982 | 626,597 | 25,385 | 4% |
| Total Legal & Attorney Services Division | 2,152,499 | 1,134,025 | 1,155,029 | (21,004) | (2%) | 991,483 | 938,027 | 53,456 | 5% |
| Access to Justice Commission | 840,127 | 414,937 | 353,085 | 61,852 | 15% | 363,756 | 329,068 | 34,688 | 10% |
| Member Benefits | 203,463 | 25,196 | 27,090 | (1,894) | (8%) | 54,749 | 87,293 | (32,544) | (59%) |
| Research & Analysis | 179,700 | 82,934 | 91,754 | (8,820) | (11%) | 78,507 | 79,497 | (990) | (1%) |
| Professional Development Division | | | | | | | | | |
| Texas Bar CLE | 9,950,513 | 5,810,354 | 5,529,678 | 280,676 | 5% | 5,799,203 | 5,503,403 | 295,800 | 5% |
| Minority Affairs | 498,601 | 363,565 | 459,608 | (96,043) | (26%) | 333,861 | 396,614 | (62,753) | (19%) |
| Total Professional Development | 10,449,114 | 6,173,919 | 5,989,286 | 184,633 | 3% | 6,133,064 | 5,900,017 | 233,047 | 4% |
| Attorney Compliance Division | | | | | | | | | |
| Office of Attorney Compliance Director | 181,703 | 90,662 | 93,347 | (2,685) | (3%) | 88,092 | 84,622 | 3,470 | 4% |
| Advertising Review | 183,126 | 92,021 | 72,265 | 19,756 | 21% | 91,756 | 91,108 | 648 | 1% |
| Client Attorney Assistance Program | 545,835 | 271,913 | 273,458 | (1,545) | (1%) | 272,671 | 267,811 | 4,860 | 2% |
| Lawyer Referral | 361,847 | 175,096 | 180,904 | (5,808) | (3%) | 169,548 | 176,922 | (7,374) | (4%) |
| MCLE | 603,280 | 307,639 | 317,493 | (9,854) | (3%) | 290,123 | 322,768 | (32,645) | (11%) |
| Total Attorney Compliance Division | 1,875,791 | 937,331 | 937,467 | (136) | (0%) | 912,190 | 943,231 | (31,041) | (3%) |
| Operations/Security Division | | | | | | | | | |
| Purchasing & Facilities | 1,258,803 | 626,910 | 641,345 | (14,435) | (2%) | 626,028 | 662,429 | (36,401) | (6%) |
| Total Operations/Security Division | 1,258,803 | 626,910 | 641,345 | (14,435) | (2%) | 626,028 | 662,429 | (36,401) | (6%) |

| | Annual Budget | YTD Budget | YTD Actual | YTD Variance \$ Fav/(Unfav) | YTD Variance % Fav/(Unfav) | YTD Budget Prior Year | YTD Actual Prior Year | YTD Prior Year Variance \$ Fav/(Unfav) | YTD Prior Year Variance % Fav/(Unfav) |
|---|------------------|---------------|---------------|-----------------------------------|----------------------------------|-----------------------------|-----------------------------|---|--|
| Finance Division | | | | | | | | | |
| Accounting | 946,709 | 475,565 | 515,809 | (40,244) | (8%) | 471,341 | 484,317 | (12,976) | (3%) |
| Membership | 706,016 | 280,498 | 259,096 | 21,402 | 8% | 340,668 | 315,044 | 25,624 | 8% |
| Other Administrative | 1,836,698 | 984,053 | 1,063,372 | (79,319) | (8%) | 957,373 | 987,150 | (29,777) | (3%) |
| Total Finance Division | 3,489,423 | 1,740,116 | 1,838,277 | (98,161) | (6%) | 1,769,382 | 1,786,511 | (17,129) | (1%) |
| Information Technology Division | | | | | | | | | |
| Information Technology | 1,317,699 | 599,851 | 538,487 | 61,364 | 10% | 651,726 | 606,206 | 45,520 | 7% |
| Customer Service | 376,826 | 191,485 | 197,415 | (5,930) | (3%) | 184,689 | 195,858 | (11,169) | (6%) |
| Total Information Technology Division | 1,694,525 | 791,336 | 735,902 | 55,434 | 7% | 836,415 | 802,064 | 34,351 | 4% |
| Communications Division | | | | | | | | | |
| Office of Communications Director | 254,629 | 135,502 | 134,665 | 837 | 1% | 133,914 | 127,639 | 6,275 | 5% |
| Bar Journal | 1,212,173 | 658,462 | 633,457 | 25,005 | 4% | 598,565 | 609,109 | (10,544) | (2%) |
| Printing | 136,797 | 70,026 | 61,491 | 8,535 | 12% | 84,696 | 65,299 | 19,397 | 23% |
| Graphics | 163,177 | 80,591 | 85,220 | (4,629) | (6%) | 80,174 | 85,715 | (5,541) | (7%) |
| Public Information | 155,636 | 81,818 | 80,649 | 1,169 | 1% | 72,128 | 63,862 | 8,266 | 11% |
| Web Management | 412,484 | 205,442 | 202,502 | 2,940 | 1% | 176,701 | 189,386 | (12,685) | (7%) |
| Total Communications Division | 2,334,896 | 1,231,841 | 1,197,984 | 33,857 | 3% | 1,146,178 | 1,141,010 | 5,168 | 0% |
| Public Protection Division | | | | | | | | | |
| Chief Disciplinary Counsel | 9,942,758 | 4,940,638 | 5,050,635 | (109,997) | (2%) | 4,869,354 | 4,885,918 | (16,564) | (0%) |
| Grievance Oversight Committee | 48,800 | 24,295 | 27,324 | (3,029) | (12%) | 24,295 | 17,253 | 7,042 | 29% |
| Unauthorized Practice of Law | 170,000 | 54,175 | 45,736 | 8,439 | 16% | 83,495 | 90,789 | (7,294) | (9%) |
| Professional Ethics Commission | 12,000 | 4,198 | 8,881 | (4,683) | (112%) | 3,909 | 5,466 | (1,557) | (40%) |
| Board of Disciplinary Appeals | 622,646 | 311,570 | 298,030 | 13,540 | 4% | 309,916 | 303,570 | 6,346 | 2% |
| Total Public Protection Division | 10,796,204 | 5,334,876 | 5,430,606 | (95,730) | (2%) | 5,290,969 | 5,302,996 | (12,027) | (0%) |
| TOTAL EXPENDITURES | 41,620,414 | 21,622,625 | 21,448,492 | 174,133 | 1% | 21,237,651 | 20,945,638 | 292,013 | 1% |
| Transfers to: | | | | | | | | | |
| Bldg & Equip Fund | 288,800 | 288,800 | 288,800 | | | 288,800 | 288,800 | | |
| Technology Fund | 500,000 | 500,000 | 500,000 | | | 500,000 | 500,000 | | |
| Client Security Fund | 700,000 | 700,000 | 700,000 | | | 300,000 | 300,000 | | |
| TOTAL TRANSFERS | 1,488,800 | 1,488,800 | 1,488,800 | | | 1,088,800 | 1,088,800 | | |
| TOTAL EXPENDITURES & TRANSFERS | 43,109,214 | 23,111,425 | 22,937,292 | 174,133 | 1% | 22,326,451 | 22,034,438 | 292,013 | 1% |
| Excess (Deficit) of Revenues Over Expenditures & Transfers | | (185,882) | 1,298,541 | 1,484,423 | 799% | (15,885) | 1,492,300 | 1,508,185 | 9494% |

| | Annual Budget | YTD Budget | YTD Actual | YTD Variance \$ Fav/(Unfav) | YTD Variance % Fav/(Unfav) | YTD Budget Prior Year | YTD Actual Prior Year | YTD Prior Year Variance \$ Fav/(Unfav) | YTD Prior Year Variance % Fav/(Unfav) |
|---|--------------------------|-----------------------|-----------------------|--|---|--------------------------------------|--------------------------------------|---|--|
| BOARD COMMITMENTS | | | | | | | | | |
| Board Commitment - SLRAP | 515,000 | 515,000 | 515,000 | | | 350,000 | 350,000 | | |
| Board Commitment - Client Security Fund | | | | | | 800,000 | 800,000 | | |
| Board Commitment - Technology Fund | 150,000 | 150,000 | 150,000 | | | | | | |
| Board Commitment - Texas Opportunity & Justice Incubator Program | 571,088 | 62,466 | 62,466 | | | 86,536 | 86,536 | | |
| Board Commitment - Presidential Initiatives | 126,641 | 8,753 | 8,753 | | | 23,616 | 23,616 | | |
| Board Commitment - Statewide Pro Bono Campaign | 148,161 | 1,186 | 1,186 | | | 5,536 | 5,536 | | |
| Board Commitment - LAD 2018 Board Commitments | 44,251 | 15,638 | 15,638 | | | 316,400 | 316,400 | | |
| Board Commitment - Rules Vote Reserve | 100,000 | | | | | | | | |
| Board Commitment - Run-Off Election Reserve | 70,000 | | | | | | | | |
| Board Commitment - Ethics Initiatives | 11,943 | 136 | 136 | | | 185 | 185 | | |
| Board Commitment - Document Preservation | | | | | | 50,000 | 50,000 | | |
| Board Commitment - Archives Digitization Project | 75,500 | 12,000 | 12,000 | | | 24,500 | 24,500 | | |
| Board Commitment - LRE Website Project | 79,500 | 50,245 | 50,245 | | | | | | |
| Board Commitment - Texas Law Center Renovations | 100,000 | 100,000 | 100,000 | | | | | | |
| TOTAL BOARD COMMITMENTS | <u>1,992,084</u> | <u>915,424</u> | <u>915,424</u> | | | <u>1,656,773</u> | <u>1,656,773</u> | | |
| TOTAL YTD INCREASE (REDUCTION) IN FUND BALANCE | <u>(1,992,084)</u> | <u>(1,101,306)</u> | <u>383,117</u> | <u>1,484,423</u> | <u>135%</u> | <u>(1,672,658)</u> | <u>(164,473)</u> | <u>1,508,185</u> | <u>90%</u> |

**State Bar of Texas
General Fund
Balance Sheet
As of November 30, 2019**

Assets

| | | |
|--------------------------------------|------------|-------------------|
| Cash & Money Market Funds | | \$9,028,506 |
| Investments | 20,300,854 | |
| Adjust Investments to Market | 79,929 | |
| Investments at Fair Market Value | | 20,380,783 |
| Accounts Receivable: | | |
| Sales | 69,954 | |
| Less Allowance for Doubtful Accounts | (3,498) | |
| Net Accounts Receivable - Sales | | 66,456 |
| Accrued Interest | | 79,929 |
| Interfund | | 1,723,618 |
| Other | | 149,946 |
| Inventory | | 11,313 |
| Prepaid Expenditures | | 592,796 |
| Total Assets | | <u>32,033,347</u> |

Liabilities and Fund Equity

Liabilities

| | | |
|---------------------|--|-------------------|
| Accounts Payable: | | |
| Cash - A/P | | |
| Trade | | 730,776 |
| Interfund | | 2,079,472 |
| Accrued Liabilities | | 299,925 |
| Deferred Revenue - | | |
| Membership Dues | | 10,393,015 |
| Other | | 349,036 |
| Other Liabilities | | 48,130 |
| Total Liabilities | | <u>13,900,354</u> |

Fund Balances

| | | |
|--|------------------|-----------------------------|
| Nonspendable - Prepaids at May 31, 2019 | \$ 847,384 | |
| Nonspendable - Inventory at May 31, 2019 | 12,070 | |
| Nonspendable - Investments FMV Adjustment at May 31, 2019 | 59,630 | |
| Board Committed - Minimum Reserve January 2019 | 11,059,004 | |
| Board Committed - Technology Fund | 150,000 | |
| Board Committed - Texas Opportunity and Justice Incubator Program | 571,088 | |
| Board Committed - Presidential Initiatives | 126,641 | |
| Board Committed - Statewide Pro Bono Campaign | 148,161 | |
| Board Committed - Legal Access Division Programs | 44,251 | |
| Board Committed - Ethics Initiatives | 11,943 | |
| Board Committed - Archives Digitization Project | 75,500 | |
| Board Committed - Law Focused Education Programs | 79,500 | |
| Board Committed - Texas Law Center Renovations | 100,000 | |
| Board Committed - Student Loan Repayment Assistance Program | 515,000 | |
| Board Committed - Run-off Election Reserve | 70,000 | |
| Board Committed - Referendum Reserve | 100,000 | |
| Amount Available for Board Commitment: FY 2018-2019 | <u>3,779,705</u> | |
| Total Fund Balance at May 31, 2019 | | <u>\$ 17,749,877</u> |
| Current Year Operations | | |
| Nonspendable - Prepaids at November 31, 2019 | (254,588) | |
| Nonspendable - Inventory at November 31, 2019 | (757) | |
| Nonspendable - Investments FMV Adjustment at November 31, 2019 | 20,299 | |
| Board Committed Expenditures - Student Loan Repayment Assistance Program | (515,000) | |
| Board Committed Expenditures - Technology Fund | (150,000) | |
| Board Committed Expenditures - Texas Opportunity & Justice Incubator Program | (62,466) | |
| Board Committed Expenditures - Presidential Initiatives | (8,753) | |
| Board Committed Expenditures - Statewide Pro Bono Campaign | (1,186) | |
| Board Committed Expenditures - Legal Access Division Initiatives | (15,638) | |
| Board Committed Expenditures - Ethics Initiative | (136) | |
| Board Committed Expenditures - Archives Digitization Project | (12,000) | |
| Board Committed Expenditures - LRE Programs | (50,245) | |
| Board Committed Expenditures - Texas Law Center Renovations | (100,000) | |
| Amount Available for Board Commitment from Current Year Operations | <u>1,533,586</u> | |
| Total Current Year Increase (Reduction) in Fund Balance | | <u>\$ 383,116</u> |
| Total Fund Balance | | <u>\$ 18,132,993</u> |
| Total Liabilities and Fund Balance | | <u><u>\$ 32,033,347</u></u> |

State Bar of Texas
Client Security Fund
Statement of Revenues & Expenditures
For the Six Months Ending November 30, 2019

Revenues:

| | |
|--------------------------|---------------|
| Interest | \$29,999 |
| Restitution/Other Income | 2,760 |
| Total Revenues | <u>32,759</u> |

Expenditures:

| | |
|--------------------|----------------|
| Claims | 167,614 |
| Banking Fees | 100 |
| Total Expenditures | <u>167,714</u> |

| | |
|--|------------------|
| Excess (Deficit) of Revenue Over Expenditures | <u>(134,955)</u> |
|--|------------------|

| | |
|--------------------------------------|----------------|
| General Fund Operating Transfer In | 700,000 |
| Total Transfers In from General Fund | <u>700,000</u> |

| | |
|---|----------------|
| Net Increase (Decrease) in the Fair Value of Investments | 3,920 |
| Net after Operating Transfer & Unrealized Net Gain (Loss) | <u>568,965</u> |

State Bar of Texas
Client Security Fund
Balance Sheet
As of November 30, 2019

Assets

| | |
|------------------------------|-------------------------|
| Cash & Money Market Accts. | \$ 1,213,965 |
| Investments | 1,836,844 |
| Adjust Investments to Market | 3,809 |
| Interest Receivable | <u>12,756</u> |
| Total Assets | <u><u>3,067,374</u></u> |

Liabilities:

| | |
|----------------------------|------------------|
| Due To (From) General Fund | <u>(110,136)</u> |
| Total Liabilities | (110,136) |

Fund Balance

| | | |
|------------------------------------|----------------|----------------------------|
| Beginning Fund Balance | 2,608,546 | |
| Current Year Activity | <u>568,965</u> | |
| Total Fund Balance | | <u><u>3,177,511</u></u> |
| Total Liabilities and Fund Balance | | <u><u>\$ 3,067,375</u></u> |

State Bar of Texas
Texas Bar Books
Statement of Revenues and Expenses
For the Six Months Ending November 30, 2019

| | Y-T-D Budget | Y-T-D Actual | Budget % | 2019-2020 Budget |
|---|-----------------|-----------------|-------------|---------------------|
| Revenues: | | | | |
| Book Sales Net of Estimated Returns | \$514,586 | \$564,967 | (10%) | \$1,975,650 |
| Online Sales | 252,843 | 243,859 | 4% | 505,686 |
| Total Sales | 767,429 | 808,826 | (5%) | 2,481,336 |
| Fees | 3,975 | 11,197 | (182%) | 18,000 |
| Interest | 4,500 | 6,806 | (51%) | 9,000 |
| Royalty | 605,500 | 605,835 | (0%) | 1,226,000 |
| Other Revenue | 26,522 | 0 | 100% | 101,826 |
| Total Revenues | 1,407,926 | 1,432,664 | (2%) | 3,836,162 |
| Cost of Goods Sold: | | | | |
| Finished Products | 105,490 | 77,794 | 26% | 405,008 |
| Royalties | 28,739 | 30,066 | (5%) | 141,388 |
| Other | 27,000 | 13,192 | 51% | 100,000 |
| Total Cost of Goods Sold | 161,229 | 121,052 | 25% | 646,396 |
| Operating Expenses: | | | | |
| Salaries | 668,381 | 698,048 | (4%) | 1,336,761 |
| Benefits | 225,653 | 210,063 | 7% | 451,306 |
| Travel | 29,000 | 23,399 | 19% | 46,450 |
| Meetings & Conferences | 900 | 1,482 | (65%) | 1,800 |
| Professional Services | 30,506 | 32,742 | (7%) | 74,926 |
| Publicity/Advertising | 7,500 | 873 | 88% | 15,000 |
| Publicity/Advertising for Specific Titles | 23,000 | 15,642 | 32% | 44,000 |
| Dues/Subscriptions/Licenses | 28,447 | 26,959 | 5% | 53,576 |
| Education/Training | 7,856 | 9,635 | (23%) | 13,430 |
| Supplies/Awards/Gifts/Spec. Items | 9,702 | 15,624 | (61%) | 23,001 |
| Rentals - Office, Equipment, Storage | 83,994 | 79,491 | 5% | 167,988 |
| Maintenance/Repair | 16,050 | 12,750 | 21% | 32,100 |
| Postage and Freight | 44,940 | 43,990 | 2% | 170,330 |
| Telephone | 2,750 | 1,502 | 45% | 5,500 |
| Insurance | 3,000 | 3,407 | (14%) | 6,000 |
| Administrative Fee | 275,228 | 271,274 | 1% | 550,456 |
| Bad Debts | 16,724 | (8,519) | 151% | 64,209 |
| Capital Lease Expense | 9,800 | 0 | 100% | 9,800 |
| Printing | 0 | 208 | 0% | 0 |
| Copying | 270 | 791 | (193%) | 540 |
| Total Operating Expenses | 1,483,701 | 1,439,361 | 3% | 3,067,173 |
| Total Expenses | 1,644,930 | 1,560,413 | 5% | 3,713,569 |
| Net Income/(Loss) | (237,004) | (127,749) | 46% | 122,593 |

State Bar of Texas
Texas Bar Books
Statement of Net Position
As of November 30, 2019

Assets

| | | |
|--------------------------------------|-----------|------------------|
| Accounts Receivable : | | |
| Sales | \$253,475 | |
| Less Allowance for Doubtful Accounts | (12,674) | |
| Less Allowance for Refunds | (2,021) | |
| Net Accounts Receivable - Sales | | 238,780 |
| Interfund Receivable - General Fund | | 699,756 |
| Inventory | | |
| Inventory - Finished Goods | 554,155 | |
| Inventory - Work in Process | 160,471 | |
| Less Inventory - Reserve | (132,602) | |
| Total Inventory Less Reserves | | 582,024 |
| Intangible Assets: | | |
| Fixed Assets: | | |
| Furniture/Equipment | 353,637 | |
| Less Accumulated Depreciation | (318,315) | |
| Net Fixed Assets | | 35,322 |
| Total Assets | | 1,555,882 |

Liabilities and Net Position

Liabilities

| | | |
|-------------------|--|---------|
| Payables | | 9,407 |
| Compensable Leave | | 97,422 |
| Total Liabilities | | 106,829 |

Net Position

| | | |
|---|-----------|------------------|
| Total Net Position at May 31, 2019 | 1,576,802 | |
| Current Year Operations | (127,749) | |
| Total Net Position at November 30, 2019 | | 1,449,053 |
| Total Liabilities and Net Position | | 1,555,882 |

State Bar of Texas
Combining Statement of Revenue & Expenditures
And Changes in Fund Balance
All Special Revenue Funds
For the Six Months Ending November 30, 2019

| | Law Focused Grants | TBLS | Convention Fund | Texas Law Center | Texas Bar College | Technology Fund | Misc Grant Fund | Total |
|---|--------------------------|--------------------|--------------------|------------------------|-------------------------|--------------------|-----------------------|--------------------|
| Revenues: | | | | | | | | |
| Fees | | \$145,800 | \$242,465 | | \$227,736 | | | \$616,001 |
| Sales | | | 30,201 | | 2,894 | | | 33,095 |
| Investments | 36 | 22,366 | 4,286 | 58,383 | 2,504 | | | 87,575 |
| Grants | 253,730 | | | | | | 106,400 | 360,130 |
| Contributions | | | 261,900 | | 6,300 | | 3,117 | 271,317 |
| Other Revenue | | 22,605 | | | | | | 22,605 |
| Total Revenues | 253,766 | 190,771 | 538,852 | 58,383 | 239,434 | | 109,517 | 1,390,723 |
| Expenditures: | | | | | | | | |
| Salaries | 57 | 228,643 | | | 32,350 | | | 261,050 |
| Benefits | 5 | 80,616 | | | 11,511 | | | 92,132 |
| Salaries & Wages - Temporary | | | (10) | | | | | (10) |
| Travel | 56,255 | 11,642 | 11,858 | | 31,766 | | | 111,521 |
| Meetings & Conferences | 20,640 | 33,468 | 419,131 | | 12,764 | | | 486,003 |
| Professional Services | 88,233 | 48,098 | 7,847 | 230 | 3,359 | | | 147,767 |
| Publicity/Advertising | | 33,865 | 29,000 | | 3,809 | | | 66,674 |
| Dues/Subscriptions/Licenses | 1,027 | 850 | 15 | | 931 | | | 2,823 |
| Supplies/Awards/Gifts/Spec. Items | 24,418 | 15,885 | 11,219 | 6,981 | 6,386 | 172 | | 65,061 |
| Rentals - Office, Equipment, Storage | | 50,301 | | | 1,447 | | | 51,748 |
| Maintenance/Repair | | | | | | 255,562 | | 255,562 |
| Postage and Freight | 3,012 | 1,481 | 18 | | 1,305 | | | 5,816 |
| Telephone | | 19,494 | | | 366 | | | 19,860 |
| Administrative | 2,112 | 38,300 | 7,700 | | 18,857 | | | 66,969 |
| Fixed Assets | | 4,524 | | 78,668 | | 312,904 | | 396,096 |
| Printing and Copying | 1,007 | 6,035 | 17,593 | | 3,488 | | | 28,123 |
| Total Expenditures | 196,766 | 573,202 | 504,371 | 85,879 | 128,339 | 568,638 | | 2,057,195 |
| Transfer (In) / Out | | | | (388,800) | | (650,000) | | (1,038,800) |
| Total Expenditures & Transfers | 196,766 | 573,202 | 504,371 | (302,921) | 128,339 | (81,362) | | 1,018,395 |
| Net Increase (Decrease) in the Fair Value of Investments | | | | 10,523 | | | | 10,523 |
| Total Revenues less Expenditures | 57,000 | (382,431) | 34,481 | 371,827 | 111,095 | 81,362 | 109,517 | 382,851 |
| Beginning Fund Balance at 6/1/19 | 0 | 2,114,855 | 345,163 | 4,049,468 | 192,380 | 789,312 | 0 | 7,491,178 |
| Ending Fund Balance at 11/30/19 | \$57,000 | \$1,732,424 | \$379,644 | \$4,421,295 | \$303,475 | \$870,674 | \$109,517 | \$7,874,029 |

State Bar of Texas

(A Component Unit of the State of Texas)

Report to the Board of Directors
December 17, 2019





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December 17, 2019

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

We are pleased to present this report related to our audit of the basic financial statements of the State Bar of Texas (the State Bar), a component unit of the State of Texas, as of and for the year ended May 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the State Bar's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the State Bar of Texas.

RSM US LLP

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| | |
|--|-----|
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| Exhibit A—Letter communicating material weaknesses and a significant deficiency in internal control over financial reporting | |
| Exhibit B—Significant written communication between management and our firm | |
| Representation letter | |

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

| Area | Comments |
|--|---|
| Our Responsibilities With Regard to the Financial Statement Audit | Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated May 13, 2019. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter. |
| Overview of the Planned Scope and Timing of the Financial Statement Audit | We have issued a separate communication, dated May 13, 2019, regarding the planned scope and timing of our audit and identified significant risks. |
| Accounting Policies and Practices | <p>Preferability of Accounting Policies and Practices Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the State Bar. A summary of significant accounting policies adopted by the State Bar is included in Note 1 to the financial statements. The State Bar did not adopt any significant new accounting policies during the year ended May 31, 2019, other than the required initial adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other than Pensions</i> (OPEB). The adoption decreased beginning net position by \$50,530,389.</p> <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p> |
| Audit Adjustments | Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the State Bar are shown in the attached Summary of Recorded Audit Adjustments. |
| Uncorrected Misstatements | Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements. |

| Area | Comments |
|---|--|
| Disagreements With Management | We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the basic financial statements. |
| Departure From the Auditor's Standard Report | The auditor's report included an emphasis of matters, which related to the restatements of GASB Statement No. 75 and restatements for beginning net position of the governmental activities to correct an error for a division previously excluded and correct an error for the recognition of revenue related to minimum continuing legal education (MCLE) fees. The State Bar also restated beginning fund balance of the Sections and Divisions fund balance to correct an error for recognition of a division previously excluded. Our opinions were not modified with respect to these matters. |
| Consultations With Other Accountants | We are not aware of any consultations management had with other accountants about accounting or auditing matters. |
| Significant Issues Discussed With Management | We discussed with management the restatement disclosed in the financial statements in Note 14 related to the Paralegal Division and MCLE revenue. |
| Significant Difficulties Encountered in Performing the Audit | We did not encounter any significant difficulties in dealing with management during the audit |
| Letter Communicating Material Weaknesses and a Significant Deficiency in Internal Control Over Financial Reporting | We have separately communicated material weaknesses and a significant deficiency in internal control over financial reporting identified during our audit of the basic financial statements, and this communication is attached as Exhibit A. |
| Significant Written Communication Between Management and Our Firm | A copy of a significant written communication between our firm and management of the State Bar, the representation letter provided to us by management, is attached as Exhibit B. |

Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. Management may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the State Bar's May 31, 2019, financial statements.

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|--|--|---|--|
| Pension Expense and Net Pension Liability | The State Bar participates in the Employees Retirement System of Texas (ERS), one of the three retirement systems of the state of Texas. ERS is considered a single employer defined benefit pension plan. For financial reporting purposes, ERS is treated as a cost-sharing plan, since each participating employer has an obligation to contribute. | The net pension liability was measured as of August 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State Bar's proportion of the net pension liability was based on contributions to the pension plan relative to contributions of all employers to the plan for the period from September 1, 2017 to August 31, 2018. The assumptions include the expected rate of investment return on retirement plan assets, the interest rate used to determine the present value of liabilities and certain employee-related factors. The employee-related factors include turnover, retirement age and mortality. These factors, the estimated discount rate and the rate of return on investments are based upon historical and general market data. Management reviewed the actuarial result. | We obtained the actuarial valuation calculations from ERS, audited schedules and State Auditor's Office auditor's reports. We recalculated the State Bar's balances. Our internal actuarial specialist team performed a review of the actuarial valuation. Based on our procedures, we concluded the assumptions are reasonable. |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|--|---|--|--|
| OPEB Expense and Net OPEB Liability | The State Bar participates in the State Retiree Health Plan (SRHP) administered by ERS. SRHP is a cost-sharing multiple employer postemployment health plan with a special funding situation. | The total OPEB liability was measured as of August 31, 2018, and was determined by an actuarial valuation as of that date. The State Bar's proportion of the total OPEB liability was based on contributions to the plan relative to contributions of all employers to the plan for the period from September 1, 2017 to August 31, 2018. Management reviewed the actuarial results. | We obtained the actuarial valuation calculations from ERS, audited schedules and State Auditor's Office auditor's reports. We recalculated the State Bar's balances. Our internal actuarial specialist team performed a review of the actuarial valuation. Based on our procedures, we concluded the assumptions are reasonable. |
| Fair Value of Investments | Investments, other than CDs, are recorded at fair value. | If available, quoted market prices are used to value instruments. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments in debt securities are valued using a yield-based matrix pricing model. | We tested the fair value and estimated fair value of the investments by verifying the quoted market prices used and using a valuation specialist to price marketable securities. We concluded the estimates are reasonable. |
| Depreciable Useful Life of Capital Assets | The depreciable useful life of capital assets is set at the estimated useful life of the related asset. | The determination is made at the time the asset is placed into service and involves various judgments and assumptions based on prior experience. | We tested the estimated useful lives and salvage values to the State Bar's policy. We believe the estimates used by management of the State Bar are reasonable. |
| Allowance for Doubtful Accounts | Receivables are recorded gross of accounts receivable net an allowance for doubtful accounts. | The allowance is adjusted as information about specific accounts becomes available. The State Bar also compares the current allowance amounts to prior-year collection or write-off experience. | We tested the underlying information supporting this allowance, including the most recent aging reports and collection experience. We believe management's estimate is reasonable. |

Summary of Recorded Audit Adjustments

| Number | Name | Account No. | Debit | Credit |
|--|--|----------------|-----------|-------------|
| AJE 1 | Allowance for Returns | 03-0000-13505- | | \$ (22,001) |
| AJE 1 | Estimated Returns | 03-6100-40402- | \$ 22,001 | |
| <i>Audit adjustment:</i> | | | | |
| To reclassify allowance for return of book sales. | | | | |
| | | | 22,001 | (22,001) |
| AJE 2 | Net Position - Government wide | 01-0000-30005- | | (277,554) |
| AJE 2 | Accreditation fees/sponsor | 01-3800-40201- | 277,554 | |
| <i>Audit adjustment:</i> | | | | |
| To restate MCLE revenue incorrectly recorded during the current year that related to prior year. | | | | |
| | | | 277,554 | (277,554) |
| AJE 3 | Fund Balance—Undesignated | 32000 | | (459,607) |
| AJE 3 | Cash:Checking Account | 10005 | 212,311 | |
| AJE 3 | Cash:Petty Cash | 10010 | 1,000 | |
| AJE 3 | Cash:Certificates of Deposit (CD) | 10015 | 266,258 | |
| AJE 3 | Cash:Money Market (RJ) | 10020 | 41,023 | |
| AJE 3 | Accounts Receivable | 11000 | 9,201 | |
| AJE 3 | Prepaid Expense:Postage—US Postal Service | 12005 | 778 | |
| AJE 3 | Prepaid Expense:Texas Advance Paralegal Seminar | 12010 | 1,288 | |
| AJE 3 | Prepaid Expense:Annual Meeting Expense | 12035 | | (33) |
| AJE 3 | Accounts Payable | 20000 | 263 | |
| AJE 3 | Deferred Income:Member Dues | 22005 | | (67,858) |
| AJE 3 | Deferred Income:Advertising Income—TPJ | 22010 | | (940) |
| AJE 3 | Deferred Income:TX Advanced Paralegal Seminar:TAPS | 22019 | 5,935 | |
| AJE 3 | Deferred Income:Annual Meeting Income | 22030 | | (9,405) |
| AJE 3 | Sales Tax Payable | 25500 | | (214) |
| <i>Audit adjustment:</i> | | | | |
| To restate beginning fund balance for Paralegal Division incorrectly unrecorded. | | | | |
| | | | 538,057 | (538,057) |

Summary of Uncorrected Misstatements

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the financial position, results of operations, cash flows and related financial statement disclosures. Following is a summary of those differences:

| Description | Statement of Activities—Governmental Activities/Balance Sheet— Governmental Funds | | Statement of Activities-Governmental Activities/Statements of Revenues, Expenses and Changes in Fund Balance—Governmental Funds | | | | Net Position/Fund Balance |
|--|--|---------------------|---|---------------------------|---|-------------------|------------------------------|
| | Assets | Liabilities | Revenue | Expenses/ Expenditures | Net Change in Net Position/Fund Balance | | |
| General Fund: | | | | | | | |
| Overstatement of other income for portion of LRIS annual membership attributable to the year ended 2020 (factual) | \$ - | \$ (72) | \$ 72 | \$ - | \$ 72 | \$ - | |
| Overstatement of other income for portion of LRIS annual membership attributable to the year ended 2020 (projected) | - | (35,430) | 35,430 | - | 35,430 | - | |
| Overstatement of prepaid expenses as of May 31, 2019 | (54,625) | - | - | (15,840) | (15,840) | 70,465 | |
| understatement of expenses for the year ended 2019 | | | | | | | |
| Subtotals for General Fund | <u>\$ (54,625)</u> | <u>\$ (35,502)</u> | <u>\$ 35,502</u> | <u>\$ (15,840)</u> | <u>\$ 19,662</u> | <u>\$ 70,465</u> | |
| Cumulative misstatements for General Fund | | | | | | <u>\$ 90,127</u> | |
| | | | | | | | |
| Description | Statement of Activities—Governmental Activities/Balance Sheet— Governmental Funds | | Statement of Activities-Governmental Activities/Statements of Revenues, Expenses and Changes in Fund Balance—Governmental Funds | | | | Net Position/Fund Balance |
| | Assets | Liabilities | Revenue | Expenses/ Expenditures | Net Change in Net Position/Fund Balance | | |
| Sections and Divisions: | | | | | | | |
| Adjustment for improperly recorded interest from CD as of May 31, 2019 | \$ 4,002 | \$ - | \$ - | \$ (4,002) | \$ (4,002) | \$ - | |
| Adjustment for improperly recorded interest from Cash as of May 31, 2018 | (3,798) | - | - | - | - | 3,798 | |
| Adjustment for improperly recorded interest from CD as of May 31, 2018 | 6,349 | - | - | - | - | (6,349) | |
| Subtotals for Sections and Division | <u>\$ 6,553</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (4,002)</u> | <u>\$ (4,002)</u> | <u>\$ (2,551)</u> | |
| Cumulative misstatements for Sections and Divisions | | | | | | <u>\$ (6,553)</u> | |
| | | | | | | | |
| Governmental Activities: | | | | | | | |
| To record factual misstatement for accrued rent liability for escalating rent payments. | \$ - | \$ (170,573) | \$ - | \$ 24,520 | \$ 24,520 | \$ 146,053 | |
| Subtotals for governmental activities | <u>\$ -</u> | <u>\$ (170,573)</u> | <u>\$ -</u> | <u>\$ 24,520</u> | <u>\$ 24,520</u> | <u>\$ 146,053</u> | |
| Cumulative misstatements for governmental activities | | | | | | <u>\$ 170,573</u> | |
| | | | | | | | |
| Description | Statement of Activities—Business Type Activities/Statement of Net Position—Proprietary Fund | | Statement of Activities-Business-Type Activities/Statements of Revenues, Expenses and Changes in Net Position—Proprietary Fund | | | | Net Position |
| | Assets | Liabilities | Revenue | Expenses | Net Change in Net Position | | |
| Business-Type Activities and Book Fund: | | | | | | | |
| To reduce cost of goods sold from royalties to Sections for amounts attributable to the year ended 2018. | \$ - | \$ - | \$ - | \$ (21,191) | \$ (21,191) | \$ 21,191 | |
| To reduce revenue and accounts receivable from book sales that did not have available support for the year ended 2019. | (6,732) | - | 6,732 | - | 6,732 | - | |
| Subtotals for business-type activities | <u>\$ (6,732)</u> | <u>\$ -</u> | <u>\$ 6,732</u> | <u>\$ (21,191)</u> | <u>\$ (14,459)</u> | <u>\$ 21,191</u> | |
| Cumulative misstatements for business-type activities and book fund | | | | | | <u>\$ 6,732</u> | |

**Exhibit A—Letter Communicating Material Weaknesses and a
Significant Deficiency in Internal Control Over Financial Reporting**



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December 17, 2019

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

In planning and performing our audit of the financial statements of the State Bar of Texas (the State Bar) as of and for the year ended May 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies in the State Bar's internal control to be material weaknesses.

Restatement of Sections and Divisions

During the fiscal year 2019, as part of the State Bar management team's continued due diligence, management concluded the Paralegal Division, which had been historically omitted from the State Bar's reporting, should be included in the State Bar's financial statements (i.e., primary government) under the Sections and Divisions major fund opinion unit. As a result of the omission of the division, ending fund balance for the Sections and Division major fund opinion unit and ending net position for governmental activities for the prior year ended May 31, 2018, were understated by \$459,609. As a result of the material misstatement as of May 31, 2018, the beginning fund balance and net position were restated to correct the error.

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We recommend the State Bar consider the impact and application of Governmental Accounting Standards Board (GASB) standards for defining of the financial reporting entity and review each new section or division for determination of whether the entity should be included in the State Bar's financial statements.

Restatement of Government Wide—Charges for Services—Member Service Minimum Continuing Legal Education (MCLE) Revenue

During the prior year, the MCLE department transitioned to a new tracking/billing system. As a result of the transition to the new system, some of the fees associated with MCLE, including accreditation fees, fines, etc., were not being billed due to implementation delays. This appears to be a breakdown in communication regarding financial reporting, as accounting management was not made aware in a timely basis of the situation. As a result, revenue was inadvertently recorded in fiscal year 2019 that was earned in fiscal year 2018. This action caused an understatement of MCLE revenue, an understatement of the change in net position of the governmental activities and an understatement of the ending net position for governmental activities for the prior year ended May 31, 2018, each in the amount of \$277,554.

We recommend the State Bar consider the impact and application of accounting principles generally accepted in the United States of America (U.S. GAAP) revenue recognition standards for all revenue to ensure revenue is being recognized in the appropriate period and any implementation of new systems include accounting management throughout the process.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the State Bar's internal control to be a significant deficiency.

Law Practice Resource Management Reserve for Returns

During our audit of the Law Practice Resource Management fund, we noted the controls in place to determine the calculation and reporting of the reserve for return of items sold were not designed effectively to detect or prevent an overstatement of revenue and accounts receivable in the amount of \$22,001.

Although the calculation and presentation of the reserve in the financial statements was corrected, we recommend a re-evaluation of the controls over the methodology to calculate and report the reserve to avoid misstatements.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses.

Law Practice Resource Management Financial Records

During our audit of the Law Practice Resource Management fund, we noted following issues:

- Documentation was not being retained to support the date that digital auto-supplements download instructions had been mailed to the customer as of the date of revenue recognition. Documentation of the date of the invoices and the date the customer signed up to receive the auto-supplement was retained as support; however, because the date the customer receives the download was not available, we noted approximately \$6,700 of book revenue that we could not determine was appropriately recognized as revenue during the year ended May 31, 2019.

- Controls were not designed or implemented to detect costs of goods sold related to royalties in a timely manner. Management identified and corrected the unrecorded cost of goods sold in the amount of approximately \$22,000; however, these unreported cost of goods sold for fiscal year May 31, 2018, were recorded in fiscal year 2019 instead and, therefore, were not recorded in the proper period. Management asserts that it has implemented additional procedures that will ensure royalties are calculated in a timely manner going forward.

Although these deficiencies resulted in passed audit adjustments that were not material, we recommend the State Bar's management ensure transactions are being reported in the proper period.

General Fund Prepaid Expenses

During our audit of prepaid expenses recorded in the General Fund, we noted controls were not implemented to appropriately prevent or detect amounts being incorrectly recognized as a prepaid expense; however the expense should be recognized in the current period for costs associated with future continued professional education courses. Because the General Fund is being reported under the modified accrual basis of accounting under Governmental Accounting Standards, such period costs should be expensed when incurred rather than capitalized. Management estimates the difference between full accrual and modified accrual for course planning expenses is approximately \$54,625.

Although this deficiency resulted in a passed audit adjustment that was not material, we recommend the State Bar's management perform a detailed review of amounts capitalized in governmental funds to ensure such costs are recorded in accordance with the modified accrual basis of accounting.

Accrued Rent Liability

During our testing over leases, we noted controls were not implemented to prevent the omission of an accrual for operating leases with escalating rent payments. U.S. GAAP requires lease expenses associated with leases containing escalating rent provisions to be recorded in the financial statements using a straight-line method with a resulting accrued rent liability in the government-wide financial statements.

Although this deficiency resulted in a passed audit adjustment that was not material, we recommend the State Bar's management continue to monitor leases with escalating rent payments to ensure the calculated accrued rent liability is not material to the financial statements.

This communication is intended solely for the information and use of management, the Board of Directors and others within the State Bar and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

**Exhibit B—Significant Written Communication Between Management
and Our Firm**

STATE BAR OF TEXAS

TREY APFFEL
EXECUTIVE DIRECTOR



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December 17, 2019

RSM US LLP
811 Barton Springs Road, Suite 500
Austin, Texas 78704

This representation letter is provided in connection with your audit of the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State Bar of Texas (the State Bar), a component unit of the State of Texas, as of and for the year ended May 31, 2019, and the related notes to the financial statements, which collectively comprise the State Bar's financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of December 17, 2019:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated May 13, 2019, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
 - a. For pension obligations attributable to employee services rendered through May 31, 2019.
 - b. For other post-employment benefits obligations attributable to employee services through May 31, 2019.
5. Related-party transactions, including those with the primary government having accountability for the State Bar, component units for which the State Bar is accountable, other organizations for which the nature and significance of their relationship with the State Bar are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and jointly governed organizations in which the State Bar participates, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers,

long-term loans, leasing arrangements and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. There are no events subsequent to the date of the financial statements for which U.S. GAAP requires adjustment or disclosure.
7. There are no known effects of actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We agree with the restatement of the previously issued financial statements described in Note 14. In that regard:
 - a. The restatement corrects an error in previously issued financial statements.
 - b. We were not aware of the error when those financial statements were issued.
 - c. We are not aware of any other errors in those financial statements.
 - d. We do not believe it is necessary to recall those financial statements and all users of those financial statements will receive a copy of the current year's financial statements and independent auditor's report.
9. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
11. We have informed you of all uncorrected misstatements in the financial statements. As of and for the year ended May 31, 2019, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

| | | Statement of Activities - Governmental Activities/Balance Sheet - Governmental Funds | | Statement of Activities-Governmental Activities/Statements of Revenues, Expenses and Changes in Fund Balance - Governmental Funds | | |
|--|---|--|-----------|---|---|---------------------------------|
| Description | Assets | Liabilities | Revenue | Expenses/Exp enditures | Net change in net position/fund balance | Net Position/Fund Balance |
| General Fund: | | | | | | |
| Overstatement of Other Income for portion of LRIS annual membership attributable to the year ended 2020 (projected). | | (35,430) | 35,430 | | 35,430 | - |
| Overstatement of Prepaid Expenses as of 5/31/2019 understatement of expenses for the year ended 2019. | (54,625) | | | (15,840) | (15,840) | 70,465 |
| Subtotals for General Fund | \$ (54,625) | \$ (35,430) | \$ 35,430 | \$ (15,840) | \$ 19,590 | \$ 70,465 |
| | Cumulative misstatements for general fund | | | | | \$ 90,055 |
| | | Statement of Activities - Governmental Activities/Balance Sheet - Governmental Funds | | Statement of Activities-Governmental Activities/Statements of Revenues, Expenses and Changes in Fund Balance - Governmental Funds | | |
| Description | Assets | Liabilities | Revenue | Expenses/Exp enditures | Net change in net position/fund balance | Net Position/Fund Balance |
| Sections: | | | | | | |
| Adjustment for improperly recorded interest from CD as of 5/31/2019 | 4,002 | | | (4,002) | (4,002) | - |
| Adjustment for improperly recorded interest from Cash as of 5/31/2018 | (3,798) | | | | - | 3,798 |
| Adjustment for improperly recorded interest from CD as of 5/31/2018 | 6,349 | | | | - | (6,349) |
| Subtotals for Sections & Division | \$ 6,553 | \$ - | \$ - | \$ (4,002) | \$ (4,002) | \$ (2,551) |
| | Cumulative misstatements for Sections & Divisions | | | | | \$ (6,553) |
| Governmental Activities: | | | | | | |
| To record factual misstatement for accrued rent liability for escalating rent payments. | | (170,573) | | 24,520 | 24,520 | 146,053 |
| Subtotals for governmental activities | \$ - | \$ (170,573) | \$ - | \$ 24,520 | \$ 24,520 | \$ 146,053 |
| Total misstatement for governmental activities | \$ (54,625) | \$ (206,003) | \$ 35,430 | \$ 8,680 | \$ 44,110 | \$ 216,518 |
| | Cumulative misstatements for governmental activities | | | | | \$ 260,628 |
| | | Statement of Activities - Business Type Activities/Statement of Net Position - Proprietary Fund | | Statement of Activities-Business-Type Activities/Statements of Revenues, Expenses and Changes in Net Position - Proprietary Fund | | |
| Description | Assets | Liabilities | Revenue | Expenses | Net change in net position | Net Position |
| Business-Type Activities: | | | | | | |
| To reduce Cost of Goods Sold from Royalties to Sections for amounts amounts attributable to the year ended 2018. | | | | (21,191) | (21,191) | 21,191 |
| To reduce revenue and accounts receivable from book sales that did not have available support for the year ended 2019. | (6,732) | | 6,732 | | 6,732 | - |
| Total Misstatements | \$ (6,732) | \$ - | \$ 6,732 | \$ (21,191) | \$ (14,459) | \$ 21,191 |
| | Cumulative misstatements for business-type activities | | | | | \$ 6,732 |

Information Provided

12. We have provided you with:

- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
- b. Additional information that you have requested from us for the purpose of the audit;
- c. Unrestricted access to persons within the State Bar from whom you determined it necessary to obtain audit evidence; and
- d. Minutes of the meetings of the governing boards and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

13. All required funds have been disclosed and included in the financial statements.

14. All transactions have been recorded in the accounting records and are reflected in the financial statements.

15. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

16. We have no knowledge of allegations of fraud or suspected fraud affecting the State Bar's financial statements involving:

- a. Management.
- b. Employees who have significant roles in internal control.
- c. Others where the fraud could have a material effect on the financial statements.

17. We have no knowledge of any allegations of fraud or suspected fraud affecting the State Bar's financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.

18. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.

19. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

20. We have disclosed to you the identity of the State Bar's related parties and all the related-party relationships and transactions of which we are aware.

21. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the State Bar of Texas' ability to record, process, summarize and report financial data.

22. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

23. We agree with the findings of the specialist in evaluating the State Bar's Net Pension Liability and OPEB and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give instructions, or cause any instructions to be given, to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

In addition, we believe that the actuarial assumptions and methods used by the actuaries for funding purposes and for determining accumulated Plan benefits are appropriate in the circumstances. We did not give instructions, or cause any instructions to be given, to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the Plan's actuaries.

Lastly, we believe that the information obtained from the audited financial statements of and other participant information provided by the Employee Retirement System of Texas is appropriate in the circumstances. We did not give instructions, or cause any instructions to be given, to the Plan or its auditor in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the Plan or its auditor.


24. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

25. With respect to supplementary information presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
26. With respect to Management's Discussion & Analysis, the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund, Note to 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 – Net Pension Liability and Notes to Pension Liability, Schedule of Changes in State Bar's Proportionate Share of Net OPEB Liability and Related Ratios, Schedule of Employer Contributions – Net OPEB Liability and Notes to OPEB Liability are presented as required by the Government Accounting Standards Board to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.

- c. The methods of measurement or presentation have not changed from those used in the prior period, except for the additional OPEB schedules required by GASB Statement No. 75.
- d. The underlying significant assumptions or interpretations regarding the measurement or presentation of such information are the actuarial assumptions for the pension plan and OPEB plan.

The State Bar of Texas



Trey Appfel
Executive Director



Tracy Jarratt
Finance Division Director

State Bar of Texas

(A Component Unit of the State of Texas)

Financial Report
May 31, 2019

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Independent Auditor's Report

To the Board of Directors
State Bar of Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State Bar of Texas (the State Bar), a component unit of the State of Texas, as of and for the year ended May 31, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 14 to the basic financial statements, effective June 1, 2018, the State Bar implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which restated beginning net position of the governmental and business-type activities.

As described in Note 14, the State Bar restated beginning net position of the governmental activities and beginning fund balance of Sections and Divisions special revenue fund to correct a revenue recognition error and to correct an error in the financial reporting entity. Our opinions are not modified with respect to these matters.

Other Matters**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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—net pension liability, schedule of changes in State Bar's proportionate share of total OPEB liability and related ratios, schedule of employer contributions—total OPEB liability and related notes 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

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

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

RSM US LLP

Austin, Texas
December 17, 2019

State Bar of Texas

Management's Discussion and Analysis (Unaudited) May 31, 2019

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, 2019. 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 State Bar complies with the Governmental Accounting Standards Board's (GASB) pronouncements, and has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* this year. This required a restatement to the government-wide statement of net assets in the amount of (\$47,498,566) in governmental activities and (\$3,031,823) in business-type activities. The State Bar participates in the Employee's Retirement System of Texas' (ERS) plan to provide health insurance to its retirees. ERS is the plan administrator and determines the amount of contributions that the State Bar and all other participating state agencies must make to fund the plan. The State Bar has made all of the required contributions to ERS. The amount of liability recorded represents the State Bar's proportionate share of the plan's total postemployment benefit liability based on the State Bar's total contributions made for its retired employees. The amount of unfunded liability is not controlled or established by the State Bar. The liability does not affect the governmental funds or the budget of the State Bar, unless ERS requires a higher premium payment per employee. Historically, the premiums for employees and retirees have increased gradually and the State Bar does not anticipate significant changes to the plan's administration as a result of this GASB requirement. The State Bar's proportionate share of other post-employment benefits (OPEB) liability decreased from fiscal year 2018 to fiscal year 2019 \$5.4 million due to changes to a better than anticipated return on investment and a change in the actuarial assumptions of the plan. See Note 11 regarding this adjustment and further disclosures on the OPEB plan.
- The assets of the State Bar were below its liabilities for fiscal year ended May 31, 2019, by \$64,082,706 (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, the Sections and Divisions and all special revenue funds and capital project funds.
- The State Bar's total net position decreased by \$4,024,584 from the end of fiscal year 2018 to the end of fiscal year 2019. The decrease in net position was due to a \$6.3 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 \$36,075,301 an increase of \$3,120,332 in comparison with the prior year. This increase in fund balance is primarily due to the strong performance of TexasBarCLE, membership dues and MCLE revenues. Of this amount, \$14,898,339 is reserved for ongoing expenses (unassigned fund balance). The amount includes the General Fund, the Client Security Fund and the Sections and Divisions.
- At the end of the current fiscal year, the fund balance for the General Fund was \$17,749,877, or 43% of the total General Fund expenditures for the year ended May 31, 2019. Of this amount, \$1,992,084 is subject to the Board of Director's (the Board) approval on how the funds may be used, and \$859,454 is nonspendable.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) May 31, 2019

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.

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.

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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 and Divisions, 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 information section of this report.

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

- **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 statements 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, this includes required supplemental information regarding the State Bar's changes in its 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 71 of this report.

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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 and 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 74 through 76.

Government-Wide Financial Analysis

Net position: The following table presents a summary of the State Bar's net position as of May 31, 2019, with comparison totals as of May 31, 2018:

Table A-1
The State Bar's Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------------|-------------------------|----------------|--------------------------|----------------|-----------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current and other assets | \$ 55,407,484 | \$ 49,327,146 | \$ 1,698,538 | \$ 1,909,201 | \$ 57,106,022 | \$ 51,236,347 |
| Capital assets, net | 6,305,122 | 6,953,989 | 35,322 | 35,322 | 6,340,444 | 6,989,311 |
| Total assets | \$ 61,712,606 | \$ 56,281,135 | \$ 1,733,860 | \$ 1,944,523 | \$ 63,446,466 | \$ 58,225,658 |
| Deferred outflows of resources | \$ 7,350,376 | \$ 11,639,847 | \$ 469,173 | \$ 742,969 | \$ 7,819,549 | \$ 12,382,816 |
| Current liabilities | \$ 20,944,131 | \$ 17,456,478 | \$ 157,967 | \$ 129,406 | \$ 21,102,098 | \$ 17,585,884 |
| Noncurrent liabilities | 89,240,459 | 57,729,924 | 5,698,645 | 3,686,344 | 94,939,104 | 61,416,268 |
| Total liabilities | \$ 110,184,590 | \$ 75,186,402 | \$ 5,856,612 | \$ 3,815,750 | \$ 116,041,202 | \$ 79,002,152 |
| Deferred inflows of resources | \$ 18,149,073 | \$ 1,758,945 | \$ 1,158,446 | \$ 112,273 | \$ 19,307,519 | \$ 1,871,218 |
| Net position (deficit): | | | | | | |
| Net investment in capital assets | \$ 6,267,138 | \$ 6,869,434 | \$ 35,322 | \$ 35,322 | \$ 6,302,460 | \$ 6,904,756 |
| Unrestricted (deficit), as restated | (65,537,819) | (15,893,799) | (4,847,347) | (1,275,853) | (70,385,166) | (17,169,652) |
| Total net position (deficit) | \$ (59,270,681) | \$ (9,024,365) | \$ (4,812,025) | \$ (1,240,531) | \$ (64,082,706) | \$ (10,264,896) |

The State Bar's net position invested in capital assets, net of accumulated depreciation (e.g., land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding reflects \$6,302,460 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.

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Changes in net position: The following schedule shows the changes in net position for the year ended May 31, 2019, with comparison totals for the year ended May 31, 2018. The difference between revenues and expenses represents the change in net position.

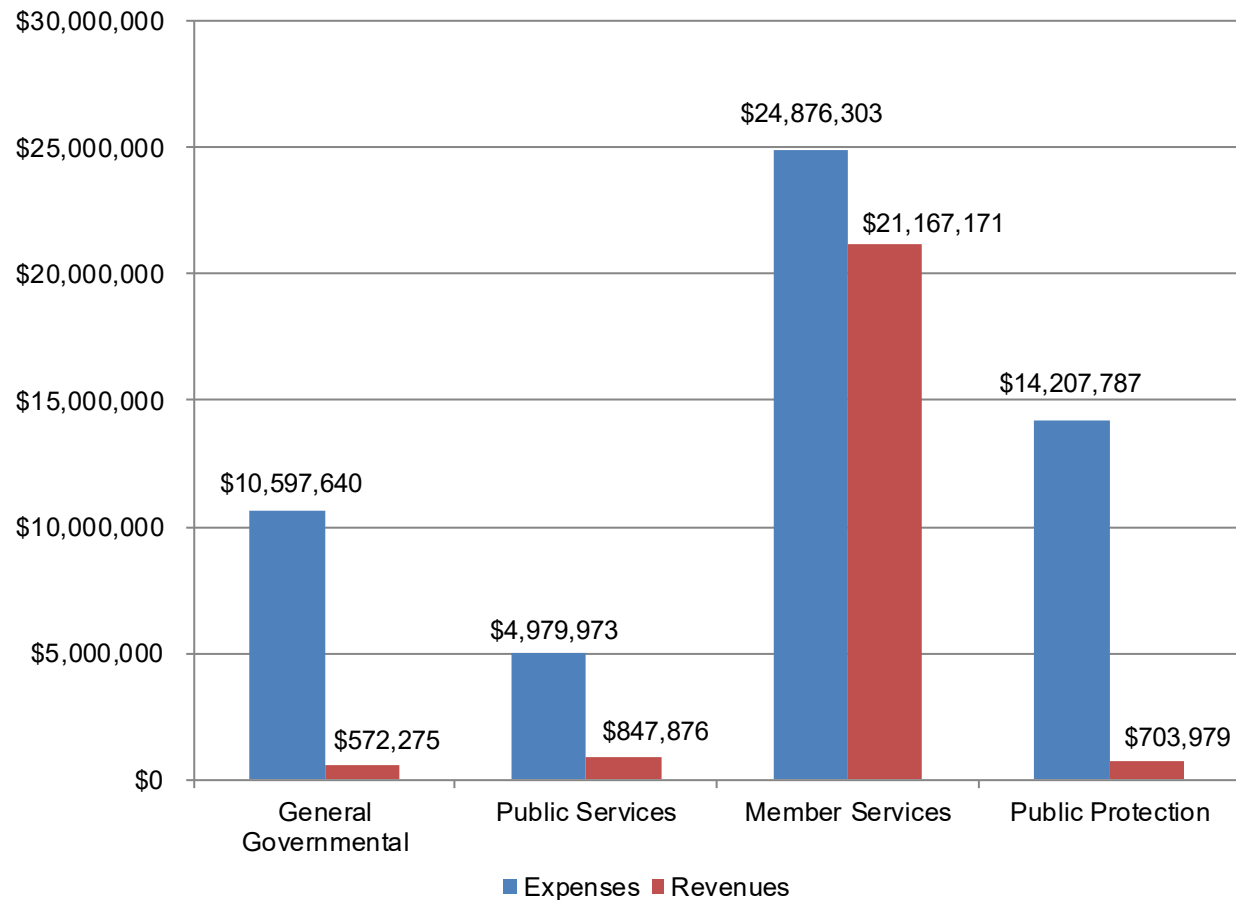
Table A-2
Changes in the State Bar's Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------|--------------------------|----------------|-----------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 21,238,451 | \$ 21,523,129 | \$ 2,288,252 | \$ 2,295,723 | \$ 23,526,703 | \$ 23,818,852 |
| Operating grants and contributions | 2,052,850 | 1,621,158 | - | - | 2,052,850 | 1,621,158 |
| General revenues: | | | | | | |
| Membership dues | 24,804,055 | 23,038,553 | - | - | 24,804,055 | 23,038,553 |
| Investment income | 1,018,343 | 448,156 | 8,993 | 5,822 | 1,027,336 | 453,978 |
| Royalty revenue | 1,525,878 | 1,291,089 | 1,138,780 | 1,049,625 | 2,664,658 | 2,340,714 |
| Other income | 538,501 | 242,749 | - | - | 538,501 | 242,749 |
| Loss on disposal of capital assets | (1,288) | (2,753) | - | - | (1,288) | (2,753) |
| Total revenues | 51,176,790 | 48,162,081 | 3,436,025 | 3,351,170 | 54,612,815 | 51,513,251 |
| Expenses: | | | | | | |
| General government | 10,597,640 | 9,803,273 | - | - | 10,597,640 | 9,803,273 |
| Public services | 4,979,973 | 4,916,027 | - | - | 4,979,973 | 4,916,027 |
| Member services | 24,876,303 | 24,364,583 | - | - | 24,876,303 | 24,364,583 |
| Public protection | 14,207,787 | 13,612,929 | - | - | 14,207,787 | 13,612,929 |
| Books | - | - | 3,975,696 | 3,760,496 | 3,975,696 | 3,760,496 |
| Total expenses | 54,661,703 | 52,696,812 | 3,975,696 | 3,760,496 | 58,637,399 | 56,457,308 |
| Change in net position | (3,484,913) | (4,534,731) | (539,671) | (409,326) | (4,024,584) | (4,944,057) |
| Net position (deficit) at beginning of year, as restated | (55,785,768) | (4,489,634) | (4,272,354) | (831,205) | (60,058,122) | (5,320,839) |
| Net position (deficit) at end of year | \$ (59,270,681) | \$ (9,024,365) | \$ (4,812,025) | \$ (1,240,531) | \$ (64,082,706) | \$ (10,264,896) |

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**Management's Discussion and Analysis (Unaudited)
May 31, 2019**

Expenses and Program Revenues—Governmental Activities

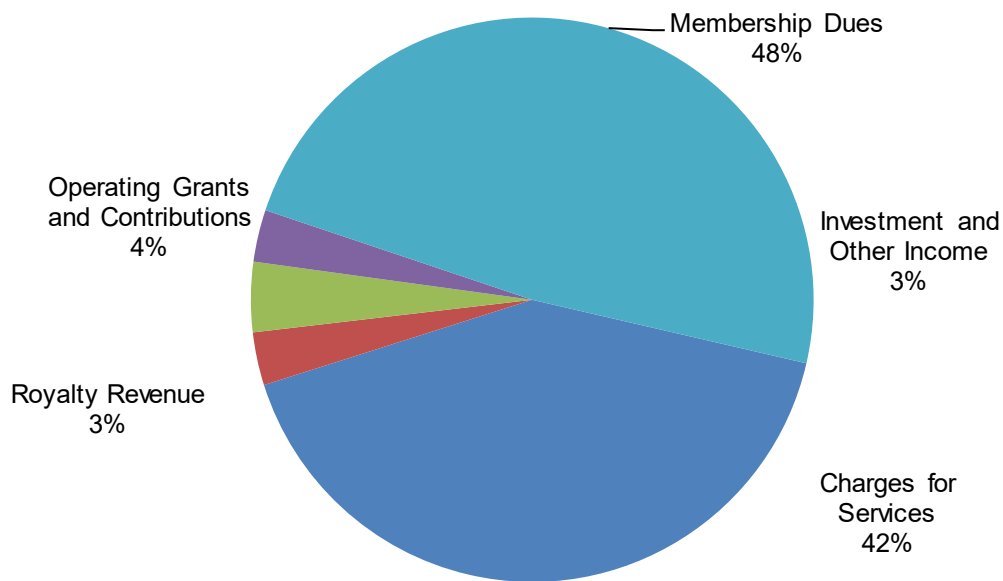


This chart depicts the program revenues and expenses, as presented in the statement of activities on page 18 of the financial statements. These represent the revenues and related expenses for these programs. The State Bar also collects membership dues, investment income, royalty revenue and other income that totaled \$27,885,489 for the year ended May 31, 2019.

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Revenues by Source—Governmental Activities



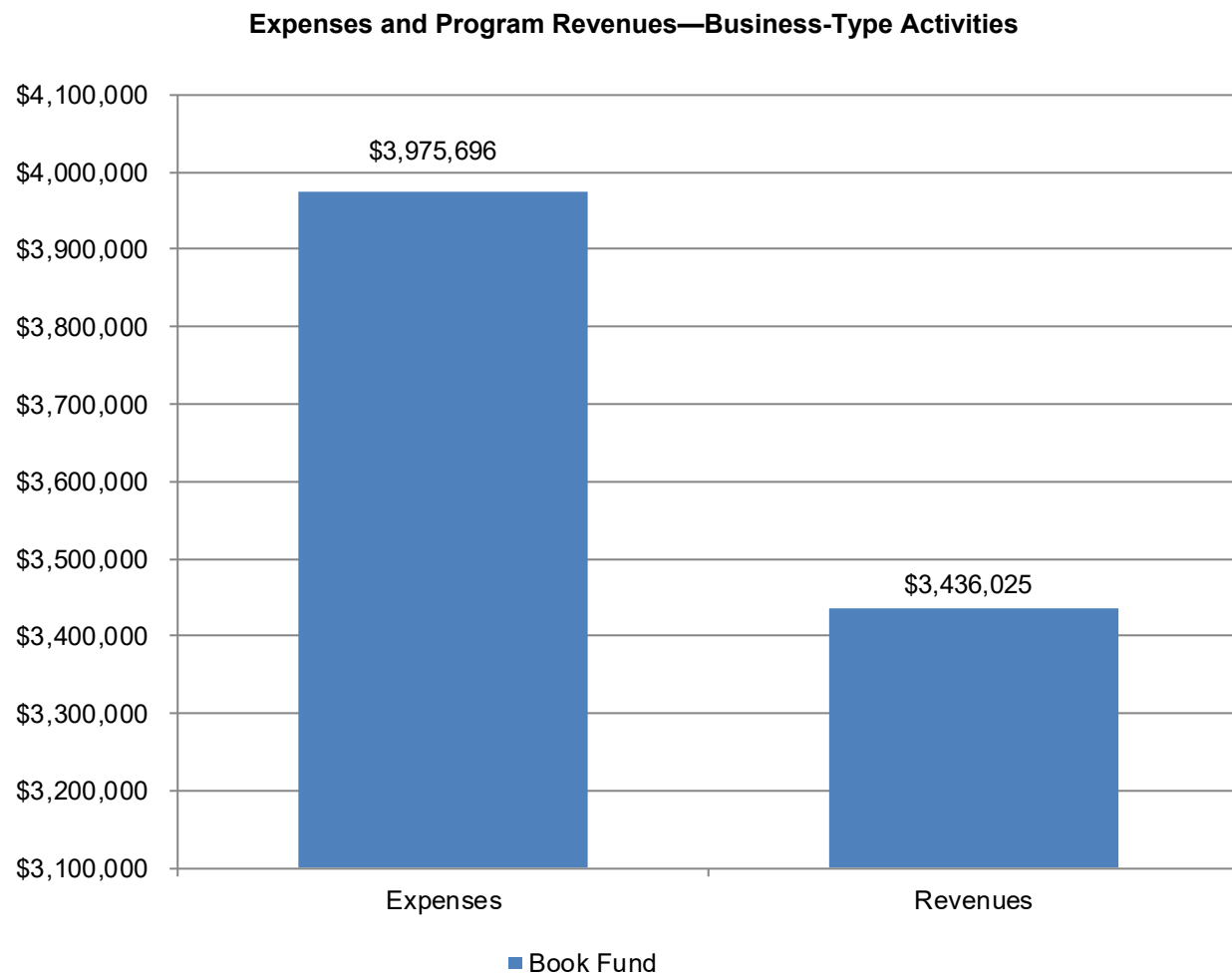
Membership dues continue to be the primary source of revenue for the State Bar. Total membership dues collections for fiscal year 2019 were \$24,804,055 compared to \$23,038,553 in the prior fiscal year. The State Bar anticipates a slowing growth in the revenue from dues because the projected number of licensed attorneys will likely stabilize over the next five years.

TexasBarCLE charges for services remain strong at \$15,165,102 for fiscal year 2019 compared to \$13,941,859 in revenue from fiscal year 2018. The continuing legal education offered by TexasBarCLE has continued to provide stable income for the State 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.

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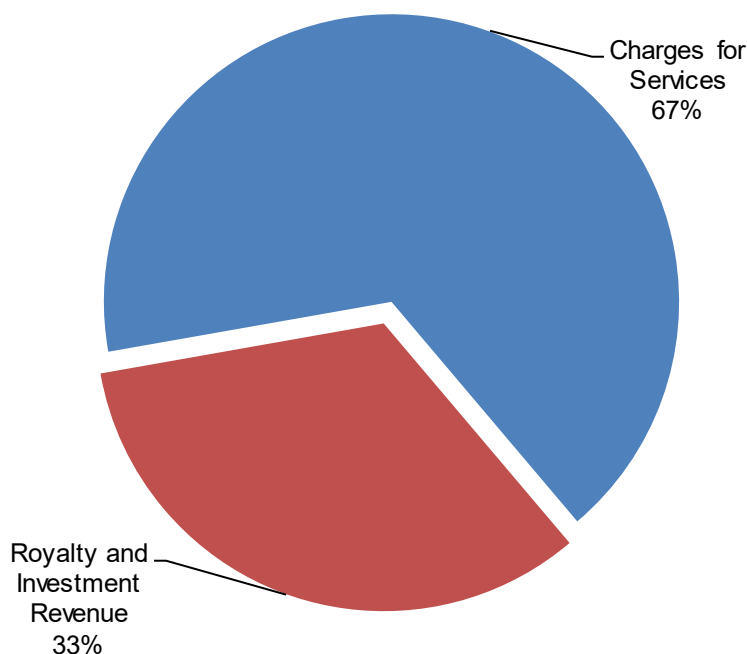
Business-type activities: Business-type activities decreased the State Bar's net position by \$539,671. The Law Practice Resource Management Fund, which includes the Law Practice Resource Management, shows steady income and expenses although the change in net position is slightly lower this year than last years \$(409,326). 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:



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Revenues by Source—Business Activities



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

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$36,075,301, an increase of \$3,120,332 in comparison with the prior year. Of this amount, \$1,242,740 is nonspendable for inventories and prepaid items and \$19,934,222 is committed for specific uses by the Board.

The General Fund is the chief operating fund of the State Bar. At the end of the current fiscal year, the total fund balance of the General Fund was \$17,749,877, which is 84% 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 36% of total General Fund expenditures. During the current fiscal year, the fund balance of the State Bar's General Fund increased by \$2,041,627.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) May 31, 2019

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 (\$4,812,025). The total decrease in net position was (\$539,671). Other factors concerning the finances of this fund have already been addressed in the discussion of the State Bar's business-type activities.

General Fund budgetary highlights: The State Bar's actual revenue for the General Fund was \$2,115,379 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 \$2,502,656 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, 2019, amounts to \$6,340,444 (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 | |
|--|-------------------------|---------------------|--------------------------|------------------|---------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Land | \$ 154,074 | \$ 154,074 | \$ - | \$ - | \$ 154,074 | \$ 154,074 |
| Construction in progress | 200,534 | 20,960 | - | - | 200,534 | 20,960 |
| Building and systems, net | 824,028 | 824,028 | - | - | 824,028 | 824,028 |
| Furniture, equipment, digital publication and other, net | 5,126,486 | 5,954,927 | 35,322 | 35,322 | 5,161,808 | 5,990,249 |
| | <u>\$ 6,305,122</u> | <u>\$ 6,953,989</u> | <u>\$ 35,322</u> | <u>\$ 35,322</u> | <u>\$ 6,340,444</u> | <u>\$ 6,989,311</u> |

Additional information on the State Bar's capital assets can be found in Note 2 on page 38 of this report.

State Bar of Texas

Management's Discussion and Analysis (Unaudited) May 31, 2019

Long-term liabilities: At the end of the current fiscal year, the State Bar had capital leases of \$37,984 and accrued compensated absences of \$1,618,914. 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, 2019, with comparative information as of May 31, 2018:

Table A-4
State Bar's Noncurrent Liabilities

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------|-------------------------|---------------|--------------------------|--------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Capital lease payable | \$ 37,984 | \$ 84,555 | \$ - | \$ - | \$ 37,984 | \$ 84,555 |
| Accrued compensated absences | 1,521,492 | 1,467,752 | 97,422 | 95,363 | 1,618,914 | 1,563,115 |
| Net pension liability | 54,916,885 | 56,802,309 | 3,505,333 | 3,625,679 | 58,422,218 | 60,427,988 |
| Total OPEB liability | 34,376,046 | - | 2,194,216 | - | 36,570,262 | - |
| Total liabilities | 90,852,407 | 58,354,616 | 5,796,971 | 3,721,042 | 96,649,378 | 62,075,658 |
| Less current portion | (1,611,948) | (624,692) | (98,326) | (34,698) | (1,710,274) | (659,390) |
| Total noncurrent liabilities | \$ 89,240,459 | \$ 57,729,924 | \$ 5,698,645 | \$ 3,686,344 | \$ 94,939,104 | \$ 61,416,268 |

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

Economic Factors and Next Year's Budget

For the General Fund, estimated revenues for fiscal year 2020 are \$43,109,214 and estimated expenditures and other uses are \$42,464,914. If these estimates are realized, and the General Fund transfers \$1,488,800 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, 2019**

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents—cash in bank | \$ 16,029,288 | \$ - | \$ 16,029,288 |
| Investments | 35,971,162 | - | 35,971,162 |
| Receivables: | | | |
| Sales to members and others, net of an allowance for uncollectibles of \$2,300 and \$46,023, respectively | 43,703 | 401,493 | 445,196 |
| Interest receivable | 70,429 | - | 70,429 |
| Other accounts receivable | 2,791,195 | - | 2,791,195 |
| Internal balances | (741,033) | 741,033 | - |
| Inventories, net of obsolescence | 12,070 | 555,514 | 567,584 |
| Prepaid expenses | 1,230,670 | 498 | 1,231,168 |
| Total current assets | 55,407,484 | 1,698,538 | 57,106,022 |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Land | 154,074 | - | 154,074 |
| Construction in progress | 200,534 | - | 200,534 |
| Buildings, net | 824,028 | - | 824,028 |
| Furniture, fixtures, computer equipment, software and other equipment, net | 5,126,486 | 35,322 | 5,161,808 |
| Total noncurrent assets | 6,305,122 | 35,322 | 6,340,444 |
| Total assets | \$ 61,712,606 | \$ 1,733,860 | \$ 63,446,466 |
| Deferred Outflows of Resources | | | |
| OPEB related amounts | 366,195 | 23,374 | 389,569 |
| Pension related amounts | 6,984,181 | 445,799 | \$ 7,429,980 |
| Total deferred outflows of resources | \$ 7,350,376 | \$ 469,173 | \$ 7,819,549 |

See notes to financial statements.

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|------------------------|
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 1,432,829 | - | \$ 1,432,829 |
| Accrued liabilities | 741,191 | 50,606 | 791,797 |
| Due to agency funds | 803,650 | - | 803,650 |
| Unearned revenue | 16,354,513 | 9,035 | 16,363,548 |
| Capital lease obligations | 37,984 | - | 37,984 |
| Total OPEB liability | 961,247 | 61,356 | 1,022,603 |
| Accrued compensated absences | 612,717 | 36,970 | 649,687 |
| Total current liabilities | 20,944,131 | 157,967 | 21,102,098 |
| Noncurrent liabilities: | | | |
| Accrued compensated absences | 908,775 | 60,452 | 969,227 |
| Total OPEB liability | 33,414,799 | 2,132,860 | 35,547,659 |
| Net pension liability | 54,916,885 | 3,505,333 | 58,422,218 |
| Total noncurrent liabilities | 89,240,459 | 5,698,645 | 94,939,104 |
| Total liabilities | \$ 110,184,590 | \$ 5,856,612 | \$ 116,041,202 |
| Deferred Inflows of Resources | | | |
| OPEB related amounts | 13,305,739 | 849,297 | 14,155,036 |
| Pension related amounts | \$ 4,843,334 | 309,149 | \$ 5,152,483 |
| Total deferred inflows of resources | \$ 18,149,073 | \$ 1,158,446 | \$ 19,307,519 |
| Net Position (Deficit) | | | |
| Net investment in capital assets | \$ 6,267,138 | \$ 35,322 | \$ 6,302,460 |
| Unrestricted (deficit) | (65,537,819) | (4,847,347) | (70,385,166) |
| Total net position (deficit) | \$ (59,270,681) | \$ (4,812,025) | \$ (64,082,706) |

State Bar of Texas

**Statement of Activities
Year Ended May 31, 2019**

| Functions/Programs | Expenses | Program Revenues | | Net (Expenses) Revenues and Changes in Net Position | | Total |
|--|----------------------|----------------------|------------------------------------|---|--------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 10,597,640 | \$ 572,275 | \$ - | \$ (10,025,365) | \$ - | \$ (10,025,365) |
| Public services | 4,979,973 | 427,659 | 420,217 | (4,132,097) | - | (4,132,097) |
| Member services | 24,876,303 | 19,534,538 | 1,632,633 | (3,709,132) | - | (3,709,132) |
| Public protection | 14,207,787 | 703,979 | - | (13,503,808) | - | (13,503,808) |
| Total governmental activities | 54,661,703 | 21,238,451 | 2,052,850 | (31,370,402) | - | (31,370,402) |
| Business-type activities: | | | | | | |
| Books | 3,975,696 | 2,288,252 | - | - | (1,687,444) | (1,687,444) |
| Total business-type activities | 3,975,696 | 2,288,252 | - | - | (1,687,444) | (1,687,444) |
| Total primary government activities | \$ 58,637,399 | \$ 23,526,703 | \$ 2,052,850 | (31,370,402) | (1,687,444) | (33,057,846) |
| General revenues: | | | | | | |
| Membership dues | | | | 24,804,055 | - | 24,804,055 |
| Investment income | | | | 1,018,343 | 8,993 | 1,027,336 |
| Royalty revenue | | | | 1,525,878 | 1,138,780 | 2,664,658 |
| Other income | | | | 538,501 | - | 538,501 |
| Loss on disposal of capital assets | | | | (1,288) | - | (1,288) |
| Total general revenues | | | | 27,885,489 | 1,147,773 | 29,033,262 |
| Change in net position | | | | (3,484,913) | (539,671) | (4,024,584) |
| Net position (deficit) at beginning of year, as restated | | | | (55,785,768) | (4,272,354) | (60,058,122) |
| Net position (deficit) at end of year | | | | \$ (59,270,681) | \$ (4,812,025) | \$ (64,082,706) |

See notes to financial statements.

State Bar of Texas

**Balance Sheet—Governmental Funds
May 31, 2019**

| | General Fund | Sections and Divisions | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|---------------------------|-----------------------------------|--------------------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents—cash in bank | \$ 4,741,370 | \$ 7,277,090 | \$ 4,010,828 | \$ 16,029,288 |
| Investments | 27,777,845 | 1,608,020 | 6,585,297 | 35,971,162 |
| Receivables: | | | | |
| Sales to members and others, net of an allowance for uncollectibles of \$2,300 | 43,703 | - | - | 43,703 |
| Interest receivable | 48,448 | 190 | 21,791 | 70,429 |
| Other accounts receivable | 2,727,131 | 57,121 | 6,943 | 2,791,195 |
| Due from other governmental funds | 681,438 | 1,021,722 | 685,690 | 2,388,850 |
| Inventories | 12,070 | - | - | 12,070 |
| Prepaid items | 847,384 | 44,188 | 339,098 | 1,230,670 |
| Total assets | \$ 36,879,389 | \$ 10,008,331 | \$ 11,649,647 | \$ 58,537,367 |
| Liabilities and Fund Balances | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 1,273,484 | \$ 159,345 | \$ - | \$ 1,432,829 |
| Accrued liabilities | 733,415 | - | 7,776 | 741,191 |
| Due to other governmental funds | 1,707,412 | - | 681,438 | 2,388,850 |
| Due to enterprise fund | 741,033 | - | - | 741,033 |
| Due to agency fund | 803,650 | - | - | 803,650 |
| Unearned revenue | 13,870,518 | 1,624,637 | 859,358 | 16,354,513 |
| Total current liabilities | 19,129,512 | 1,783,982 | 1,548,572 | 22,462,066 |
| Fund balances: | | | | |
| Nonspendable | 859,454 | 44,188 | 339,098 | 1,242,740 |
| Committed | 1,992,084 | 8,180,161 | 9,761,977 | 19,934,222 |
| Unassigned | 14,898,339 | - | - | 14,898,339 |
| Total fund balances | 17,749,877 | 8,224,349 | 10,101,075 | 36,075,301 |
| Total liabilities and fund balances | \$ 36,879,389 | \$ 10,008,331 | \$ 11,649,647 | \$ 58,537,367 |

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, 2019**

| | |
|--|------------------------|
| Total fund balance—Governmental Funds balance sheet | \$ 36,075,301 |
| Amounts reported for governmental activities in the statement of net position are difference because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 6,305,122 |
| The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Net pension liability | (54,916,885) |
| OPEB liability | (34,376,046) |
| Capital lease payable | (37,984) |
| Accrued compensated absences | (1,521,492) |
| Deferred outflows related to net OPEB liability | 366,195 |
| Deferred inflows related to net OPEB liability | (13,305,739) |
| Deferred outflows related to net pension liability | 6,984,181 |
| Deferred inflows related to net pension liability | (4,843,334) |
| | <hr/> |
| Net position of governmental activities—statement of net position | \$ (59,270,681) |
| | <hr/> |

See notes to financial statements.

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds Year Ended May 31, 2019

| | General Fund | Sections and Divisions | Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------------|---------------------------|-----------------------------------|--------------------------------|
| Revenues: | | | | |
| Membership dues | \$ 20,869,303 | \$ 2,578,252 | \$ 1,356,500 | \$ 24,804,055 |
| Accounting and management fees | 650,351 | - | - | 650,351 |
| Texas Bar Journal | 455,789 | - | - | 455,789 |
| MCLE fees | 3,804,158 | - | - | 3,804,158 |
| Professional development | 14,275,158 | 889,944 | - | 15,165,102 |
| Minority affairs | 413,301 | - | - | 413,301 |
| Investment income | 731,489 | 52,272 | 234,582 | 1,018,343 |
| Grant revenue | - | - | 477,183 | 477,183 |
| Member benefits | 899,972 | - | - | 899,972 |
| Website | 588,026 | - | - | 588,026 |
| Advertising review | 351,895 | - | - | 351,895 |
| CDC disciplinary fees | 703,979 | - | - | 703,979 |
| Other income | 1,018,849 | 935,373 | 855,298 | 2,809,520 |
| Total revenues | 44,762,270 | 4,455,841 | 2,923,563 | 52,141,674 |
| Expenditures: | | | | |
| Executive | 2,847,822 | - | - | 2,847,822 |
| Member and public service | 2,921,219 | - | - | 2,921,219 |
| Professional development | 9,874,714 | - | - | 9,874,714 |
| Legal and attorney services | 1,655,781 | - | - | 1,655,781 |
| Access to justice commission | 682,368 | - | - | 682,368 |
| Member benefits and research | 226,993 | - | - | 226,993 |
| Attorney compliance | 1,879,500 | - | - | 1,879,500 |
| Operations and security division | 1,256,653 | - | 35,580 | 1,292,233 |
| Finance and information technology | 5,237,290 | - | 761,480 | 5,998,770 |
| Communications | 2,310,939 | - | - | 2,310,939 |
| Public protection | 10,731,471 | - | 661,159 | 11,392,630 |
| Special services | - | 4,075,412 | 2,425,495 | 6,500,907 |
| Expenditures related to Board commitments | 1,207,093 | - | - | 1,207,093 |
| Capital outlay | - | - | 179,574 | 179,574 |
| Debt service: | | | | |
| Principal | - | - | 46,571 | 46,571 |
| Interest | - | - | 4,228 | 4,228 |
| Total expenditures | 40,831,843 | 4,075,412 | 4,114,087 | 49,021,342 |
| Excess (deficiency) of revenues over (under) expenditures | 3,930,427 | 380,429 | (1,190,524) | 3,120,332 |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 1,888,800 | 1,888,800 |
| Transfers out | (1,888,800) | - | - | (1,888,800) |
| Total other financing sources (uses) | (1,888,800) | - | 1,888,800 | - |
| Net change in fund balances | 2,041,627 | 380,429 | 698,276 | 3,120,332 |
| Fund balances at beginning of year, as restated | 15,708,250 | 7,843,920 | 9,402,799 | 32,954,969 |
| Fund balances at end of year | \$ 17,749,877 | \$ 8,224,349 | \$ 10,101,075 | \$ 36,075,301 |

See notes to financial statements.

State Bar of Texas

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the
Governmental Funds to the Statement of Activities
Year Ended May 31, 2019**

| | |
|---|-----------------------|
| Net change in fund balance—total Governmental Funds | \$ 3,120,332 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds | (277,554) |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense: | |
| Capital outlay—exclusive of noncapitalized items | 207,034 |
| Depreciation and amortization expense | (854,613) |
| Loss on disposal of capital assets | (1,288) |
| Proceeds from capital leases provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the statement of net position; repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net position: | |
| Repayment of capital leases | 46,571 |
| 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 | (5,854,631) |
| Change in OPEB liability and related deferred inflows and outflows | 182,976 |
| Change in compensated absences | (53,740) |
| | <hr/> |
| Change in net position of governmental activities—statement of activities | \$ (3,484,913) |

See notes to financial statements.

State Bar of Texas

Statement of Net Position—Proprietary Fund May 31, 2019

Law Practice
Resource
Management

Assets

Current assets:

| | |
|--|------------------|
| Accounts receivable, net of allowance for uncollectibles of \$46,023 | \$ 401,493 |
| Due from other funds | 741,033 |
| Inventories, net of obsolescence | 555,514 |
| Prepaid expenses | 498 |
| Total current assets | 1,698,538 |

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 | \$ 1,733,860 |

Deferred Outflows of Resources

| | |
|---|-------------------|
| OPEB related amounts | 23,374 |
| Pension related amounts | 445,799 |
| Total deferred outflows of resources | \$ 469,173 |

Liabilities

Current liabilities:

| | |
|----------------------------------|----------------|
| Accrued liabilities | \$ 50,606 |
| Unearned revenue | 9,035 |
| Total OPEB liability | 61,356 |
| Accrued compensated absences | 36,970 |
| Total current liabilities | 157,967 |

Noncurrent liabilities:

| | |
|-------------------------------------|------------------|
| Accrued compensated absences | 60,452 |
| Total OPEB liability | 2,132,860 |
| Net pension liability | 3,505,333 |
| Total noncurrent liabilities | 5,698,645 |

| | |
|--------------------------|---------------------|
| Total liabilities | \$ 5,856,612 |
|--------------------------|---------------------|

Deferred Inflows of Resources

| | |
|--|---------------------|
| OPEB related amounts | 849,297 |
| Pension related amounts | 309,149 |
| Total deferred inflows of resources | \$ 1,158,446 |

Net Position (Deficit)

| | |
|-------------------------------------|-----------------------|
| Investment in capital assets | \$ 35,322 |
| Unrestricted (deficit) | (4,847,347) |
| Total net position (deficit) | \$ (4,812,025) |

See notes to financial statements.

State Bar of Texas

**Statement of Revenues, Expenses and Changes in Net Position—Proprietary Fund
Year Ended May 31, 2019**

| | Law Practice Resource Management |
|--|--|
| Operating revenues: | |
| Charges for sales and services: | |
| Book sales | \$ 2,288,252 |
| Total operating revenues | <u>2,288,252</u> |
| Operating expenses: | |
| Costs of goods sold | 688,020 |
| Salaries and benefits | 2,116,477 |
| Professional services | 100,861 |
| Administrative fee | 542,548 |
| Office, equipment, storage rentals | 163,423 |
| Postage and freight | 156,958 |
| Other administrative expenses | 207,409 |
| Total operating expenses | <u>3,975,696</u> |
| Operating loss | <u>(1,687,444)</u> |
| Nonoperating revenues: | |
| Investment income | 8,993 |
| Royalty revenue | 1,138,780 |
| Total nonoperating revenues | <u>1,147,773</u> |
| Change in net position | (539,671) |
| Net position (deficit) at beginning of year, as restated | <u>(4,272,354)</u> |
| Net position (deficit) at end of year | <u><u>\$ (4,812,025)</u></u> |

See notes to financial statements.

State Bar of Texas

**Statement of Cash Flows—Proprietary Fund
Year Ended May 31, 2019**

| | Law Practice Resource Management |
|---|--|
| Cash flows from operating activities: | |
| Receipts from customers | \$ 2,597,630 |
| Payments to suppliers for goods and services | (2,109,011) |
| Payments to employees | (1,335,620) |
| Net cash used in operating activities | (847,001) |
| Cash flows from noncapital financing: | |
| Interfund transactions | (300,772) |
| Net cash used in noncapital financing | (300,772) |
| Cash flows from investing activities: | |
| Interest received | 8,993 |
| Royalties received | 1,138,780 |
| Net cash provided by investing activities | 1,147,773 |
| Net change in cash and cash equivalents | - |
| Cash and cash equivalents at beginning of year | - |
| Cash and cash equivalents at end of year | \$ - |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (1,687,444) |
| Bad-debt expense | (17,575) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Changes in assets and liabilities: | |
| Accounts receivable | 326,271 |
| Inventories, net of obsolescence | 203,242 |
| Prepaid expenses | (498) |
| Accrued liabilities | (44,107) |
| Unearned revenue | 9,035 |
| Accrued compensated absences | 2,059 |
| OPEB liability | (974,257) |
| Net pension liability | 1,336,273 |
| Net cash used in operating activities | \$ (847,001) |

See notes to financial statements.

State Bar of Texas

**Statement of Net Position—Fiduciary Funds
May 31, 2019**

| | Agency Funds | State Bar of Texas Insurance Trust Private-Purpose Trust Fund |
|--|-------------------|---|
| Assets | | |
| Cash in bank | \$ 81,760 | \$ 444,246 |
| Accounts receivable | - | 319,823 |
| Due from general fund | 871,101 | - |
| Total assets | \$ 952,861 | \$ 764,069 |
| Liabilities | | |
| Due to general fund | \$ - | \$ 67,451 |
| Due to other organizations | 952,861 | 310,273 |
| Total liabilities | \$ 952,861 | \$ 377,724 |
| Net position, held in trust for member group insurance benefits | | \$ 386,345 |

See notes to financial statements.

State Bar of Texas

**Statement of Changes in Net Position—Fiduciary Funds
Year Ended May 31, 2019**

| | State Bar of Texas Insurance Trust Private-Purpose Trust Fund |
|---|---|
| Additions: | |
| Contributions of subscribers | \$ 6,876,094 |
| Royalties | 87,074 |
| Service agreement revenue | 600,000 |
| Total additions | <u>7,563,168</u> |
| Deductions: | |
| Premiums to insurance carrier | 6,876,094 |
| Accounting fees | 25,187 |
| Insurance | 258,803 |
| Rent | 634 |
| Service agreement fee | 250,000 |
| Total deductions | <u>7,410,718</u> |
| Income before income tax benefit | 152,450 |
| Income tax benefit | 14,678 |
| Change in net position | <u>137,772</u> |
| Net position at beginning of year | <u>248,573</u> |
| Net position at end of year | <u><u>\$ 386,345</u></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-I (Vernon Supp. 1986), provides the authority for operations of the State Bar. In 1939, the State Bar was created by the State of Texas legislature. Located in the judicial branch of the State government, its primary responsibility is to cooperate in the regulation of the practice of law in the State of Texas. The State Bar is an administrative branch or department of the Supreme Court of Texas. This report includes the funds and account groups required to account for those activities, organizations and functions which are related to the State Bar and are controlled by the State Bar. The State Bar is included in the financial statements of the State of Texas as a component unit.

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

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

The State Bar appoints a majority of members to the Texas Bar Foundation's (the Foundation), 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 funded through membership dues, investment income and merchandise sales. The College is reported as a Special Revenue Fund because the services it provides, exclusively benefits the State Bar.

State Bar of Texas

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

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

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

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

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

Government-wide financial statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the State Bar and are reported on a full accrual basis of accounting, using the economic resource measurement focus, which recognizes all long-term assets and receivables, as well as long-term debt and obligations. The effect of interfund activity has been removed from these statements. However, interfund services provided and used are not eliminated in process of consolidation. Governmental activities, which are supported by dues, fees, grants and other revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

State Bar of Texas

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

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

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

The fund structure:

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

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The 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 for the General Fund and is reviewed by the budget committee of the Board and adopted by the Board. The Sections and Divisions major fund and other special revenue funds do not have appropriated budgets since other means control the use of these resources. The budget passes several stages of review, including a public hearing, adoption by the Board and approval by the Supreme Court of Texas. The budget may be amended at any meeting of the Board, but the amendments made are subject to the approval of the Supreme Court of Texas. Variances from budgeted revenues and expenditures are analyzed by management, the finance committee, the executive committee and the Board. Regulations do not prohibit the State Bar from having unfavorable variances.

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

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

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

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

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

State Bar of Texas

Notes to 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 uncollectibility of a receivable is probable. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. At May 31, 2019, the State Bar governmental activities and business-type activities reported an allowance of \$2,300 and \$46,023 respectively.

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

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

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

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Compensated absences: The State Bar grants paid annual leave to its employees. The amount of annual leave that employees accrue depends on the length of State of Texas service as of the employee's anniversary date and accrued days and allowable carryover hour's increases with the length of service. Subject to certain limitations and requirements, employees' accrued annual leave may be used while employed, through the transfer to another State of Texas agency, at the termination of employment, at death or retirement. The current and long-term liabilities for accumulated vacation are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds upon the occurrence of relevant events such as resignations, retirements and other uses of leave balances by covered employees. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid. Accrued annual leave of \$1,521,492 and \$97,422 was recorded as accrued compensated absences for governmental activities and business-type activities, respectively, for the year ended May 31, 2019.

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 and OPEB expense and contributions from the State Bar after the measurement date but before the end of the State Bar's reporting period.

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The following table details fund balances between the various categories as of May 31, 2019:

| | General Fund | Sections and Divisions | Nonmajor Governmental Funds | Total |
|---|-----------------|---------------------------|-----------------------------------|---------------|
| Fund balances: | | | | |
| Nonspendable: | | | | |
| Inventories | \$ 12,070 | \$ - | \$ - | \$ 12,070 |
| Prepaid items | 847,384 | 44,188 | 339,098 | 1,230,670 |
| Total nonspendable | 859,454 | 44,188 | 339,098 | 1,242,740 |
| Committed to: | | | | |
| Texas Law Center projects | 100,000 | - | 4,010,134 | 4,110,134 |
| Access to Justice (ATJ) student loan repayment program | 515,000 | - | - | 515,000 |
| Run-off Election Reserve | 70,000 | - | - | 70,000 |
| Law Related Education program | 79,500 | - | - | 79,500 |
| Presidential initiatives | 126,641 | - | - | 126,641 |
| Statewide Pro Bono Recruitment Campaign | 148,161 | - | - | 148,161 |
| Ethics Initiatives | 11,943 | - | - | 11,943 |
| Texas Opportunity and Justice Incubator Program | 571,088 | - | - | 571,088 |
| Legal Access Division Programs | 44,251 | - | - | 44,251 |
| Referendum reserve | 100,000 | - | - | 100,000 |
| Archives Digitization Project | 75,500 | - | - | 75,500 |
| Client Security Fund expenditures | - | - | 2,608,547 | 2,608,547 |
| Sections expenditures | - | 8,180,161 | - | 8,180,161 |
| Information technology projects | 150,000 | - | 591,173 | 741,173 |
| Special revenue funds | - | - | 2,552,123 | 2,552,123 |
| Total committed | 1,992,084 | 8,180,161 | 9,761,977 | 19,934,222 |
| Unassigned | 14,898,339 | - | - | 14,898,339 |
| Total fund balances | \$ 17,749,877 | \$ 8,224,349 | \$ 10,101,075 | \$ 36,075,301 |

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, 2019, is approximately \$11 million of the unassigned fund balance. The target level is based on 2.9 months of budgeted operating expenditures.

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

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

State Bar of Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Note 2. Capital Assets

Capital asset activity for the year ended May 31, 2019, 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 | 20,960 | - | 179,574 | - | 200,534 |
| Total capital assets not being depreciated | 175,034 | - | 179,574 | - | 354,608 |
| Capital assets being depreciated and amortized: | | | | | |
| Buildings | 6,489,602 | - | - | - | 6,489,602 |
| Furniture, fixtures, computer equipment, software and other equipment | 15,495,818 | - | 27,460 | (24,779) | 15,498,499 |
| Total capital assets being depreciated and amortized | 21,985,420 | - | 27,460 | (24,779) | 21,988,101 |
| Less accumulated depreciation and amortization for: | | | | | |
| Buildings | (5,665,574) | - | - | - | (5,665,574) |
| Furniture, fixtures, computer equipment, software and other equipment | (9,540,891) | - | (854,613) | 23,491 | (10,372,013) |
| Total accumulated depreciation and amortization | (15,206,465) | - | (854,613) | 23,491 | (16,037,587) |
| Total capital assets being depreciated and amortized, net | 6,778,955 | - | (827,153) | (1,288) | 5,950,514 |
| Governmental activities capital assets, net | \$ 6,953,989 | \$ - | \$ (647,579) | \$ (1,288) | \$ 6,305,122 |
| Business-type activities: | | | | | |
| Furniture, fixtures, computer equipment, software and other equipment | \$ 353,637 | \$ - | \$ - | \$ - | \$ 353,637 |
| Accumulated depreciation and amortization | (318,315) | - | - | - | (318,315) |
| Business-type activities capital assets, net | \$ 35,322 | \$ - | \$ - | \$ - | \$ 35,322 |

State Bar of Texas

Notes to Financial Statements

Note 2. Capital Assets (Continued)

Depreciation and amortization expense for the year ended May 31, 2019, was allocated in the following manner:

Functions/programs:

| | |
|--------------------|-------------------|
| General government | \$ 837,617 |
| Member services | 16,996 |
| | <u>\$ 854,613</u> |

There was no depreciation and amortization expense for business-type activities for the year ended May 31, 2019, because assets were fully depreciated. The remaining balance is considered salvage value.

Note 3. Deposits, Investments and Repurchase Agreements

Deposits of cash in bank: As of May 31, 2019, the carrying amount of deposits totaled \$16,555,294 as presented below:

| | Carrying Amount | Bank Balance |
|--|----------------------|----------------------|
| Governmental, business-type and fiduciary activities: | | |
| Cash in bank—carrying amount | \$ 10,716,193 | \$ 11,516,196 |
| Money market mutual funds—carrying amount at net asset value | 5,839,101 | 5,839,100 |
| Total cash in bank | <u>\$ 16,555,294</u> | <u>\$ 17,355,297</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, 2019, the State Bar's deposits are not exposed to deposit custodial credit risk because they are collateralized with securities held by the Federal Reserve in the State Bar's name in the amount of approximately \$14.2 million. The State Bar does not have funds that are held in foreign currency.

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

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

State Bar of Texas

Notes to Financial Statements

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

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

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

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

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

As of May 31, 2019, the fair value of investments were as follows:

Governmental activities:

| | | Fair Value Measurements Using | | | | |
|------------------------------------|----------------|---|--|--|------|-------------------|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | Amortized Cost |
| Fixed income securities: | | | | | | |
| U.S. Treasury securities | \$ 19,443,303 | \$ 19,443,303 | \$ - | \$ - | \$ - | |
| U.S. government agency obligations | 9,383,162 | - | 9,383,162 | - | - | |
| Commercial paper | 4,952,573 | - | 4,952,573 | - | - | |
| Certificates of deposit | 2,192,124 | - | - | - | - | 2,192,124 |
| Total investments at fair value | \$ 35,971,162 | \$ 19,443,303 | \$ 14,335,735 | \$ - | \$ - | \$ 2,192,124 |

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, 2019, because all certificates of deposit were fully covered by Federal Deposit Insurance Corporation and all other investments are held in the State Bar's name.

State Bar of Texas

Notes to Financial Statements

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

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Bar's investment policy allows for various types of investments including: United States government agency obligations, United States Treasury securities, certificates of deposit, Banker's acceptances, repurchase agreements, money market mutual funds and commercial paper. Investments in United States government agency obligations are not guaranteed by the United States government, but are government-sponsored enterprises. As of May 31, 2019, State Bar's credit quality distribution for securities was as follows:

| Investment Type | Standard and Poor's Ratings | | | | Total |
|---|-----------------------------|----------------------|-------------|---------------------|----------------------|
| | AAA | AA+ | A-1+ | A-1 | |
| U.S. Treasury securities | \$ - | \$ 19,443,303 | \$ - | \$ - | \$ 19,443,303 |
| U.S. government agency obligations | - | 9,267,265 | - | - | 9,267,265 |
| Money market mutual funds | 5,839,100 | - | - | - | 5,839,100 |
| Commercial paper | - | - | - | 4,952,573 | 4,952,573 |
| | <u>\$ 5,839,100</u> | <u>\$ 28,710,568</u> | <u>\$ -</u> | <u>\$ 4,952,573</u> | <u>39,502,241</u> |
| GNMA Pool—not applicable | | | | | 115,897 |
| Certificates of deposit—not rated | | | | | 2,192,124 |
| Less cash equivalents (money market mutual funds) | | | | | (5,839,100) |
| | | | | | <u>\$ 35,971,162</u> |

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

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

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

As of May 31, 2019, the State Bar's investments consist of the following:

| Issuer | Fair Value | Percentage |
|----------------------------------|----------------------|-------------|
| U.S. Treasury securities | \$ 19,443,303 | 54% |
| Federal Home Loan Mortgage Corp. | 3,328,853 | 9% |
| Fannie Mae | 5,938,412 | 17% |
| GNMA Pool | 115,897 | 0% |
| Commercial paper | 4,952,573 | 14% |
| Certificates of deposit | 2,192,124 | 6% |
| Total investments | <u>\$ 35,971,162</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, 2019, 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 | \$ 19,443,303 | 7,137 |
| U.S. government agency obligations | 9,383,162 | 501 |
| Commercial paper | 4,952,573 | 572 |
| Certificates of deposit | 2,192,124 | 651 |
| Money market mutual funds | 5,839,100 | 25 |
| | <u>41,810,262</u> | |
| Less cash equivalents (money market mutual funds) | <u>(5,839,100)</u> | |
| Total investments | <u>\$ 35,971,162</u> | |

Note 4. Short-Term Debt

The State Bar has no short-term debt to report for the fiscal year ended May 31, 2019.

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, 2019, is shown below:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due Thereafter |
|--------------------------------|----------------------|---------------|----------------|-------------------|-----------------------------------|------------------------------|
| Governmental activities: | | | | | | |
| Capital lease obligations | \$ 84,555 | \$ - | \$ (46,571) | \$ 37,984 | \$ 37,984 | \$ - |
| Accrued compensated absences | 1,467,752 | 631,861 | (578,121) | 1,521,492 | 612,717 | 908,775 |
| Total OPEB liability | - | 34,376,046 | - | 34,376,046 | 961,247 | 33,414,799 |
| Net pension liability | 56,802,309 | - | (1,885,424) | 54,916,885 | - | 54,916,885 |
| Total governmental activities | \$ 58,354,616 | \$ 35,007,907 | \$ (2,510,116) | \$ 90,852,407 | \$ 1,611,948 | \$ 89,240,459 |
| Business-type activities: | | | | | | |
| Accrued compensated absences | \$ 95,363 | \$ 62,724 | \$ (60,665) | \$ 97,422 | \$ 36,970 | \$ 60,452 |
| Total OPEB liability | - | 2,194,216 | - | 2,194,216 | 61,356 | 2,132,860 |
| Net pension liability | 3,625,679 | - | (120,346) | 3,505,333 | - | 3,505,333 |
| Total business-type activities | \$ 3,721,042 | \$ 2,256,940 | \$ (181,011) | \$ 5,796,971 | \$ 98,326 | \$ 5,698,645 |

The liabilities for pension-related debt and compensated absences are liquidated by the General Fund and the Law Practice Resource Management fund. This is the first fiscal year that the State Bar has reported an OPEB liability. In the coming years, this liability will also be liquidated by the General Fund and the Law Practice Resource Management fund.

Note 6. Bonded Indebtedness

The State Bar has no bonded indebtedness to report for the fiscal year ended May 31, 2019.

Note 7. Derivatives

The State Bar has no derivatives to report for the fiscal year ended May 31, 2019.

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, 2019, is presented below.

| | Governmental Activities | | |
|-----------------|-------------------------|-----------------------------|-----------|
| | Assets | Accumulated Depreciation | Total |
| Other equipment | \$ 241,319 | \$ (177,641) | \$ 63,678 |
| Total | \$ 241,319 | \$ (177,641) | \$ 63,678 |

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, 2019, were as follows:

| | Governmental Activities | | Total Future Minimum Lease Payments |
|---------------------|-------------------------|----------|--|
| | Principal | Interest | |
| Year ending May 31: | | | |
| 2020 | \$ 37,984 | \$ 1,899 | \$ 39,883 |
| Totals | \$ 37,984 | \$ 1,899 | \$ 39,883 |

Operating leases: Rent expense incurred under all third-party office space and equipment operating leases for the year ended May 31, 2019, totaled \$596,944 for governmental activities.

At May 31, 2019, the State Bar was obligated under operating leases for the regional Chief Disciplinary Counsel Department's and the Texas Board of Legal Specialization's office space, expiring through 2027. In addition, the State Bar has some short-term leases during the year May 31, 2019.

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

| | Governmental Activities |
|----------------------|----------------------------|
| Years ending May 31: | |
| 2020 | \$ 505,701 |
| 2021 | 424,340 |
| 2022 | 350,564 |
| 2023 | 357,541 |
| 2024 | 234,682 |
| 2025-2027 | 460,400 |
| | <u>\$ 2,333,228</u> |

Note 9. Defined Benefit Pension Plans

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

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

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

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

Contributions: The contribution rates for the state and the members for the ERS plan for the measurement date of August 31, 2018, 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 2018 measurement period was \$2,017,410.

Net pension liability: The State Bar's net pension liability was measured as of August 31, 2018, and the total pension liability is used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2018:

| Actuarial Methods and Assumptions | |
|--|---|
| Actuarial cost method | Entry age normal |
| Actuarial assumptions: | |
| Discount rate | 5.69% |
| Investment rate of return | 7.50% |
| Inflation | 2.50% |
| Salary increase | 0.0 to 9.5% |
| Mortality: | |
| State agency members: | |
| Service retirees, survivors and other inactive members | 2017 State Retirees of Texas Mortality table with mortality improvements based on full generational projection using Ultimate MP projections sale. Tables were developed based on the experience in the 2016 actuarial study. |
| Disabled retirees | RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014 |
| Active members | RP-2014 Employee Mortality tables for male and female with Ultimate MP projection scale projected from the year 2014 |
| Cost-of-living adjustments | None—Employee 2.75%—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 | 50.00% | 3.91% |
| Global credit | 11.00% | 0.57% |
| Opportunistic credit | 3.00% | 0.20% |
| Intermediate treasuries | 11.00% | 0.29% |
| Real estate | 12.00% | 0.90% |
| Infrastructure | 7.00% | 0.49% |
| Hedge funds | 5.00% | 0.31% |
| Cash | 1.00% | 0.02% |
| Total | 100% | 6.69% |
| Inflation | | 2.50% |
| Expected arithmetic nominal rate of return | | 9.19% |

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

Discount rate: A blended discount rate of 5.69% was applied to measure the total pension liability as of August 31, 2018. The 5.69% discount rate incorporated a 7.50% long-term expected rate of return on pension plan investments and 3.69% 20-year municipal bond rate based on Fidelity's Index's 20-Year Municipal GO AA Index. The long-term expected investment rate of return was applied to projected benefit payments through fiscal year 2049 and the municipal bond rate was applied to all benefit payments thereafter.

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

Sensitivity analysis: The following presents the net pension liability of the State Bar, calculated using the discount rate of 5.69%, as well as what the State Bar's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.69%) or 1 percentage point higher (6.69%) than the current rate:

| | 1% Decrease | Rate | 1% Increase |
|--|---------------|---------------|---------------|
| | 4.69% | 5.69% | 6.69% |
| State Bar's proportionate share of net pension liability | \$ 76,994,742 | \$ 58,422,218 | \$ 43,050,142 |

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 2018 CAFR:

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

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pension: At May 31, 2019, the State Bar reported a liability of \$58,422,218 for its proportionate share of the net pension liability. The net pension liability was measured as of August 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State Bar's proportion of the net pension liability was based on a projection of the State Bar's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined.

There have been no changes to the benefit terms of the plan since the prior measurement date. The State Bar's proportion of the entire ERS plan was 0.28934813% in fiscal year 2019, as compared to the 0.27637361% in the prior fiscal year.

State Bar of Texas

Notes to Financial Statements

Note 9. Defined Benefit Pension Plans (Continued)

For the fiscal year ended May 31, 2019, the State Bar recognized pension expense of \$6,255,587. At May 31, 2019, State Bar reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 336,702 | \$ - |
| Changes of assumptions | 3,367,674 | 4,079,280 |
| Net difference between projected and actual investment return | - | 861,108 |
| Change in proportion and contribution differences | 2,202,036 | 212,095 |
| Contributions subsequent to the measurement date | 1,523,568 | - |
| Total | <u>\$ 7,429,980</u> | <u>\$ 5,152,483</u> |

Contributions made subsequent to the measurement date are eligible employer contributions made from September 1, 2018 through May 31, 2019, totaling \$1,523,568, 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, 2020.

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: | |
| 2020 | \$ 2,991,238 |
| 2021 | (654,597) |
| 2022 | (1,298,145) |
| 2023 | (284,567) |
| | <u>\$ 753,929</u> |

Note 10. Deferred Compensation

The State Bar has no deferred compensation to report for the fiscal year ended May 31, 2019.

Note 11. Postemployment Benefits Other Than Pensions

Effective June 1, 2018, the State Bar implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 14 for additional information. In addition to the pension benefits described in Note 9, the ERS provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. This program is governed by the same board of trustees who is responsible for the defined benefit pension plans.

State Bar of Texas

Notes to Financial Statements

Note 11. Postemployment Benefits Other Than Pensions (Continued)

The State Bar employees participate in the State Retiree Health Plan (SRHP) administered by ERS. SRHP is a cost-sharing multiple-employer postemployment health care plan with a special funding situation. This plan covers retired employees of the State and other entities as specified by the State legislature. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. The principal participating employer is the State of Texas. State agencies and universities employ 185,760, or 80.7%, or the employees covered by the SRHP. Participating entities are as follows:

| | |
|-------------------------------|------------|
| State agencies | 116 |
| Universities | 27 |
| Junior and community colleges | 51 |
| Other entities | 8 |
| Total participating entities | <u>202</u> |

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

| | |
|----------------------|-------|
| Retiree only | 622 |
| Retiree and spouse | 1,335 |
| Retiree and children | 1,099 |
| Retiree and family | 1,812 |

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

For the measurement period ending August 31, 2018, the amount of the State Bar's contributions recognized by SHRP was \$3,584,454. Fiscal year 2019 contributions were \$399,310.

The total OPEB liability is determined by an actuarial valuation. The methods and assumptions applied in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2011 through August 31, 2016, for state agency members and for the period September 1, 2010 through August 31, 2014, for higher education members.

State Bar of Texas

Notes to Financial Statements

Note 11. Postemployment Benefits Other Than Pensions (Continued)

The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2018:

| Actuarial Methods and Assumptions | |
|--|--|
| ERS Plan | |
| Actuarial valuation date | August 31, 2018 |
| Actuarial cost method | Entry Age |
| Actuarial assumptions: | |
| Discount rate | 3.96% |
| Inflation | 2.50% |
| Salary increase | 2.50% to 9.50%, including inflation |
| Annual health care trend rate | 7.30% for FY2020, 7.40% for FY2021, 7.00% for FY2022, decreasing 0.50% per year to an ultimate rate of 4.50% for FY2027 and later years |
| Aggregate payroll growth | 3.00% |
| Retirement age | Experience based tables of rates that are specific to employee class |
| Mortality: | |
| State agency members: | |
| Service retirees, survivors and other inactive members | 2017 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2017 |
| Disabled retirees | RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014 |
| Active members | RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014 |
| Ad hoc postemployment benefit changes | None |

The following benefit revision has been adopted effective January 1, 2019, since the prior valuation for retirees and dependents for whom Medicare is not the primary, an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect for individuals and families in order to remain consistent with Internal Revenue Service maximums.

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

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.96% for the measurement date ending August 31, 2018, as compared to a discount rate of 3.51% as of the beginning of the measurement period. The source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's AA. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

State Bar of Texas

Notes to Financial Statements

Note 11. Postemployment Benefits Other Than Pensions (Continued)

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

| | 1% Decrease 2.96% | Current Discount Rate 3.96% | 1% Increase 4.96% |
|--|----------------------|-----------------------------------|----------------------|
| The State Bar's proportionate share of the total OPEB liability | \$ 43,417,410 | \$ 36,570,262 | \$ 31,387,741 |

The initial healthcare trend rate is 7.3% and the ultimate rate is 4.5%. The sensitivity of the net OPEB liability to changes in the discount rate and health care trend rate is summarized below:

| | 1% Decrease (6.3%, Decreasing to 3.5%) | Current Health Care Cost Trend Rates Decreasing to 4.5% | 1% Increase (8.3%, Decreasing to 5.5%) |
|--|--|--|--|
| The State Bar's proportionate share of the total OPEB liability | \$ 30,970,283 | \$ 36,570,262 | \$ 43,794,247 |

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

More detailed information on SHRP may be obtained from ERS' fiscal 2018 CAFR:

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

At May 31, 2019, the State Bar's recognized a total OPEB liability of \$36,570,262 for its proportionate share of the collective total OPEB liability. The State Bar's proportionate share of the total OPEB liability was 0.12339085% and was based on contributions to the OPEB plan relative to the contributions of all employers and the nonemployer contributing entity for the period.

State Bar of Texas

Notes to Financial Statements

Note 11. Postemployment Benefits Other Than Pensions (Continued)

For the year ended May 31, 2019, the State Bar recognized an OPEB credit of \$217,397. At August 31, 2019, the State Bar's reported deferred outflows of resources and deferred inflows of resources from the following sources:

| | Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------|----------------------------------|
| Difference between expected and actual experience | \$ - | \$ 1,339,817 |
| Change in proportionate share and contribution difference | 325,894 | \$ - |
| Changes of assumptions | - | 12,815,219 |
| Net difference between projected and actual investment return | 17,318 | - |
| Contributions subsequent to the measurement date | 46,357 | - |
| Total | <u>\$ 389,569</u> | <u>\$ 14,155,036</u> |

The \$46,357 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the total OPEB liability for the year ending May 31, 2020.

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

Years ended May 31:

| | |
|------|------------------------|
| 2020 | \$ (3,529,198) |
| 2021 | (3,529,198) |
| 2022 | (3,529,198) |
| 2023 | (2,359,854) |
| 2024 | (864,376) |
| | <u>\$ (13,811,824)</u> |

Note 12. Interfund Balances/Activities

During the course of operations, numerous transactions occurred between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds. The composition of interfund balances as of May 31, 2019, is as follows:

| Receivable Fund | Payable Fund | Amount |
|----------------------------------|--|---------------------|
| General Fund | Nonmajor governmental funds | \$ 681,438 |
| General Fund | Fiduciary Fund—SBOTIT Private-Purpose Trust Fund | 67,451 |
| Sections and Divisions | General Fund | 1,021,722 |
| Nonmajor governmental funds | General Fund | 685,690 |
| Law Practice Resource Management | General Fund | 741,033 |
| Agency Fund | General Fund | 871,101 |
| Total | | <u>\$ 4,068,435</u> |

During the year, the General Fund transferred \$1,888,800 to nonmajor governmental funds to supplement operations and to fund claims, technology projects and future renovations to the Texas Law Center.

State Bar of Texas

Notes to Financial Statements

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. Adjustments to Fund Balance/Net Position

OPEB: Effective June 1, 2018, the State Bar implemented GASB Statement No. 75, which addresses the accounting and financial reporting for OPEB. Upon adoption, the OPEB liability, deferred inflows and outflows and the OPEB expense are now reflected in the financial statements in accordance with the guidance provided for within the standard. The implementation resulted in a restatement of the beginning net position in fiscal year 2019, the fiscal year in which the provisions of Statement No. 75 were adopted. The adoption decreased governmental activities beginning net position by \$47,498,566 and business-type activities beginning net position by \$3,031,823.

Funds: During fiscal year ended May 31, 2019, management identified errors in the previously issued May 31, 2018, audited financial statements, which included the following: the omission of Paralegal Division, which should be included as part of Sections and Divisions special revenue fund and an error in revenue recognition related to MCLE fees.

As a result, beginning Sections and Divisions fund balance, and governmental activities net position were restated, as noted below. The effect on the change in fund balance and net position, previously reported is an increase of \$82,427 and \$359,981, respectively.

| | Sections and Divisions Fund Balance | Governmental Activities Net Position (Deficit) | Business-Type Activities Net Position (Deficit) |
|--|--|---|--|
| Beginning balance, as previously reported | \$ 7,384,311 | \$ (9,024,365) | \$ (1,240,531) |
| Ending fund balance for Paralegal Division | 459,609 | 459,609 | - |
| Misstatement of revenue | - | 277,554 | - |
| Implementation of GASB Statement No. 75 | - | (47,498,566) | (3,031,823) |
| Beginning balance, as restated | <u>\$ 7,843,920</u> | <u>\$ (55,785,768)</u> | <u>\$ (4,272,354)</u> |

Note 15. Contingencies and Commitments

The State Bar has no contingencies or commitments to report for the fiscal year ended May 31, 2019.

Note 16. Subsequent Events

Management evaluated the need for disclosures and/or adjustments resulting from subsequent events through December 17, 2019, the date the financial statements were available to be issued.

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

State Bar of Texas

Notes to Financial Statements

Note 17. Risk Management

The State Bar is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The State Bar purchases commercial insurance to cover risks associated with potential claims in 2019. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

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

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

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

See pages 3-13 for MD&A.

Note 19. The Financial Reporting Entity

See pages 29-38.

Note 20. Stewardship, Compliance and Accountability

The State Bar had none to report.

Note 21. Not Applicable

Note 22. Donor-Restricted Endowments

The State Bar has no donor-restricted endowments to report for the fiscal year ended May 31, 2019.

Note 23. Extraordinary and Special Items

The State Bar has no extraordinary or special items to report for the fiscal year ended May 31, 2019.

State Bar of Texas

Notes to Financial Statements

Note 24. Disaggregation of Receivable Balances

The State Bar had other accounts receivable at May 31, 2019, which consisted of the following:

General Fund:

| | |
|--|------------------|
| Clerk of the Supreme Court | \$ 2,265,161 |
| Refundable Deposits—WeWork | 57,002 |
| Texas Center for Legal Ethics | 52,107 |
| Texas Supreme Court Historical Society | 4,997 |
| SBOT Insurance Trust | 34,775 |
| Texas Bar Foundation | 40,062 |
| Texas Access to Justice Foundation | 103,582 |
| Other | 169,445 |
| | <u>2,727,131</u> |

Sections and Divisions:

| | |
|----------------------|---------------|
| Family Law Royalties | 26,156 |
| Other | 30,965 |
| | <u>57,121</u> |

Nonmajor governmental funds:

| | |
|---------------------|---------------------|
| Refundable deposits | 6,943 |
| Total | <u>\$ 2,791,195</u> |

Note 25. Termination Benefits

The State Bar has no termination benefits to report for the fiscal year ended May 31, 2019.

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

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

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

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

State Bar of Texas

Notes to Financial Statements

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

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

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

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

Income taxes: 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, 2019, 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, 2015.

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, 2019.

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

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

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

State Bar of Texas

Notes to Financial Statements

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

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

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

The Program year under the contract with Prudential is June 1 through May 31. The stabilization fund totaled \$2,212,533.

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, 2019.

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

See page 48.

Note 29. Troubled Debt Restructuring

The State Bar has no troubled debt restructurings to report for the fiscal year ended May 31, 2019.

Note 30. Nonexchange Financial Guarantees

The State Bar has no nonexchange financial guarantees to report for the fiscal year ended May 31, 2019.

Note 31. Tax Abatements

The State Bar has no tax abatements to report for the fiscal year ended May 31, 2019.

Note 32. Governmental Fund Balances

See pages 36-37.

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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, 2019

| | Budgeted Amounts | | | Variance With |
|--|-------------------|-------------------|-------------------|------------------|
| | Original | Final | Actual | Final Budget |
| Revenues: | | | | |
| Membership dues | \$ 20,372,039 | \$ 20,372,039 | \$ 20,869,303 | \$ 497,264 |
| Accounting and management fees | 650,351 | 650,351 | 650,351 | - |
| Texas Bar Journal | 580,600 | 580,600 | 455,789 | (124,811) |
| MCLE fees | 3,115,250 | 3,115,250 | 3,804,158 | 688,908 |
| Professional development | 13,777,842 | 13,777,842 | 14,275,158 | 497,316 |
| Minority affairs | 335,000 | 335,000 | 413,301 | 78,301 |
| Investment income | 185,000 | 185,000 | 731,489 | 546,489 |
| Member benefits | 915,766 | 915,766 | 899,972 | (15,794) |
| Website | 365,000 | 365,000 | 588,026 | 223,026 |
| Advertising review | 370,000 | 370,000 | 351,895 | (18,105) |
| CDC disciplinary fees | 535,000 | 535,000 | 703,979 | 168,979 |
| Other income | 1,445,043 | 1,445,043 | 1,018,849 | (426,194) |
| Total revenues | 42,646,891 | 42,646,891 | 44,762,270 | 2,115,379 |
| Expenditures: | | | | |
| Executive: | | | | |
| Office of Executive Director | 627,410 | 627,410 | 634,644 | (7,234) |
| Associate Executive Director/Legal Counsel | 518,566 | 518,566 | 578,667 | (60,101) |
| Deputy Executive Director/External Affairs | 274,165 | 274,165 | 247,424 | 26,741 |
| Deputy Executive Director | 222,945 | 222,945 | 206,736 | 16,209 |
| Special Financial Advisor | 75,000 | 75,000 | 164,789 | (89,789) |
| Officers and Directors | 836,836 | 836,836 | 687,228 | 149,608 |
| Human Resources | 280,789 | 280,789 | 288,302 | (7,513) |
| Training/Tuition | 71,133 | 71,133 | 40,032 | 31,101 |
| Total executive | 2,906,844 | 2,906,844 | 2,847,822 | 59,022 |
| Member and public services: | | | | |
| Member and Public Services Division Director | 118,324 | 118,324 | - | 118,324 |
| Center for Legal History | 149,785 | 149,785 | 144,038 | 5,747 |
| Law Related Education | 508,232 | 508,232 | 500,057 | 8,175 |
| Governmental Relations | 156,607 | 156,607 | 163,604 | (6,997) |
| Texas Young Lawyers Association | 927,418 | 927,418 | 915,272 | 12,146 |
| SBOT Leadership Academy | 94,000 | 94,000 | 100,150 | (6,150) |
| Sections | 318,519 | 318,519 | 313,717 | 4,802 |
| Local Bars | 446,571 | 446,571 | 364,382 | 82,189 |
| Special Events | 73,604 | 73,604 | 92,143 | (18,539) |
| Law Student Department | 20,266 | 20,266 | 16,383 | 3,883 |
| SBOT Volunteer Committees | 289,467 | 289,467 | 311,473 | (22,006) |
| Total member and public services | 3,102,793 | 3,102,793 | 2,921,219 | 181,574 |
| Professional development: | | | | |
| TexasBarCLE | 10,174,142 | 10,174,142 | 9,325,750 | 848,392 |
| Minority affairs | 460,478 | 460,478 | 548,964 | (88,486) |
| Total professional development | 10,634,620 | 10,634,620 | 9,874,714 | 759,906 |
| Legal and attorney services: | | | | |
| Legal and Attorney Services Director | 222,971 | 222,971 | 218,968 | 4,003 |
| Texas Lawyers Assistance Program | 455,312 | 455,312 | 408,716 | 46,596 |
| Legal Access Division | 1,036,508 | 1,036,508 | 1,028,097 | 8,411 |
| Total legal and attorney services | 1,714,791 | 1,714,791 | 1,655,781 | 59,010 |

(Continued)

State Bar of Texas

**Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and
Actual—General Fund (Continued)
Year Ended May 31, 2019**

| | Budgeted Amounts | | | Variance With |
|--|-------------------|-------------------|-------------------|-----------------|
| | Original | Final | Actual | Final Budget |
| Expenditures (continued): | | | | |
| Access to Justice Commission | \$ 827,206 | \$ 827,206 | \$ 682,368 | \$ 144,838 |
| Total Access to Justice Commission | 827,206 | 827,206 | 682,368 | 144,838 |
| Member benefits and research analysis: | | | | |
| Member benefits | 343,218 | 343,218 | 59,166 | 284,052 |
| Research and analysis | 167,645 | 167,645 | 167,827 | (182) |
| Total member benefits and research analysis | 510,863 | 510,863 | 226,993 | 283,870 |
| Attorney compliance: | | | | |
| Office of Attorney Compliance Director | 176,564 | 176,564 | 168,848 | 7,716 |
| Advertising review | 182,597 | 182,597 | 182,465 | 132 |
| Client Attorney Assistance Program | 547,352 | 547,352 | 531,420 | 15,932 |
| Lawyer referral | 353,692 | 353,692 | 356,154 | (2,462) |
| MCLE | 579,699 | 579,699 | 640,613 | (60,914) |
| Total attorney compliance | 1,839,904 | 1,839,904 | 1,879,500 | (39,596) |
| Operations and security division: | | | | |
| Purchasing and facilities | 1,240,950 | 1,240,950 | 1,256,653 | (15,703) |
| Total operations and security division | 1,240,950 | 1,240,950 | 1,256,653 | (15,703) |
| Finance: | | | | |
| Accounting | 936,017 | 936,017 | 972,063 | (36,046) |
| Membership | 832,080 | 832,080 | 703,531 | 128,549 |
| Other administrative | 1,770,550 | 1,770,550 | 1,932,022 | (161,472) |
| Total finance | 3,538,647 | 3,538,647 | 3,607,616 | (68,969) |
| Information technology: | | | | |
| Information technology | 1,304,534 | 1,304,534 | 1,230,266 | 74,268 |
| Customer service | 370,930 | 370,930 | 399,408 | (28,478) |
| Total information technology | 1,675,464 | 1,675,464 | 1,629,674 | 45,790 |
| Communications: | | | | |
| Office of Communications Director | 249,259 | 249,259 | 237,264 | 11,995 |
| Texas Bar Journal | 1,210,030 | 1,210,030 | 1,302,338 | (92,308) |
| Public information | 497,204 | 497,204 | 447,383 | 49,821 |
| Web management | 395,862 | 395,862 | 323,954 | 71,908 |
| Total communications | 2,352,355 | 2,352,355 | 2,310,939 | 41,416 |
| Public protection: | | | | |
| Chief Disciplinary Counsel | 9,829,435 | 9,829,435 | 9,898,237 | (68,802) |
| Grievance Oversight Committee | 48,800 | 48,800 | 38,734 | 10,066 |
| Unauthorized Practice of Law | 170,000 | 170,000 | 184,373 | (14,373) |
| Professional Ethics Commission | 11,080 | 11,080 | 9,152 | 1,928 |
| Board of Disciplinary Appeals | 619,339 | 619,339 | 600,975 | 18,364 |
| Total public protection | 10,678,654 | 10,678,654 | 10,731,471 | (52,817) |

(Continued)

State Bar of Texas

Statement of Revenues, Expenditures and Changes in Fund Balance—Budget (GAAP Basis) and Actual—General Fund (Continued) Year Ended May 31, 2019

| | Budgeted Amounts | | | Variance With |
|--|--------------------|--------------------|--------------------|------------------|
| | Original | Final | Actual | Final Budget |
| Expenditures (continued): | | | | |
| Expenditures related to Board commitments: | | | | |
| Presidential initiatives | \$ 157,867 | \$ 157,867 | \$ 31,226 | \$ 126,641 |
| Texas Opportunity and Justice Incubator Program | 755,278 | 755,278 | 184,190 | 571,088 |
| Statewide pro-bono recruitment campaign | 159,060 | 159,060 | 10,899 | 148,161 |
| Legal access fellowship program | - | - | - | - |
| LAD 2018 Board commitments | 556,772 | 556,772 | 555,790 | 982 |
| Referendum reserve | 100,000 | 100,000 | - | 100,000 |
| Texas court records preservation task force | 50,000 | 50,000 | 50,000 | - |
| Access to Justice (ATJ) student loan repayment program | 350,000 | 350,000 | 350,000 | - |
| Archives digitization project | 100,000 | 100,000 | 24,500 | 75,500 |
| Runoff Election Reserve | 70,000 | 70,000 | - | 70,000 |
| Supreme Court equipment replacement | - | - | - | - |
| Professionalism and ethics initiatives | 12,431 | 12,431 | 488 | 11,943 |
| Total expenditures related to Board commitments | 2,311,408 | 2,311,408 | 1,207,093 | 1,104,315 |
| Total expenditures | 43,334,499 | 43,334,499 | 40,831,843 | 2,502,656 |
| Excess (deficiency) of revenues over (under) expenditures | (687,608) | (687,608) | 3,930,427 | (387,277) |
| Other financing sources (uses): | | | | |
| Transfers in (out) to: | | | | |
| Technology Fund | (500,000) | (500,000) | (500,000) | - |
| Texas Law Center | (288,800) | (288,800) | (288,800) | - |
| Client Security Fund | (1,100,000) | (1,100,000) | (1,100,000) | - |
| Total other financing sources (uses) | (1,888,800) | (1,888,800) | (1,888,800) | - |
| Net change in fund balances | (2,576,408) | (2,576,408) | 2,041,627 | 4,618,035 |
| Fund balance at beginning of year, as restated | 15,708,250 | 15,708,250 | 15,708,250 | - |
| Fund balance at end of year | \$ 13,131,842 | \$ 13,131,842 | \$ 17,749,877 | \$ 4,618,035 |

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, 2019

Note 1. Basis of Presentation

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

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

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

State Bar of Texas

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

| | August 31 | | | | |
|---|------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Measurement date | August 31, 2018 | August 31, 2017 | August 31, 2016 | August 31, 2015 | August 31, 2014 |
| State Bar's proportion share of the net pension liability | 0.28934813% | 0.27637361% | 0.27324143% | 0.29402350% | 0.30057126% |
| State Bar's proportion share of the net pension liability balance at August 31 | \$ 58,442,218 | \$ 60,427,988 | \$ 53,984,064 | \$ 39,006,462 | \$ 43,465,009 |
| State Bar's covered payroll* | \$ 22,360,932 | \$ 20,632,468 | \$ 19,977,021 | \$ 19,590,734 | \$ 19,402,731 |
| State Bar's proportionate share of the net pension liability as a percentage of its covered payroll | 261.36% | 292.88% | 270.23% | 199.11% | 224.01% |
| Plan fiduciary net position as a percentage of total pension liability | 57.89% | 54.67% | 55.32% | 64.40% | 63.40% |

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

The schedule of changes in State Bar's proportionate share of net position liability and related ratio disclosure is required for 10 years. The schedule noted above is only for the years for which the new GASB statements have been implemented.

See notes to required supplementary information.

State Bar of Texas

Schedule of Employer Contributions—Net Pension Liability

| Fiscal Years Ended May 31, | Actuarially Determined Contributions | Contributions in Relation to the Actuarially Determined Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percent of Covered Payroll |
|-------------------------------|--|---|--|----------------------|--|
| 2019 | \$ 2,027,891 | \$ 2,027,891 | \$ - | \$ 21,023,817 | 9.65% |
| 2018 | 2,482,803 | 2,482,803 | - | 20,638,696 | 12.03% |
| 2017 | 2,371,089 | 2,371,089 | - | 19,794,416 | 11.98% |
| 2016 | 2,293,610 | 2,293,610 | - | 19,507,265 | 11.76% |
| 2015 | 1,845,751 | 1,845,751 | - | 19,427,203 | 9.50% |
| 2014 | 1,665,702 | 1,665,702 | - | 19,032,960 | 8.75% |
| 2013 | 1,376,433 | 1,376,433 | - | 18,584,172 | 7.41% |
| 2012 | 1,341,923 | 1,341,923 | - | 17,769,494 | 7.55% |
| 2011 | 1,373,078 | 1,373,078 | - | 16,932,249 | 8.11% |
| 2010 | 1,272,762 | 1,272,762 | - | 16,391,209 | 7.76% |

State Bar of Texas

Notes to Net Pension Liability May 31, 2019

Note 1. Changes of Benefit Terms—Pension Plan

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

For the years ended August 31, 2014, 2016, 2017 and 2018, there were no changes to the plan provisions.

Note 2. Changes of Assumptions—Pension Plan

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

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

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

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

State Bar of Texas

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

| | August 31, 2019 |
|--|----------------------|
| Measurement date | August 31, 2018 |
| State Bar's proportion share of the total OPEB liability | 0.12339085% |
| State Bar's proportion share of the total OPEB liability balance at August 31 | <u>\$ 36,570,262</u> |
| State Bar's covered payroll* | <u>\$ 20,632,467</u> |
| State Bar's proportionate share of the total OPEB liability as a percentage of its covered payroll | <u>177.25%</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | <u>1.27%</u> |

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

The schedule of changes in State Bar's proportionate share of total OPEB liability 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.

See notes to required supplementary information.

State Bar of Texas

Schedule of Employer Contributions—Total OPEB Liability

| Fiscal Years Ended May 31, | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percent of Covered Payroll |
|-------------------------------|--|---|--|----------------------|--|
| 2019 | \$ 1,016,477 | \$ 1,016,477 | \$ - | \$ 21,023,817 | 4.83% |
| 2018 | 976,371 | 976,371 | - | 20,638,696 | 4.73% |
| 2017 | 895,157 | 895,157 | - | 19,794,416 | 4.52% |
| 2016 | 763,559 | 763,559 | - | 19,507,265 | 3.91% |
| 2015 | 636,780 | 636,780 | - | 19,427,203 | 3.28% |

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

The information for all periods for the 10-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See notes to required supplementary information.

Note 1. Changes of Benefit Terms—OPEB Plan

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

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

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

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

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

Note 2. Changes of Assumptions— OPEB Plan

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

- Demographic assumptions (including rates of retirement, disability, termination, mortality and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the trustees from TRS.

Note 2. Changes of Assumptions— OPEB Plan (Continued)

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

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

- Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study.
- The percentage of current and future retirees and retirees spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends.
- Assumptions for administrative expenses, assumed per Capita Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience.
- Effects in short-term expectations and revised assumed rate of general inflation.

For the year ended August 31, 2016, the following assumptions have been changed since the previous OPEB valuation:

- Assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution Trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence.
- The proportion of future retirees covering dependent children and the percentage of future retirees and retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.

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

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience.

Note 2. Changes of Assumptions— OPEB Plan (Continued)

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

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

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

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Other Supplemental Information

State Bar of Texas

Combining Balance Sheet—Nonmajor Governmental Funds May 31, 2019

| | Texas Board of Legal Specialization Fund | Texas Bar College | Annual Meeting | Client Security Fund | Texas Law Center | Technology Fund | Project Grants Fund | Hatton W. Sumners Grants Fund | Law Focused Education | Department of Public Service | Total Nonmajor Governmental Funds |
|--|---|-------------------------|-------------------|----------------------------|------------------------|--------------------|---------------------------|--|-----------------------------|------------------------------------|--|
| Assets | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | |
| Cash and cash equivalents—cash in bank | \$ 1,550,891 | \$ 350,060 | \$ 734,438 | \$ 745,915 | \$ 392,798 | \$ - | \$ - | \$ 236,726 | \$ - | \$ - | \$ 4,010,828 |
| Investments | 700,000 | - | - | 2,282,258 | 3,603,039 | - | - | - | - | - | 6,585,297 |
| Receivables: | | | | | | | | | | | |
| Interest receivable | 2,110 | - | - | 5,384 | 14,297 | - | - | - | - | - | 21,791 |
| Other accounts receivable | 6,943 | - | - | - | - | - | - | - | - | - | 6,943 |
| Due from other governmental funds | - | - | - | - | - | 591,173 | 64,517 | - | 30,000 | - | 685,690 |
| Prepaid items | 9,277 | 3,585 | 87,416 | - | 39,334 | 198,139 | - | 1,347 | - | - | 339,098 |
| Total assets | \$ 2,269,221 | \$ 353,645 | \$ 821,854 | \$ 3,033,557 | \$ 4,049,468 | \$ 789,312 | \$ 64,517 | \$ 238,073 | \$ 30,000 | \$ - | \$ 11,649,647 |
| Liabilities and Fund Balances | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | |
| Accrued liabilities | \$ 6,720 | \$ 556 | \$ 500 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 7,776 |
| Due to other governmental funds | 147,644 | 23,757 | 26,684 | 425,010 | - | - | - | 58,343 | - | - | 681,438 |
| Unearned revenue | - | 136,952 | 449,506 | - | - | - | 64,517 | 178,383 | 30,000 | - | 859,358 |
| Total liabilities | 154,364 | 161,265 | 476,690 | 425,010 | - | - | 64,517 | 236,726 | 30,000 | - | 1,548,572 |
| Fund balances: | | | | | | | | | | | |
| Nonspendable | 9,277 | 3,585 | 87,416 | - | 39,334 | 198,139 | - | 1,347 | - | - | 339,098 |
| Committed | 2,105,580 | 188,795 | 257,748 | 2,608,547 | 4,010,134 | 591,173 | - | - | - | - | 9,761,977 |
| Total fund balances | 2,114,857 | 192,380 | 345,164 | 2,608,547 | 4,049,468 | 789,312 | - | 1,347 | - | - | 10,101,075 |
| Total liabilities and fund balances | \$ 2,269,221 | \$ 353,645 | \$ 821,854 | \$ 3,033,557 | \$ 4,049,468 | \$ 789,312 | \$ 64,517 | \$ 238,073 | \$ 30,000 | \$ - | \$ 11,649,647 |

State Bar of Texas

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Governmental Funds
Year Ended May 31, 2019**

| | Texas Board of Legal Specialization Fund | Texas Bar College | Annual Meeting | Client Security Fund | Texas Law Center | Technology Fund | Project Grants Fund | Hatton W. Summers Grants Fund | Law Focused Education | Department of Public Service | Total Nonmajor Governmental Funds |
|--|---|-------------------------|-------------------|----------------------------|------------------------|--------------------|---------------------------|--|-----------------------------|------------------------------------|--|
| Revenues: | | | | | | | | | | | |
| Membership dues | \$ 1,356,500 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,356,500 |
| Investment income | 34,705 | 4,933 | 7,569 | 67,647 | 119,618 | - | - | 110 | - | - | 234,582 |
| Grant revenue | - | - | - | - | - | - | 56,966 | 360,399 | - | 59,818 | 477,183 |
| Other income | 23,485 | 210,845 | 548,815 | 72,153 | - | - | - | - | - | - | 855,298 |
| Total revenues | 1,414,690 | 215,778 | 556,384 | 139,800 | 119,618 | - | 56,966 | 360,509 | - | 59,818 | 2,923,563 |
| Expenditures: | | | | | | | | | | | |
| Special services | 1,158,771 | 241,768 | 549,010 | - | - | - | 56,966 | 359,162 | - | 59,818 | 2,425,495 |
| Administration | - | - | - | - | 35,580 | - | - | - | - | - | 35,580 |
| Finance and information technology | - | - | - | - | - | 991,853 | - | - | - | - | 991,853 |
| Public Protection Division | - | - | - | 661,159 | - | - | - | - | - | - | 661,159 |
| Total expenditures | 1,158,771 | 241,768 | 549,010 | 661,159 | 35,580 | 991,853 | 56,966 | 359,162 | - | 59,818 | 4,114,087 |
| Excess (deficiency) of revenues over (under) expenditures | 255,919 | (25,990) | 7,374 | (521,359) | 84,038 | (991,853) | - | 1,347 | - | - | (1,190,524) |
| Other financing sources: | | | | | | | | | | | |
| Transfers in | - | - | - | 1,100,000 | 288,800 | 500,000 | - | - | - | - | 1,888,800 |
| Total other financing sources | - | - | - | 1,100,000 | 288,800 | 500,000 | - | - | - | - | 1,888,800 |
| Net change in fund balances | 255,919 | (25,990) | 7,374 | 578,641 | 372,838 | (491,853) | - | 1,347 | - | - | 698,276 |
| Fund balances at beginning of year | 1,858,938 | 218,370 | 337,790 | 2,029,906 | 3,676,630 | 1,281,165 | - | - | - | - | 9,402,799 |
| Fund balances at end of year | \$ 2,114,857 | \$ 192,380 | \$ 345,164 | \$ 2,608,547 | \$ 4,049,468 | \$ 789,312 | \$ - | \$ 1,347 | \$ - | \$ - | \$10,101,075 |

State Bar of Texas

Combining Statement of Revenues, Expenditures and Changes in Fund Balance— Governmental Funds Year Ended May 31, 2019

| | General Fund | Sections and Divisions | Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------------|---------------------------|-----------------------------------|--------------------------------|
| Revenues: | | | | |
| Membership dues | \$ 20,869,303 | \$ 2,578,252 | \$ 1,356,500 | \$ 24,804,055 |
| Accounting and management fees | 650,351 | - | - | 650,351 |
| Texas Bar Journal | 455,789 | - | - | 455,789 |
| MCLE fees | 3,804,158 | - | - | 3,804,158 |
| Professional development | 14,275,158 | 889,944 | - | 15,165,102 |
| Minority affairs | 413,301 | - | - | 413,301 |
| Investment income | 731,489 | 52,272 | 234,582 | 1,018,343 |
| Grant revenue | - | - | 477,183 | 477,183 |
| Member Benefits | 899,972 | - | - | 899,972 |
| Website | 588,026 | - | - | 588,026 |
| Advertising Review | 351,895 | - | - | 351,895 |
| CD disciplinary fees | 703,979 | - | - | 703,979 |
| Other income | 1,018,849 | 935,373 | 855,298 | 2,809,520 |
| Total revenues | 44,762,270 | 4,455,841 | 2,923,563 | 52,141,674 |
| Expenditures: | | | | |
| Salaries | 17,940,268 | | 503,631 | 18,443,899 |
| Benefits | 6,276,139 | | 190,107 | 6,466,246 |
| Travel | 1,794,269 | 474,809 | 240,338 | 2,509,416 |
| Meetings and conferences | 4,397,525 | 1,701,436 | 533,431 | 6,632,392 |
| Professional services | 2,916,843 | 770,286 | 299,303 | 3,986,432 |
| Court fees | 80,058 | - | - | 80,058 |
| Publicity and advertising | 424,008 | 14,231 | 132,045 | 570,284 |
| Dues, subscriptions and licenses | 613,570 | 2,224 | 57,328 | 673,122 |
| Education and training | 124,656 | 107,381 | 1,065 | 233,102 |
| Supplies, awards, gifts and specialty items | 491,757 | 45,894 | 295,752 | 833,403 |
| Rentals—office, equipment and storage | 1,306,733 | 2,217 | 126,493 | 1,435,443 |
| Maintenance and repairs | 531,578 | | 452,960 | 984,538 |
| Utilities | 234,632 | | - | 234,632 |
| Postage and freight | 716,378 | 16,980 | 39,655 | 773,013 |
| Telephone | 364,523 | 39,804 | 16,426 | 420,753 |
| Insurance | 488,641 | 159 | - | 488,800 |
| Claims and judgments | - | - | 661,160 | 661,160 |
| Administrative | 840,909 | 671,154 | 163,236 | 1,675,299 |
| Printing and copying | 1,240,664 | 228,837 | 61,272 | 1,530,773 |
| Capital outlay | 48,692 | | 289,086 | 337,778 |
| Debt service: | | | | |
| Principal | - | - | 46,571 | 46,571 |
| Interest | - | - | 4,228 | 4,228 |
| Total expenditures | 40,831,843 | 4,075,412 | 4,114,087 | 49,021,342 |
| Excess (deficiency) of revenues over (under) expenditures | 3,930,427 | 380,429 | (1,190,524) | 3,120,332 |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 1,888,800 | 1,888,800 |
| Transfers out | (1,888,800) | - | - | (1,888,800) |
| Other financing sources (uses) | (1,888,800) | - | 1,888,800 | - |
| Net change in fund balances | 2,041,627 | 380,429 | 698,276 | 3,120,332 |
| Fund balance at beginning of year, as restated | 15,708,250 | 7,843,920 | 9,402,799 | 32,954,969 |
| Fund balance at end of year | \$ 17,749,877 | \$ 8,224,349 | \$ 10,101,075 | \$ 36,075,301 |



State Bar of Texas

Review of Investment Performance

Quarter Ended November 30, 2019

Barry Baughier
Senior Managing Consultant
baughierb@pfm.com

PFM Asset Management
LLC

750 North Saint Paul St.
Suite 540
Dallas, TX 75201

214.247.7079
pfm.com



November 30, 2019

Below is a summary of the State Bar of Texas' investment holdings as of November 30, 2019. For additional, specific investment holding information, please refer to the attached statements for PFM Asset Management LLC, as well as the respective money market fund and checking account bank statements.

| Account Name | Month End Market Value |
|---|-------------------------------|
| Money Market Mutual Fund Investments | |
| PFM Funds Gov't Select Series - General Fund | 339,169.53 |
| PFM Funds Gov't Select Series - Client Security Fund | 728,525.42 |
| PFM Funds Gov't Select Series - Texas Law Center | 27,768.90 |
| PFM Funds Gov't Select Series - Board of Legal Specialization Fund | 1,027,991.01 |
| PFM Funds Gov't Select Series - Annual Meeting Funds | 317,475.66 |
| PFM Funds Gov't Select Series - Texas Bar College Special Revenue Funds | 193,822.20 |
| PFM Funds CD Program | 711,760.95 |
| High Yield Savings Accounts | |
| Plains Capital Bank - Hatton Sumner Grant Account | 55,481.20 |
| Plains Capital Bank - College Endowment Fund | 55,351.54 |
| <i>Total Short-Term Funds</i> | <i>3,457,346.41</i> |
| Individual Portfolios | |
| Client Security Fund | 1,853,409.44 |
| General Fund | 20,468,520.25 |
| Texas Law Center Fund | 4,388,364.20 |
| <i>Total Individual Portfolios</i> | <i>26,710,293.89</i> |
| <i>Grand Total</i> | <i>30,167,640.30</i> |
| Weighted Average Maturity | |
| Including Overnight Balances | 456 Days |
| Not Including Overnight Balances | 502 Days |

If you have any questions, do not hesitate to contact me at 214-247-7079 or baughierb@pfm.com.

Sincerely,

Barry Baughier



Portfolio Summary

| <u>Total Portfolio Value</u> | <u>November 30, 2019</u> | <u>August 31, 2019</u> | <u>November 30, 2018</u> |
|------------------------------------|--------------------------|------------------------|--------------------------|
| College Fund* | \$249,173.74 | \$292,184.55 | \$244,729.19 |
| Client Security Fund | \$2,581,934.86 | \$3,045,709.60 | \$2,979,391.21 |
| Board of Legal Specialization Fund | \$1,739,751.96 | \$1,989,840.08 | \$1,520,895.21 |
| Law Focused Education Fund | \$55,481.20 | \$104,211.38 | \$68,311.49 |
| Texas Law Center Fund | \$4,416,133.10 | \$4,436,812.07 | \$3,958,029.89 |
| Annual Meeting Fund** | \$317,475.66 | \$320,562.36 | \$344,645.83 |
| General Fund | \$20,807,689.78 | \$34,863,038.86 | \$27,942,146.38 |
| Totals | \$30,167,640.30 | \$45,052,358.90 | \$37,058,149.20 |

Portfolio Recap

General Fund

- The portfolios are fully invested in U.S. Treasuries, Federal Agencies, commercial paper, FDIC-insured CDs, and AAAM-rated money market mutual funds. Overall, the portfolios maintain high credit quality and necessary liquidity.
- The portfolio complies with Texas statutes and the State Bar's investment policy.
- The General Fund portfolio generated a quarterly total return of 0.43%, underperforming the benchmark 6-month Merrill Lynch Treasury Index return of 0.55%.

Other Funds

- The portfolio for each fund is designed to match the specific cash and liquidity needs of that fund.
- We continue to hold U.S. Treasuries and / or Federal Agency securities as the primary investments for the Texas Law Center and Client Security Fund portfolios.
- We will work with the State Bar to identify funds in overnight investments that could be invested in securities, adding value to the portfolios.
- We will work with the State Bar to target known future cash flow needs to maximize the benefit of the steep yield curve as well as determine an appropriate investment strategy.

* Includes College Endowment Fund balances.

** Please note that Convention Fund name has been changed to Annual Meeting Fund.



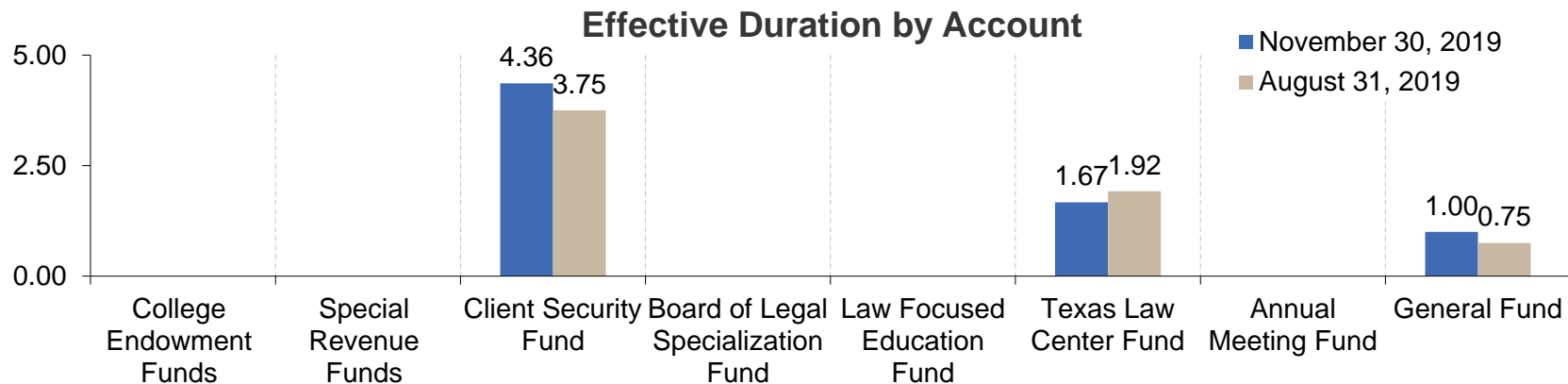
Portfolio Summary (*continued*)

- U.S. Gross Domestic Product (“GDP”) increased at an annual rate of 2.1% according to the Bureau of Economic Analysis’ second estimate for the third quarter of 2019. The slight upward revision from the first estimate of 1.9% was from private inventory investment, nonresidential fixed investment, and consumer spending.
- After the Federal Reserve cut rates by 25 basis points at both their September and October meetings, the Fed has hinted at a pause for future interest rate cuts, for now. However, the minutes from the October Federal Open Market Committee (“FOMC”) meeting offer a reminder that risks to the economy loom and that officials are ready to cut further if needed.
 - Most Fed officials saw interest rates as “well calibrated to support the outlook for moderate growth,” but “judged that the risks to the forecast for real GDP growth were tilted to the downside, with a corresponding skew to the upside for the unemployment rate.”
 - As of November 30, 2019, the target range for the Federal Funds Rate is between 1.50% and 1.75%.
- During November, U.S. Treasury yields generally rebounded across the curve as the Fed patiently waits to act on policy while assessing current economic conditions.
 - The yield curve continues to normalize from its inversion.
- November marked 110 months of job gains in the United States. The U.S. Department of Labor reported that 266,000 jobs were added during the month across various sectors, including healthcare, leisure, and hospitality. Although the number of jobs added was above expectations, a declining twelve-month moving average continues to show a sign of slowing job growth.
 - Jobs have grown an average of 205,000 jobs in the past 3 months, which signals slower growth in comparison to an average 223,000 jobs in 2018. The unemployment rate slightly decreased from 3.6% to 3.5%, near all-time lows again since 1969.



Portfolio Performance

| Yields | Yield To Maturity - At Market | | Yield To Maturity - On Cost | |
|---|-------------------------------|-----------------|-----------------------------|-----------------|
| | November 30, 2019 | August 31, 2019 | November 30, 2019 | August 31, 2019 |
| College Endowment Funds | 0.15% | 0.15% | 0.15% | 0.15% |
| Special Revenue Funds | 1.57% | 2.06% | 1.57% | 2.06% |
| Client Security Fund ¹ | 1.68% | 1.55% | 1.73% | 1.88% |
| Board of Legal Specialization Fund ² | 1.57% | 2.06% | 1.57% | 2.06% |
| Law Focused Education Fund ² | 0.05% | 0.05% | 0.05% | 0.05% |
| Texas Law Center Fund ¹ | 1.66% | 1.72% | 2.43% | 2.43% |
| Annual Meeting Fund ² | 1.57% | 2.06% | 1.57% | 2.06% |
| General Fund ¹ | 1.68% | 1.96% | 2.41% | 2.50% |



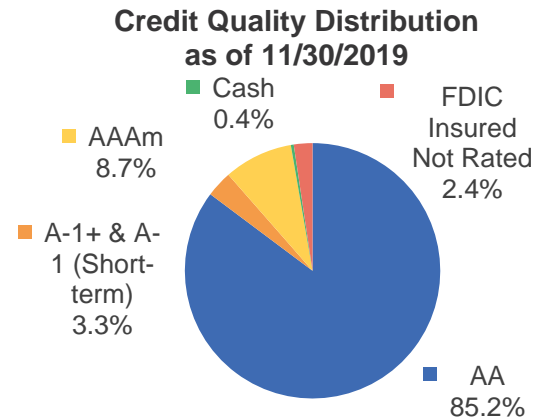
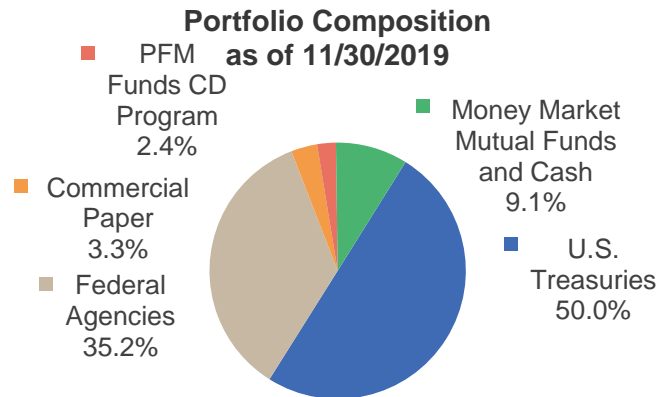
1. Does not include money market funds, FDIC-insured CDs or cash equivalents in performance, duration, and yield computations.

2. Yields for these funds represent the APY earned on balances held at Plains Capital Bank for the month prior to quarter end. Duration of each of the funds is equal to 1 day or approximately 0.003 years.



Composite Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> | <u>Permitted by Investment Policy</u> |
|------------------------------------|--------------------------|-----------------------|------------------------|-----------------------|---------------------------------------|
| U.S. Treasuries | \$15,096,988.11 | 50.0% | \$21,591,700.05 | 47.9% | 100% |
| Federal Agencies | \$10,614,546.78 | 35.2% | \$12,686,263.02 | 28.2% | 100% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% | 30% |
| Commercial Paper | \$998,759.00 | 3.3% | \$3,986,204.00 | 8.8% | 30% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% | 30% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% | 15% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% | 30% |
| PFM Funds CD Program | \$711,760.95 | 2.4% | \$706,961.63 | 1.6% | 30% |
| Money Market Mutual Funds and Cash | \$2,745,585.46 | 9.1% | \$6,081,230.20 | 13.5% | 100% |
| Totals | \$30,167,640.30 | 100.0% | \$45,052,358.90 | 100.0% | |



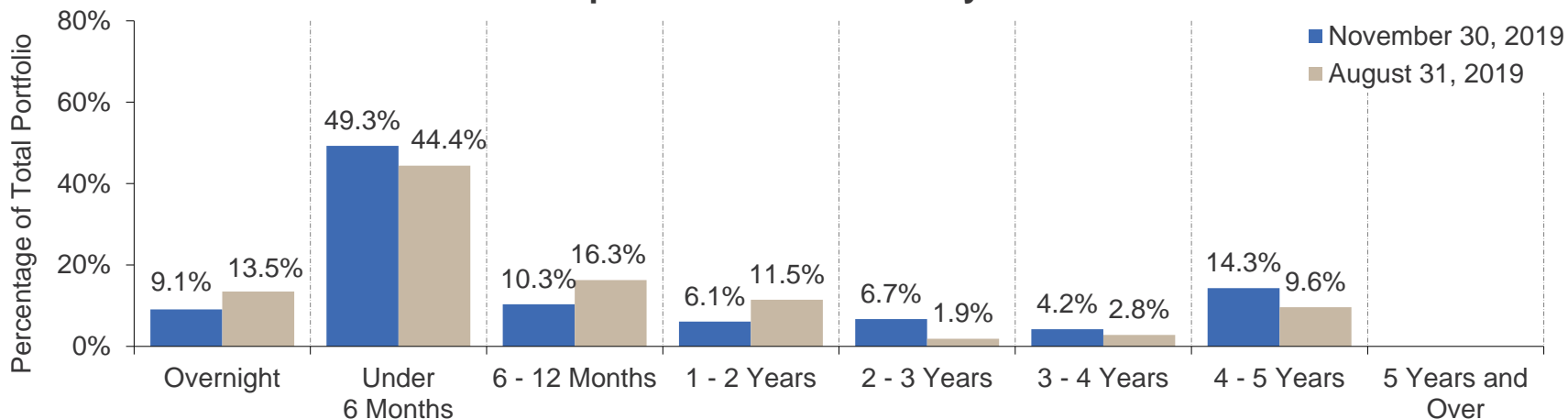
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



Composite Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>November 30, 2019</u> | <u>August 31, 2019</u> |
|------------------------------|--------------------------|------------------------|
| Overnight | \$2,745,585.46 | \$6,081,230.20 |
| Under 6 Months | \$14,862,054.21 | \$20,014,849.30 |
| 6 - 12 Months | \$3,116,510.86 | \$7,336,838.13 |
| 1 - 2 Years | \$1,839,429.91 | \$5,168,522.70 |
| 2 - 3 Years | \$2,019,811.63 | \$838,562.33 |
| 3 - 4 Years | \$1,271,409.92 | \$1,272,612.66 |
| 4 - 5 Years | \$4,312,838.31 | \$4,339,743.58 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$30,167,640.30 | \$45,052,358.90 |

Composite Portfolio Maturity Distribution

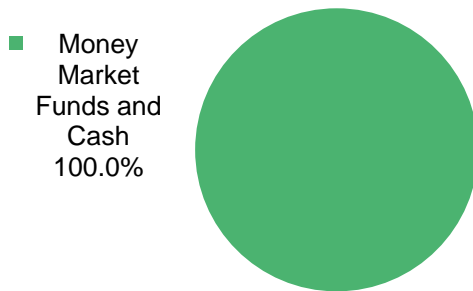




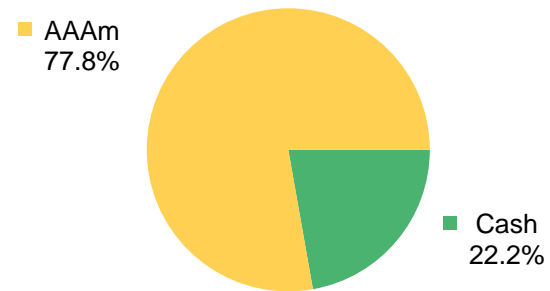
State Bar College Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$249,173.74 | 100.0% | \$292,184.55 | 100.0% |
| Totals | \$249,173.74 | 100.0% | \$292,184.55 | 100.0% |

**Portfolio Composition
as of 11/30/2019**



**Credit Quality
as of 11/30/2019**



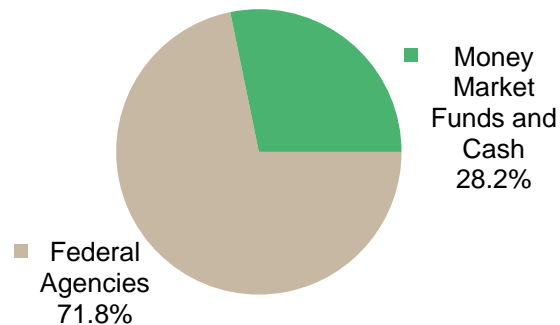
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



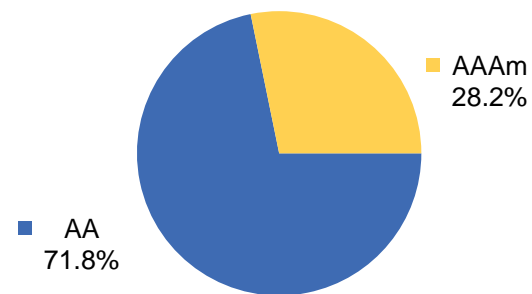
State Bar Client Security Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$455,441.33 | 15.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$1,853,409.44 | 71.8% | \$1,864,971.77 | 61.2% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$728,525.42 | 28.2% | \$725,296.50 | 23.8% |
| Totals | \$2,581,934.86 | 100.0% | \$3,045,709.60 | 100.0% |

**Portfolio Composition
as of 11/30/2019**



**Credit Quality
as of 11/30/2019**



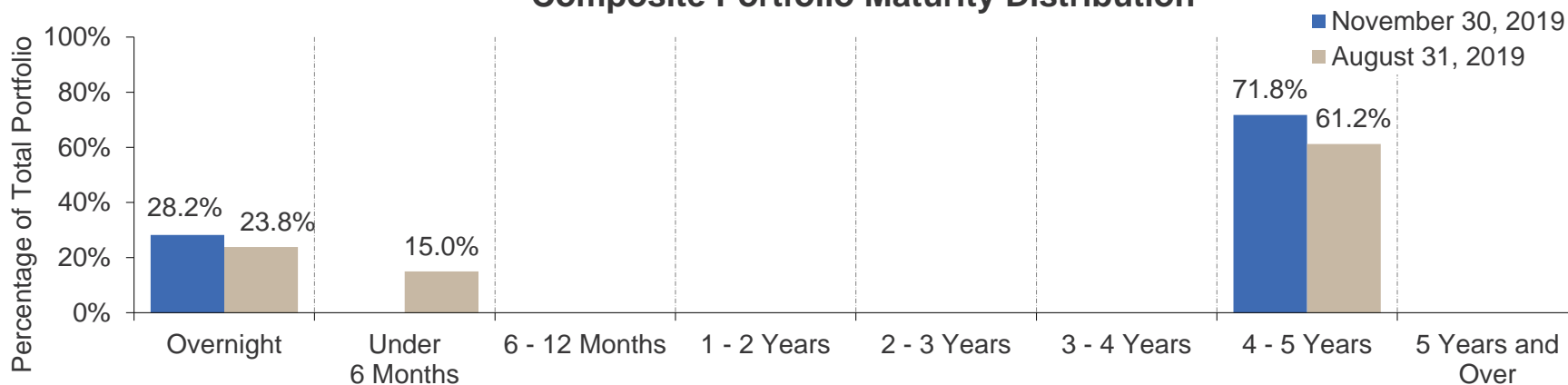
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



Client Security Fund Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>November 30, 2019</u> | <u>August 31, 2019</u> |
|------------------------------|--------------------------|------------------------|
| Overnight | \$728,525.42 | \$725,296.50 |
| Under 6 Months | \$0.00 | \$455,441.33 |
| 6 - 12 Months | \$0.00 | \$0.00 |
| 1 - 2 Years | \$0.00 | \$0.00 |
| 2 - 3 Years | \$0.00 | \$0.00 |
| 3 - 4 Years | \$0.00 | \$0.00 |
| 4 - 5 Years | \$1,853,409.44 | \$1,864,971.77 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$2,581,934.86 | \$3,045,709.60 |

Composite Portfolio Maturity Distribution

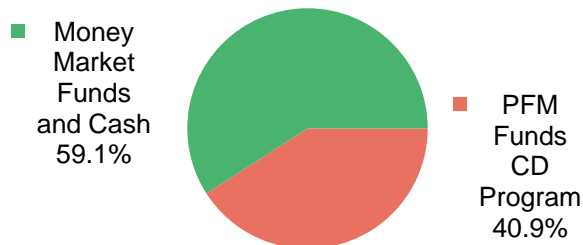




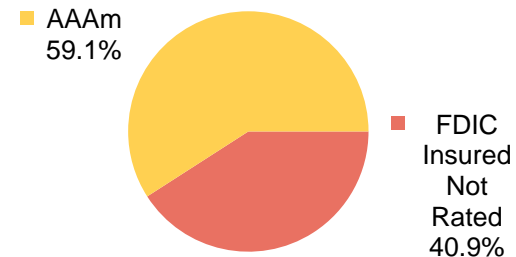
State Bar Board of Legal Specialization Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| PFM Funds CD Program | \$711,760.95 | 40.9% | \$706,961.63 | 35.5% |
| Money Market Funds and Cash | \$1,027,991.01 | 59.1% | \$1,282,878.45 | 64.5% |
| Totals | \$1,739,751.96 | 100.0% | \$1,989,840.08 | 100.0% |

**Portfolio Composition
as of 11/30/2019**



**Credit Quality
as of 11/30/2019**



Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.

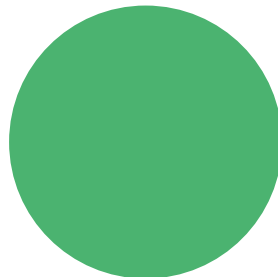


State Bar Law Focused Education Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$55,481.20 | 100.0% | \$104,211.38 | 100.0% |
| Totals | \$55,481.20 | 100.0% | \$104,211.38 | 100.0% |

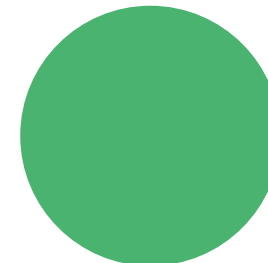
**Portfolio Composition
as of 11/30/2019**

■ Money
Market
Funds
and Cash
100.0%



**Credit Quality
as of 11/30/2019**

■ Cash
100.0%



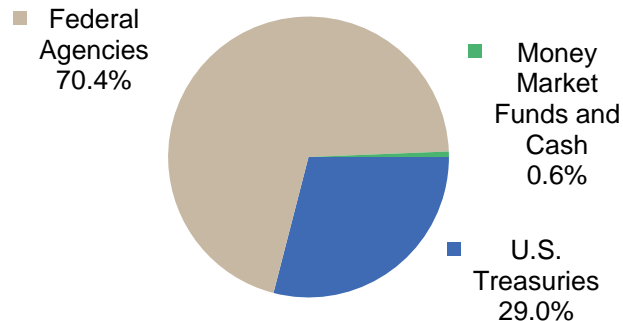
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



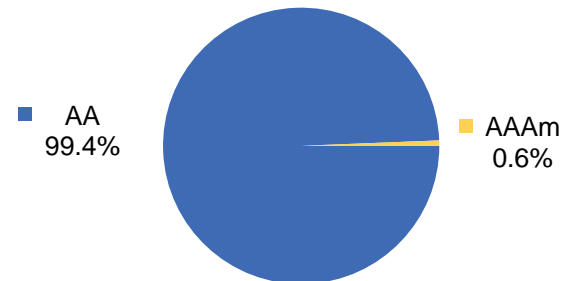
State Bar Texas Law Center Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|------------------------|-----------------------|
| U.S. Treasuries | \$1,281,441.90 | 29.0% | \$1,277,557.75 | 28.8% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$3,106,922.30 | 70.4% | \$3,131,608.49 | 70.6% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$27,768.90 | 0.6% | \$27,645.83 | 0.6% |
| Totals | \$4,416,133.10 | 100.0% | \$4,436,812.07 | 100.0% |

**Portfolio Composition
as of 11/30/2019**



**Credit Quality
as of 11/30/2019**



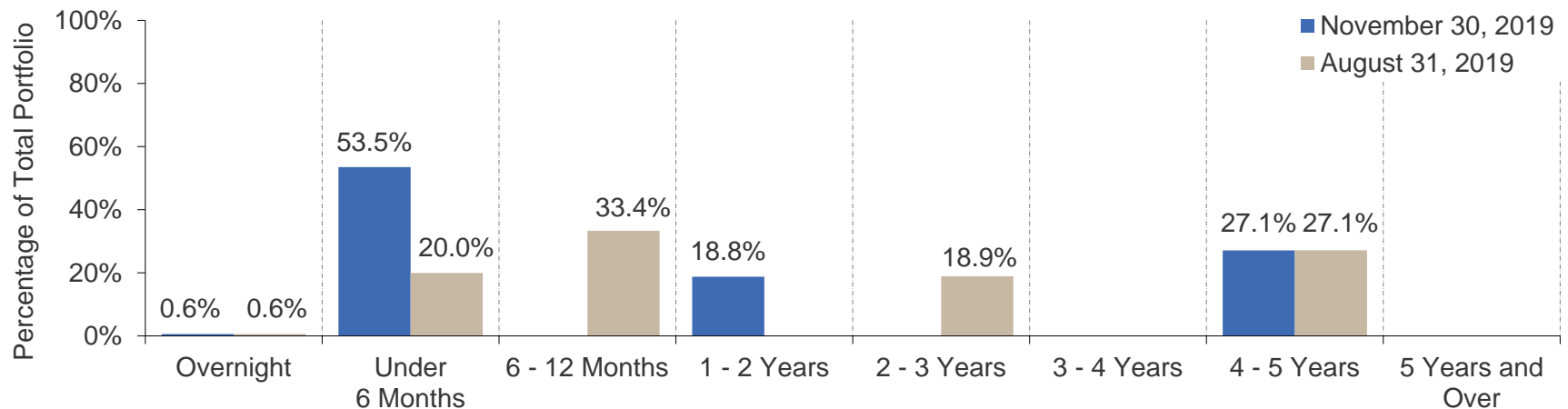
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



Texas Law Center Fund Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>November 30, 2019</u> | <u>August 31, 2019</u> |
|------------------------------|--------------------------|------------------------|
| Overnight | \$27,768.90 | \$27,645.83 |
| Under 6 Months | \$2,363,201.39 | \$886,459.31 |
| 6 - 12 Months | \$0.00 | \$1,479,789.53 |
| 1 - 2 Years | \$828,274.43 | \$0.00 |
| 2 - 3 Years | \$0.00 | \$838,562.33 |
| 3 - 4 Years | \$0.00 | \$0.00 |
| 4 - 5 Years | \$1,196,888.38 | \$1,204,355.07 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$4,416,133.10 | \$4,436,812.07 |

Composite Portfolio Maturity Distribution

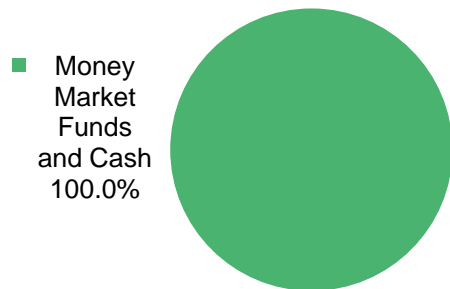




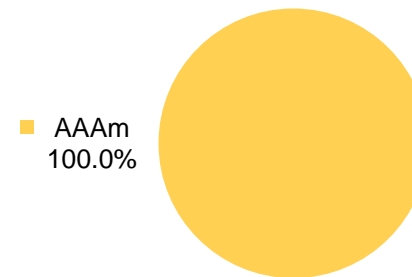
State Bar Annual Meeting Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$317,475.66 | 100.0% | \$320,562.36 | 100.0% |
| Totals | \$317,475.66 | 100.0% | \$320,562.36 | 100.0% |

**Portfolio Composition
as of 11/30/2019**



**Credit Quality
as of 11/30/2019**

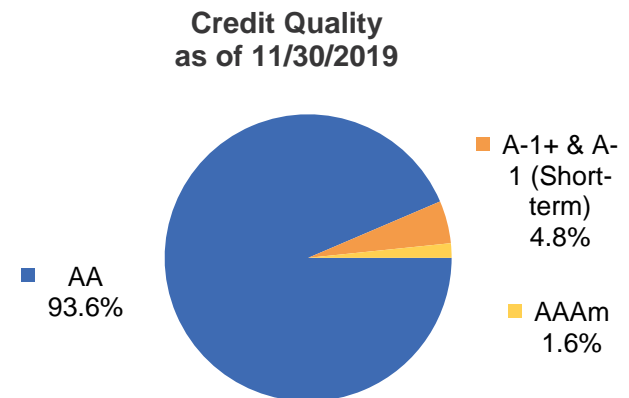
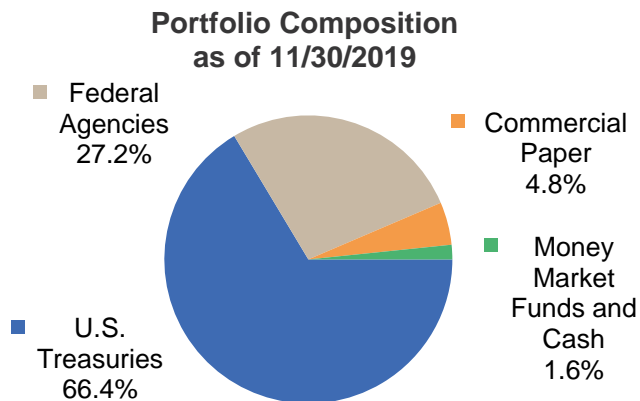


Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



State Bar General Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>November 30, 2019</u> | <u>% of Portfolio</u> | <u>August 31, 2019</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|------------------------|-----------------------|
| U.S. Treasuries | \$13,815,546.21 | 66.4% | \$19,858,700.97 | 57.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$5,654,215.04 | 27.2% | \$7,689,682.76 | 22.1% |
| Commercial Paper | \$998,759.00 | 4.8% | \$3,986,204.00 | 11.4% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$339,169.53 | 1.6% | \$3,328,451.13 | 9.5% |
| Totals | \$20,807,689.78 | 100.0% | \$34,863,038.86 | 100.0% |



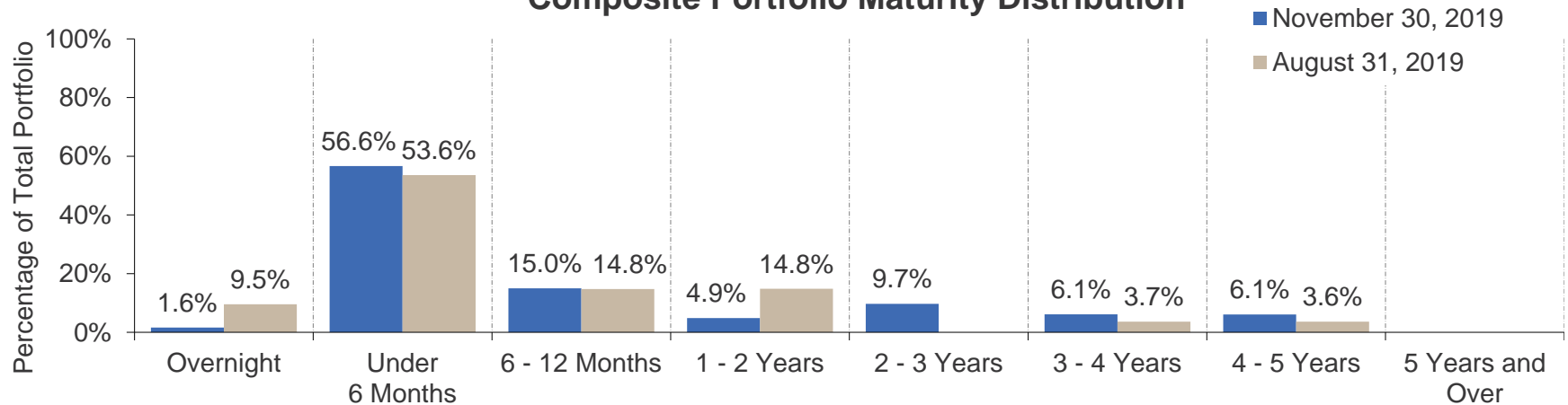
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



General Fund Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>November 30, 2019</u> | <u>August 31, 2019</u> |
|------------------------------|--------------------------|------------------------|
| Overnight | \$339,169.53 | \$3,328,451.13 |
| Under 6 Months | \$11,787,091.87 | \$18,672,948.66 |
| 6 - 12 Months | \$3,116,510.86 | \$5,150,086.97 |
| 1 - 2 Years | \$1,011,155.48 | \$5,168,522.70 |
| 2 - 3 Years | \$2,019,811.63 | \$0.00 |
| 3 - 4 Years | \$1,271,409.92 | \$1,272,612.66 |
| 4 - 5 Years | \$1,262,540.49 | \$1,270,416.74 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$20,807,689.78 | \$34,863,038.86 |

Composite Portfolio Maturity Distribution

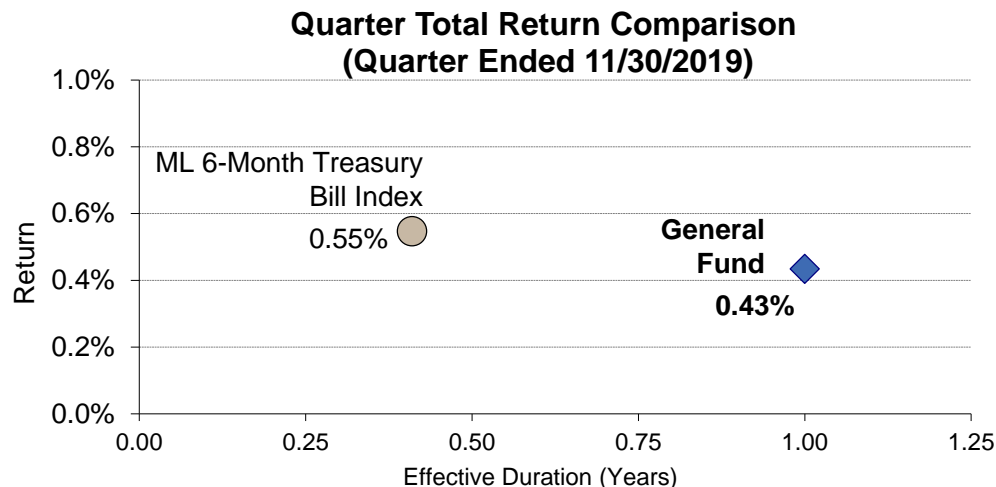




General Fund Portfolio Performance

| Total Return | November 30, 2019 | Last 6 Months | Annualized Since Inception |
|---|-------------------|---------------|----------------------------|
| State Bar of Texas General Fund | 0.43% | 1.31% | 1.52% |
| Merrill Lynch 6-Month Treasury Bill Index | 0.55% | 1.28% | 1.44% |

| Duration | November 30, 2019 | August 31, 2019 | Yields | November 30, 2019 |
|---|-------------------|-----------------|-----------------|-------------------|
| State Bar of Texas General Fund | 1.00 | 0.75 | Yield at Market | 1.68% |
| Merrill Lynch 6-Month Treasury Bill Index | 0.41 | 0.41 | Yield on Cost | 2.41% |



1. Performance on trade date basis, gross-of-fees in accordance with the CFA Institute's Global Investment Performance Standards.
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. The total returns shown for periods longer than 1 year are the annualized returns for the stated period.
4. The total returns shown for periods shorter than 1 year are the periodic returns for the stated period.
5. Since inception performance is calculated from May 31, 2006 to present.
6. Does not include money market fund in performance, duration, and yield computations as we do not consider these funds to be discretionary in nature.



Consolidated Summary Statement

Account Statement

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS

Portfolio Summary

| Portfolio Holdings | Cash Dividends and Income | Closing Market Value |
|---------------------|------------------------------|-------------------------|
| PFM Managed Account | 214,605.50 | 26,588,512.33 |
| Total | \$214,605.50 | \$26,588,512.33 |

Investment Allocation

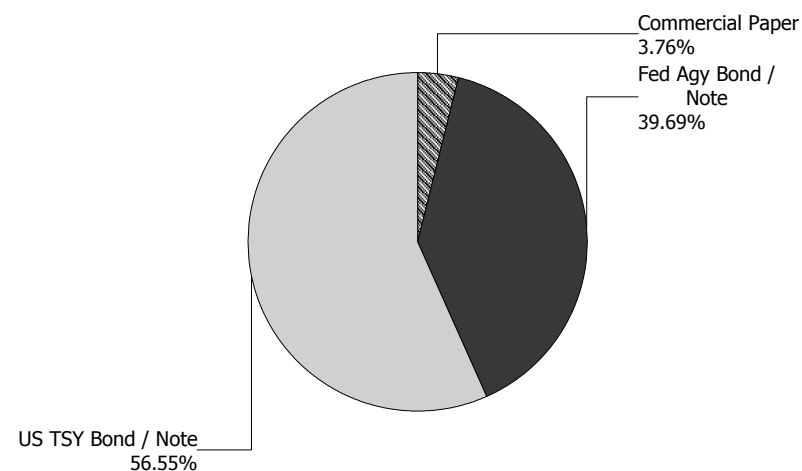
| Investment Type | Closing Market Value | Percent |
|----------------------------|------------------------|----------------|
| Commercial Paper | 998,759.00 | 3.76 |
| Federal Agency Bond / Note | 10,552,131.92 | 39.69 |
| U.S. Treasury Bond / Note | 15,037,621.41 | 56.55 |
| Total | \$26,588,512.33 | 100.00% |

Maturity Distribution (Fixed Income Holdings)

| Portfolio Holdings | Closing Market Value | Percent |
|--------------------|------------------------|----------------|
| Under 30 days | 2,993,491.67 | 11.25 |
| 31 to 60 days | 2,985,111.00 | 11.23 |
| 61 to 90 days | 995,846.75 | 3.75 |
| 91 to 180 days | 7,116,764.14 | 26.77 |
| 181 days to 1 year | 3,111,299.09 | 11.70 |
| 1 to 2 years | 1,832,331.35 | 6.89 |
| 2 to 3 years | 2,014,076.28 | 7.57 |
| 3 to 4 years | 1,256,436.17 | 4.73 |
| 4 to 5 years | 4,283,155.88 | 16.11 |
| Over 5 years | 0.00 | 0.00 |
| Total | \$26,588,512.33 | 100.00% |

Weighted Average Days to Maturity **511**

Sector Allocation



**Account Statement**For the Month Ending **November 30, 2019****Consolidated Summary Statement****STATE BAR OF TEXAS**

| Account Number | Account Name | Opening Market Value | Purchases / Deposits | Redemptions / Sales / Maturities | Unsettled Trades | Change in Value | Closing Market Value | Cash Dividends and Income |
|-----------------------|---|-----------------------------|-----------------------------|---|-------------------------|------------------------|-----------------------------|----------------------------------|
| 81125010 | STATE BAR OF TEXAS GENERAL FUND | 29,423,170.86 | 2,013,301.76 | (11,045,000.00) | 0.00 | (10,690.21) | 20,380,782.41 | 202,448.47 |
| 81125011 | STATE BAR OF TEXAS CLIENT SECURITY FUND | 2,303,799.51 | 0.00 | (455,000.00) | 0.00 | (8,145.87) | 1,840,653.64 | 12,157.03 |
| 81125014 | STATE BAR OF TEXAS TEXAS LAW CENTER | 4,374,836.26 | 0.00 | 0.00 | 0.00 | (7,759.98) | 4,367,076.28 | 0.00 |
| Total | | \$36,101,806.63 | \$2,013,301.76 | (\$11,500,000.00) | \$0.00 | (\$26,596.06) | \$26,588,512.33 | \$214,605.50 |



Managed Account Summary Statement

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

Transaction Summary - Managed Account

| | |
|-----------------------------|------------------------|
| Opening Market Value | \$29,423,170.86 |
| Maturities/Calls | (11,045,000.00) |
| Principal Dispositions | 0.00 |
| Principal Acquisitions | 2,013,301.76 |
| Unsettled Trades | 0.00 |
| Change in Current Value | (10,690.21) |
| Closing Market Value | \$20,380,782.41 |

Cash Transactions Summary - Managed Account

| | |
|---------------------------------|----------------|
| Maturities/Calls | 11,045,000.00 |
| Sale Proceeds | 0.00 |
| Coupon/Interest/Dividend Income | 97,870.25 |
| Principal Payments | 0.00 |
| Security Purchases | (2,016,962.62) |
| Net Cash Contribution | (9,125,907.63) |
| Reconciling Transactions | 0.00 |

Earnings Reconciliation (Cash Basis) - Managed Account

| | |
|---|---------------------|
| Interest/Dividends/Coupons Received | 97,870.25 |
| Less Purchased Interest Related to Interest/Coupons | (3,660.86) |
| Plus Net Realized Gains/Losses | 108,239.08 |
| Total Cash Basis Earnings | \$202,448.47 |

Cash Balance

Closing Cash Balance **\$0.00**

Earnings Reconciliation (Accrual Basis)

| | Total |
|--|--------------------|
| Ending Amortized Value of Securities | 20,300,853.87 |
| Ending Accrued Interest | 87,737.84 |
| Plus Proceeds from Sales | 0.00 |
| Plus Proceeds of Maturities/Calls/Principal Payments | 11,045,000.00 |
| Plus Coupons/Dividends Received | 97,870.25 |
| Less Cost of New Purchases | (2,016,962.62) |
| Less Beginning Amortized Value of Securities | (29,314,864.42) |
| Less Beginning Accrued Interest | (141,533.56) |
| Total Accrual Basis Earnings | \$58,101.36 |



Portfolio Summary and Statistics

For the Month Ending **November 30, 2019**

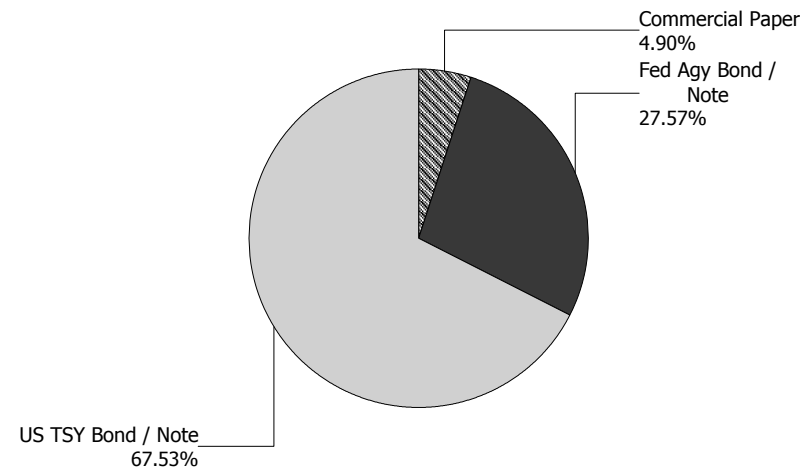
STATE BAR OF TEXAS GENERAL FUND - 81125010

Account Summary

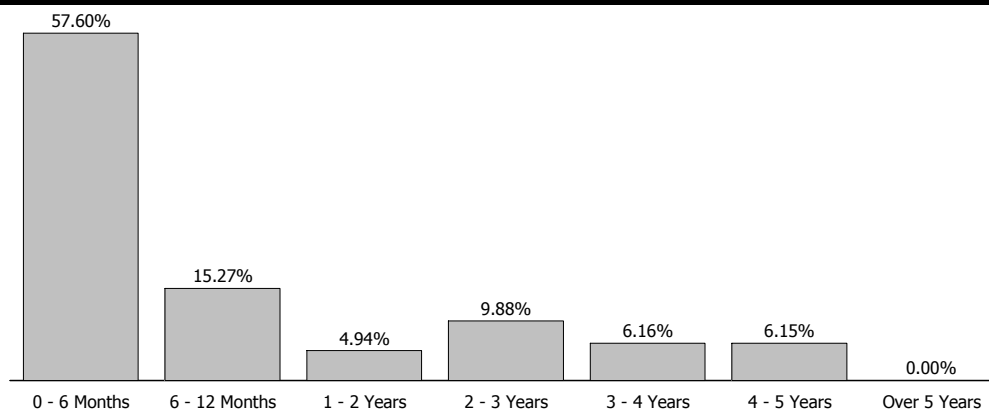
| Description | Par Value | Market Value | Percent |
|----------------------------------|----------------------|----------------------|----------------|
| U.S. Treasury Bond / Note | 13,735,000.00 | 13,763,106.15 | 67.53 |
| Federal Agency Bond / Note | 5,545,000.00 | 5,618,917.26 | 27.57 |
| Commercial Paper | 1,000,000.00 | 998,759.00 | 4.90 |
| Managed Account Sub-Total | 20,280,000.00 | 20,380,782.41 | 100.00% |
| Accrued Interest | | 87,737.84 | |
| Total Portfolio | 20,280,000.00 | 20,468,520.25 | |

Unsettled Trades **0.00** **0.00**

Sector Allocation



Maturity Distribution



Characteristics

| | |
|-----------------------------------|-------|
| Yield to Maturity at Cost | 2.41% |
| Yield to Maturity at Market | 1.68% |
| Duration to Worst | 1.00 |
| Weighted Average Days to Maturity | 379 |



Managed Account Issuer Summary

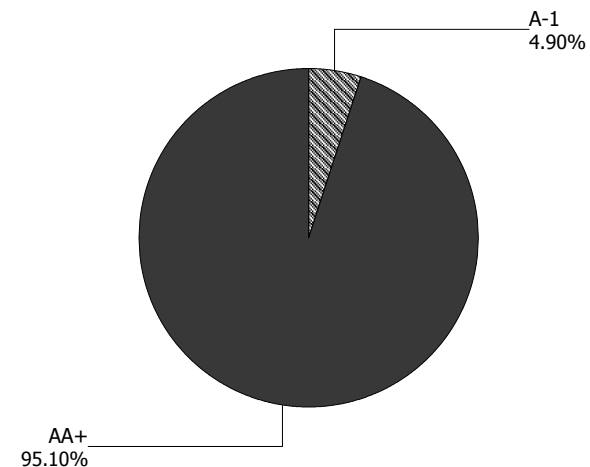
For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

Issuer Summary

| Issuer | Market Value of Holdings | Percent |
|-------------------------|-----------------------------|----------------|
| FANNIE MAE | 3,366,634.34 | 16.52 |
| FEDERAL HOME LOAN BANKS | 995,846.75 | 4.89 |
| FREDDIE MAC | 1,256,436.17 | 6.16 |
| JP MORGAN CHASE & CO | 998,759.00 | 4.90 |
| UNITED STATES TREASURY | 13,763,106.15 | 67.53 |
| Total | \$20,380,782.41 | 100.00% |

Credit Quality (S&P Ratings)





Managed Account Detail of Securities Held

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|--|-----------|----------------------|---------------|-------------------|---------------|----------------|----------------------|----------------|---------------------|----------------------|----------------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/15/2016 1.375% 12/15/2019 | 912828U73 | 1,995,000.00 | AA+ | Aaa | 06/06/19 | 06/07/19 | 1,986,038.09 | 2.25 | 12,666.34 | 1,994,343.33 | 1,994,732.67 |
| US TREASURY NOTES DTD 01/02/2018 1.875% 12/31/2019 | 9128283N8 | 2,100,000.00 | AA+ | Aaa | 11/27/18 | 11/27/18 | 2,080,066.41 | 2.76 | 16,477.58 | 2,098,501.86 | 2,100,199.50 |
| US TREASURY NOTES DTD 02/28/2013 1.250% 02/29/2020 | 912828UQ1 | 1,515,000.00 | AA+ | Aaa | 03/12/19 | 03/12/19 | 1,496,476.76 | 2.54 | 4,786.40 | 1,510,238.75 | 1,513,224.42 |
| US TREASURY NOTES DTD 03/15/2017 1.625% 03/15/2020 | 912828W63 | 2,000,000.00 | AA+ | Aaa | 02/22/19 | 02/25/19 | 1,981,093.75 | 2.54 | 6,875.00 | 1,994,771.06 | 1,999,610.00 |
| US TREASURY NOTES DTD 04/30/2013 1.125% 04/30/2020 | 912828VA5 | 2,140,000.00 | AA+ | Aaa | 11/27/18 | 11/27/18 | 2,089,843.75 | 2.81 | 2,050.34 | 2,125,217.20 | 2,135,403.28 |
| US TREASURY NOTES DTD 05/31/2013 1.375% 05/31/2020 | 912828VF4 | 1,000,000.00 | AA+ | Aaa | 05/15/19 | 05/16/19 | 990,234.38 | 2.33 | 37.57 | 995,308.28 | 998,516.00 |
| US TREASURY NOTES DTD 03/31/2014 2.250% 03/31/2021 | 912828C57 | 1,000,000.00 | AA+ | Aaa | 05/15/19 | 05/16/19 | 1,001,171.88 | 2.19 | 3,811.48 | 1,000,844.66 | 1,007,344.00 |
| UNITED STATES TREASURY NOTES DTD 04/15/2019 2.250% 04/15/2022 | 9128286M7 | 1,985,000.00 | AA+ | Aaa | 11/13/19 | 11/14/19 | 2,013,301.76 | 1.65 | 5,735.35 | 2,012,768.15 | 2,014,076.28 |
| Security Type Sub-Total | | 13,735,000.00 | | | | | 13,638,226.78 | 2.40 | 52,440.06 | 13,731,993.29 | 13,763,106.15 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLB NOTES DTD 02/09/2018 2.125% 02/11/2020 | 3130ADN32 | 995,000.00 | AA+ | Aaa | 07/12/18 | 07/13/18 | 987,706.65 | 2.60 | 6,460.59 | 994,089.74 | 995,846.75 |
| FANNIE MAE NOTES DTD 11/01/2018 2.875% 10/30/2020 | 3135G0U84 | 2,090,000.00 | AA+ | Aaa | 11/27/18 | 11/27/18 | 2,088,892.30 | 2.90 | 5,174.20 | 2,089,479.05 | 2,112,783.09 |
| FREDDIE MAC NOTES DTD 06/11/2018 2.750% 06/19/2023 | 3137EAEN5 | 1,210,000.00 | AA+ | Aaa | 07/15/19 | 07/16/19 | 1,249,833.20 | 1.88 | 14,973.75 | 1,246,158.45 | 1,256,436.17 |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 1,250,000.00 | AA+ | Aaa | 07/15/19 | 07/16/19 | 1,240,262.50 | 1.92 | 8,689.24 | 1,240,967.78 | 1,253,851.25 |
| Security Type Sub-Total | | 5,545,000.00 | | | | | 5,566,694.65 | 2.40 | 35,297.78 | 5,570,695.02 | 5,618,917.26 |



Managed Account Detail of Securities Held

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|---|-----------|------------------------|---------------|-------------------|---------------|----------------|------------------------|----------------|---------------------|------------------------|------------------------|
| Commercial Paper | | | | | | | | | | | |
| JP MORGAN SECURITIES LLC COMM PAPER DTD 04/02/2019 0.000% 12/27/2019 | 46640QZT1 | 1,000,000.00 | A-1 | P-1 | 04/02/19 | 04/02/19 | 981,020.56 | 2.59 | 0.00 | 998,165.56 | 998,759.00 |
| Security Type Sub-Total | | 1,000,000.00 | | | | | 981,020.56 | 2.59 | 0.00 | 998,165.56 | 998,759.00 |
| Managed Account Sub-Total | | 20,280,000.00 | | | | | 20,185,941.99 | 2.41 | 87,737.84 | 20,300,853.87 | 20,380,782.41 |
| Securities Sub-Total | | \$20,280,000.00 | | | | | \$20,185,941.99 | 2.41% | \$87,737.84 | \$20,300,853.87 | \$20,380,782.41 |
| Accrued Interest | | | | | | | | | | | \$87,737.84 |
| Total Investments | | | | | | | | | | | \$20,468,520.25 |



Managed Account Fair Market Value & Analytics

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst at Mkt | YTM |
|---|-----------|----------------------|----------|-------------------|-----------------|----------------------|-----------------------|--------------------------|-----------------------|-----------------------------|-------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/15/2016 1.375% 12/15/2019 | 912828U73 | 1,995,000.00 | CITIGRP | | 99.99 | 1,994,732.67 | 8,694.58 | 389.34 | 0.04 | 0.04 | 1.69 |
| US TREASURY NOTES DTD 01/02/2018 1.875% 12/31/2019 | 9128283N8 | 2,100,000.00 | MORGAN_S | | 100.01 | 2,100,199.50 | 20,133.09 | 1,697.64 | 0.08 | 0.08 | 1.75 |
| US TREASURY NOTES DTD 02/28/2013 1.250% 02/29/2020 | 912828UO1 | 1,515,000.00 | NOMURA | | 99.88 | 1,513,224.42 | 16,747.66 | 2,985.67 | 0.25 | 0.25 | 1.72 |
| US TREASURY NOTES DTD 03/15/2017 1.625% 03/15/2020 | 912828W63 | 2,000,000.00 | GOLDMAN | | 99.98 | 1,999,610.00 | 18,516.25 | 4,838.94 | 0.29 | 0.29 | 1.69 |
| US TREASURY NOTES DTD 04/30/2013 1.125% 04/30/2020 | 912828VA5 | 2,140,000.00 | BARCLAYS | | 99.79 | 2,135,403.28 | 45,559.53 | 10,186.08 | 0.41 | 0.41 | 1.64 |
| US TREASURY NOTES DTD 05/31/2013 1.375% 05/31/2020 | 912828VF4 | 1,000,000.00 | NOMURA | | 99.85 | 998,516.00 | 8,281.62 | 3,207.72 | 0.50 | 0.50 | 1.67 |
| US TREASURY NOTES DTD 03/31/2014 2.250% 03/31/2021 | 912828C57 | 1,000,000.00 | MORGAN_S | | 100.73 | 1,007,344.00 | 6,172.12 | 6,499.34 | 1.31 | 1.31 | 1.69 |
| UNITED STATES TREASURY NOTES DTD 04/15/2019 2.250% 04/15/2022 | 9128286M7 | 1,985,000.00 | GOLDMAN | | 101.46 | 2,014,076.28 | 774.52 | 1,308.13 | 2.30 | 2.30 | 1.62 |
| Security Type Sub-Total | | 13,735,000.00 | | | | 13,763,106.15 | 124,879.37 | 31,112.86 | 0.62 | 0.62 | 1.68 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLB NOTES DTD 02/09/2018 2.125% 02/11/2020 | 3130ADN32 | 995,000.00 | MORGAN_S | | 100.09 | 995,846.75 | 8,140.10 | 1,757.01 | 0.20 | 0.20 | 1.68 |
| FANNIE MAE NOTES DTD 11/01/2018 2.875% 10/30/2020 | 3135G0U84 | 2,090,000.00 | MORGAN_S | | 101.09 | 2,112,783.09 | 23,890.79 | 23,304.04 | 0.90 | 0.90 | 1.67 |
| FREDDIE MAC NOTES DTD 06/11/2018 2.750% 06/19/2023 | 3137EAEN5 | 1,210,000.00 | CITIGRP | | 103.84 | 1,256,436.17 | 6,602.97 | 10,277.72 | 3.35 | 3.35 | 1.63 |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 1,250,000.00 | CITIGRP | | 100.31 | 1,253,851.25 | 13,588.75 | 12,883.47 | 4.36 | 4.36 | 1.68 |
| Security Type Sub-Total | | 5,545,000.00 | | | | 5,618,917.26 | 52,222.61 | 48,222.24 | 2.10 | 2.10 | 1.67 |
| Commercial Paper | | | | | | | | | | | |
| JP MORGAN SECURITIES LLC COMM PAPER DTD 04/02/2019 0.000% 12/27/2019 | 46640OZT1 | 1,000,000.00 | JPM_CHAS | | 99.88 | 998,759.00 | 17,738.44 | 593.44 | 0.07 | 0.07 | 1.66 |



Managed Account Fair Market Value & Analytics

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst at Mkt | YTM |
|---|-------|-----------------|--------|-------------------|-----------------|-----------------|-----------------------|--------------------------|-----------------------|-----------------------------|-------|
| Security Type Sub-Total | | 1,000,000.00 | | | | 998,759.00 | 17,738.44 | 593.44 | 0.07 | 0.07 | 1.66 |
| Managed Account Sub-Total | | 20,280,000.00 | | | | 20,380,782.41 | 194,840.42 | 79,928.54 | 1.00 | 1.00 | 1.68 |
| Securities Sub-Total | | \$20,280,000.00 | | | | \$20,380,782.41 | \$194,840.42 | \$79,928.54 | 1.00 | 1.00 | 1.68% |
| Accrued Interest | | | | | | \$87,737.84 | | | | | |
| Total Investments | | | | | | \$20,468,520.25 | | | | | |



Managed Account Security Transactions & Interest

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Transaction Type | | Security Description | CUSIP | Par | Principal Proceeds | Accrued Interest | Total | Realized G/L | Realized G/L | Sale Method |
|----------------------------|----------|---|-----------|---------------|--------------------|------------------|----------------|--------------|--------------|-------------|
| Trade | Settle | | | | | | | Cost | Amort Cost | |
| BUY | | | | | | | | | | |
| 11/13/19 | 11/14/19 | UNITED STATES TREASURY NOTES DTD 04/15/2019 2.250% 04/15/2022 | 9128286M7 | 1,985,000.00 | (2,013,301.76) | (3,660.86) | (2,016,962.62) | | | |
| Transaction Type Sub-Total | | | | 1,985,000.00 | (2,013,301.76) | (3,660.86) | (2,016,962.62) | | | |
| INTEREST | | | | | | | | | | |
| 11/14/19 | 11/14/19 | FFCB NOTES (CALLED OMD 05/14/2021) DTD 05/14/2019 2.440% 11/14/2019 | 3133EKLH7 | 1,995,000.00 | 0.00 | 24,339.00 | 24,339.00 | | | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,520,000.00 | 0.00 | 22,050.00 | 22,050.00 | | | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 2,025,000.00 | 0.00 | 15,187.50 | 15,187.50 | | | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 05/31/2013 1.375% 05/31/2020 | 912828VF4 | 1,000,000.00 | 0.00 | 6,875.00 | 6,875.00 | | | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,505,000.00 | 0.00 | 21,918.75 | 21,918.75 | | | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 1,000,000.00 | 0.00 | 7,500.00 | 7,500.00 | | | |
| Transaction Type Sub-Total | | | | 11,045,000.00 | 0.00 | 97,870.25 | 97,870.25 | | | |
| MATURITY | | | | | | | | | | |
| 11/04/19 | 11/04/19 | CREDIT AGRICOLE CIB NY COMM PAPER DTD 05/03/2019 0.000% 11/04/2019 | 22533UY49 | 1,000,000.00 | 1,000,000.00 | 0.00 | 1,000,000.00 | 12,588.33 | 0.00 | |
| 11/14/19 | 11/14/19 | FFCB NOTES (CALLED OMD 05/14/2021) DTD 05/14/2019 2.440% 11/14/2019 | 3133EKLH7 | 1,995,000.00 | 1,995,000.00 | 0.00 | 1,995,000.00 | 1,496.25 | 0.00 | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,520,000.00 | 2,520,000.00 | 0.00 | 2,520,000.00 | 25,495.31 | 0.00 | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 1,000,000.00 | 1,000,000.00 | 0.00 | 1,000,000.00 | 13,085.94 | 0.00 | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 2,025,000.00 | 2,025,000.00 | 0.00 | 2,025,000.00 | 27,685.55 | 0.00 | |



Managed Account Security Transactions & Interest

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Transaction Type | | | | | Principal | Accrued | | Realized G/L | Realized G/L | Sale |
|-----------------------------|----------|---|-----------|---------------|----------------|-------------|----------------|--------------|--------------|--------|
| Trade | Settle | Security Description | CUSIP | Par | Proceeds | Interest | Total | Cost | Amort Cost | Method |
| MATURITY | | | | | | | | | | |
| 11/30/19 | 11/30/19 | US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,505,000.00 | 2,505,000.00 | 0.00 | 2,505,000.00 | 27,887.70 | 0.00 | |
| Transaction Type Sub-Total | | | | 11,045,000.00 | 11,045,000.00 | 0.00 | 11,045,000.00 | 108,239.08 | 0.00 | |
| Managed Account Sub-Total | | | | | 9,031,698.24 | 94,209.39 | 9,125,907.63 | 108,239.08 | 0.00 | |
| Total Security Transactions | | | | | \$9,031,698.24 | \$94,209.39 | \$9,125,907.63 | \$108,239.08 | \$0.00 | |



Managed Account Summary Statement

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

Transaction Summary - Managed Account

| | |
|-----------------------------|-----------------------|
| Opening Market Value | \$2,303,799.51 |
| Maturities/Calls | (455,000.00) |
| Principal Dispositions | 0.00 |
| Principal Acquisitions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Current Value | (8,145.87) |
| Closing Market Value | \$1,840,653.64 |

Cash Transactions Summary - Managed Account

| | |
|---------------------------------|--------------|
| Maturities/Calls | 455,000.00 |
| Sale Proceeds | 0.00 |
| Coupon/Interest/Dividend Income | 2,275.00 |
| Principal Payments | 0.00 |
| Security Purchases | 0.00 |
| Net Cash Contribution | (457,275.00) |
| Reconciling Transactions | 0.00 |

Earnings Reconciliation (Cash Basis) - Managed Account

| | |
|---|--------------------|
| Interest/Dividends/Coupons Received | 2,275.00 |
| Less Purchased Interest Related to Interest/Coupons | 0.00 |
| Plus Net Realized Gains/Losses | 9,882.03 |
| Total Cash Basis Earnings | \$12,157.03 |

Cash Balance

Closing Cash Balance **\$0.00**

Earnings Reconciliation (Accrual Basis)

| | Total |
|--|-------------------|
| Ending Amortized Value of Securities | 1,836,844.27 |
| Ending Accrued Interest | 12,755.80 |
| Plus Proceeds from Sales | 0.00 |
| Plus Proceeds of Maturities/Calls/Principal Payments | 455,000.00 |
| Plus Coupons/Dividends Received | 2,275.00 |
| Less Cost of New Purchases | 0.00 |
| Less Beginning Amortized Value of Securities | (2,291,618.61) |
| Less Beginning Accrued Interest | (12,181.66) |
| Total Accrual Basis Earnings | \$3,074.80 |



Portfolio Summary and Statistics

For the Month Ending **November 30, 2019**

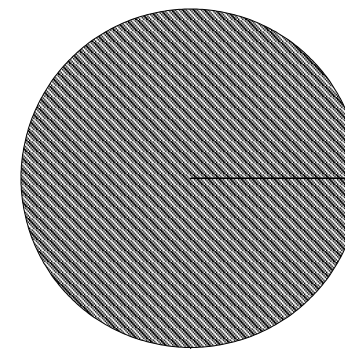
STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

Account Summary

| Description | Par Value | Market Value | Percent |
|----------------------------------|---------------------|---------------------|----------------|
| Federal Agency Bond / Note | 1,835,000.00 | 1,840,653.64 | 100.00 |
| Managed Account Sub-Total | 1,835,000.00 | 1,840,653.64 | 100.00% |
| Accrued Interest | | 12,755.80 | |
| Total Portfolio | 1,835,000.00 | 1,853,409.44 | |

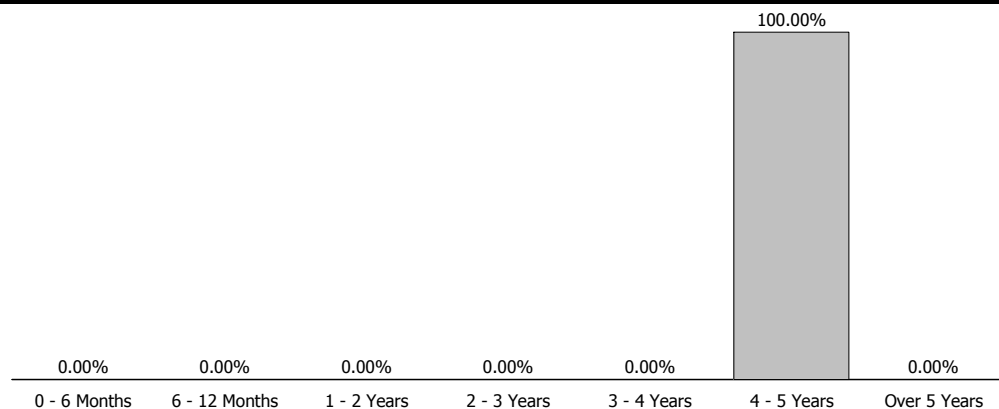
Unsettled Trades **0.00** **0.00**

Sector Allocation



Fed Agy Bond /
Note
100.00%

Maturity Distribution



Characteristics

| | |
|-----------------------------------|-------|
| Yield to Maturity at Cost | 1.73% |
| Yield to Maturity at Market | 1.68% |
| Duration to Worst | 4.36 |
| Weighted Average Days to Maturity | 1676 |



Managed Account Issuer Summary

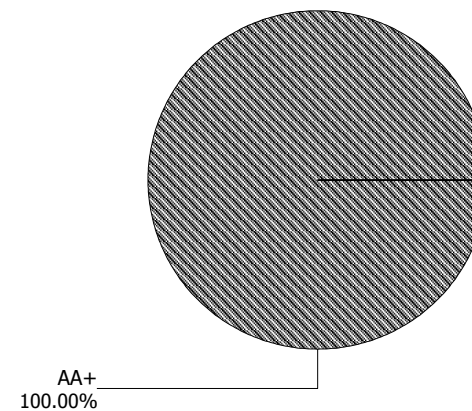
For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

Issuer Summary

| Issuer | Market Value of Holdings | Percent |
|--------------|-----------------------------|----------------|
| FANNIE MAE | 1,840,653.64 | 100.00 |
| Total | \$1,840,653.64 | 100.00% |

Credit Quality (S&P Ratings)





Managed Account Detail of Securities Held

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|---|-----------|-----------------------|---------------|-------------------|---------------|----------------|-----------------------|----------------|---------------------|-----------------------|-----------------------|
| Federal Agency Bond / Note | | | | | | | | | | | |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 1,835,000.00 | AA+ | Aaa | 08/02/19 | 08/05/19 | 1,836,963.45 | 1.73 | 12,755.80 | 1,836,844.27 | 1,840,653.64 |
| Security Type Sub-Total | | 1,835,000.00 | | | | | 1,836,963.45 | 1.73 | 12,755.80 | 1,836,844.27 | 1,840,653.64 |
| Managed Account Sub-Total | | 1,835,000.00 | | | | | 1,836,963.45 | 1.73 | 12,755.80 | 1,836,844.27 | 1,840,653.64 |
| Securities Sub-Total | | \$1,835,000.00 | | | | | \$1,836,963.45 | 1.73% | \$12,755.80 | \$1,836,844.27 | \$1,840,653.64 |
| Accrued Interest | | | | | | | | | | | \$12,755.80 |
| Total Investments | | | | | | | | | | | \$1,853,409.44 |



Managed Account Fair Market Value & Analytics

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst | YTM at Mkt |
|---|-----------|-----------------------|--------|-------------------|-----------------|-----------------------|-----------------------|--------------------------|-----------------------|----------------------|---------------|
| Federal Agency Bond / Note | | | | | | | | | | | |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 1,835,000.00 | TD | | 100.31 | 1,840,653.64 | 3,690.19 | 3,809.37 | 4.36 | 4.36 | 1.68 |
| Security Type Sub-Total | | 1,835,000.00 | | | | 1,840,653.64 | 3,690.19 | 3,809.37 | 4.36 | 4.36 | 1.68 |
| Managed Account Sub-Total | | 1,835,000.00 | | | | 1,840,653.64 | 3,690.19 | 3,809.37 | 4.36 | 4.36 | 1.68 |
| Securities Sub-Total | | \$1,835,000.00 | | | | \$1,840,653.64 | \$3,690.19 | \$3,809.37 | 4.36 | 4.36 | 1.68% |
| Accrued Interest | | | | | | \$12,755.80 | | | | | |
| Total Investments | | | | | | \$1,853,409.44 | | | | | |



Managed Account Security Transactions & Interest

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

| Transaction Type | | | | | Principal | Accrued | | Realized G/L | Realized G/L | Sale |
|-----------------------------|----------|---|-----------|------------|--------------|------------|--------------|--------------|--------------|--------|
| Trade | Settle | Security Description | CUSIP | Par | Proceeds | Interest | Total | Cost | Amort Cost | Method |
| INTEREST | | | | | | | | | | |
| 11/15/19 | 11/15/19 | US TREASURY NOTES DTD 11/15/2016 1.000% 11/15/2019 | 912828U32 | 455,000.00 | 0.00 | 2,275.00 | 2,275.00 | | | |
| Transaction Type Sub-Total | | | | 455,000.00 | 0.00 | 2,275.00 | 2,275.00 | | | |
| MATURITY | | | | | | | | | | |
| 11/15/19 | 11/15/19 | US TREASURY NOTES DTD 11/15/2016 1.000% 11/15/2019 | 912828U32 | 455,000.00 | 455,000.00 | 0.00 | 455,000.00 | 9,882.03 | 0.00 | |
| Transaction Type Sub-Total | | | | 455,000.00 | 455,000.00 | 0.00 | 455,000.00 | 9,882.03 | 0.00 | |
| Managed Account Sub-Total | | | | | 455,000.00 | 2,275.00 | 457,275.00 | 9,882.03 | 0.00 | |
| Total Security Transactions | | | | | \$455,000.00 | \$2,275.00 | \$457,275.00 | \$9,882.03 | \$0.00 | |



Managed Account Summary Statement

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

Transaction Summary - Managed Account

| | |
|-----------------------------|-----------------------|
| Opening Market Value | \$4,374,836.26 |
| Maturities/Calls | 0.00 |
| Principal Dispositions | 0.00 |
| Principal Acquisitions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Current Value | (7,759.98) |
| Closing Market Value | \$4,367,076.28 |

Cash Transactions Summary - Managed Account

| | |
|---------------------------------|------|
| Maturities/Calls | 0.00 |
| Sale Proceeds | 0.00 |
| Coupon/Interest/Dividend Income | 0.00 |
| Principal Payments | 0.00 |
| Security Purchases | 0.00 |
| Net Cash Contribution | 0.00 |
| Reconciling Transactions | 0.00 |

Earnings Reconciliation (Cash Basis) - Managed Account

| | |
|---|---------------|
| Interest/Dividends/Coupons Received | 0.00 |
| Less Purchased Interest Related to Interest/Coupons | 0.00 |
| Plus Net Realized Gains/Losses | 0.00 |
| Total Cash Basis Earnings | \$0.00 |

Cash Balance

| | |
|-----------------------------|---------------|
| Closing Cash Balance | \$0.00 |
|-----------------------------|---------------|

Earnings Reconciliation (Accrual Basis)

| | Total |
|--|-------------------|
| Ending Amortized Value of Securities | 4,339,666.22 |
| Ending Accrued Interest | 21,287.92 |
| Plus Proceeds from Sales | 0.00 |
| Plus Proceeds of Maturities/Calls/Principal Payments | 0.00 |
| Plus Coupons/Dividends Received | 0.00 |
| Less Cost of New Purchases | 0.00 |
| Less Beginning Amortized Value of Securities | (4,338,540.03) |
| Less Beginning Accrued Interest | (13,695.78) |
| Total Accrual Basis Earnings | \$8,718.33 |



Portfolio Summary and Statistics

For the Month Ending **November 30, 2019**

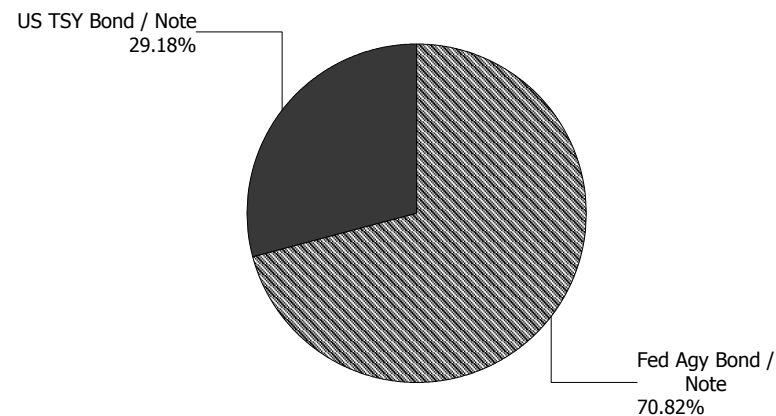
STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

Account Summary

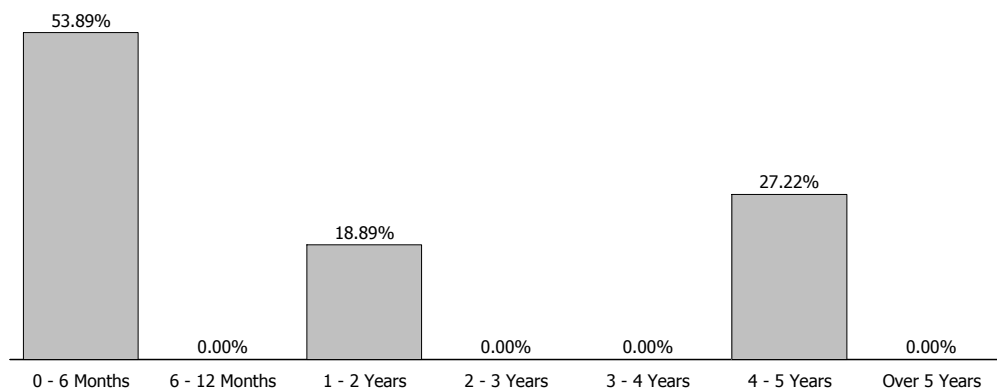
| Description | Par Value | Market Value | Percent |
|----------------------------------|---------------------|---------------------|----------------|
| U.S. Treasury Bond / Note | 1,275,000.00 | 1,274,515.26 | 29.18 |
| Federal Agency Bond / Note | 3,065,000.00 | 3,092,561.02 | 70.82 |
| Managed Account Sub-Total | 4,340,000.00 | 4,367,076.28 | 100.00% |
| Accrued Interest | | 21,287.92 | |
| Total Portfolio | 4,340,000.00 | 4,388,364.20 | |

| | | |
|-------------------------|-------------|-------------|
| Unsettled Trades | 0.00 | 0.00 |
|-------------------------|-------------|-------------|

Sector Allocation



Maturity Distribution



Characteristics

| | |
|-----------------------------------|-------|
| Yield to Maturity at Cost | 2.43% |
| Yield to Maturity at Market | 1.66% |
| Duration to Worst | 1.67 |
| Weighted Average Days to Maturity | 638 |



Managed Account Issuer Summary

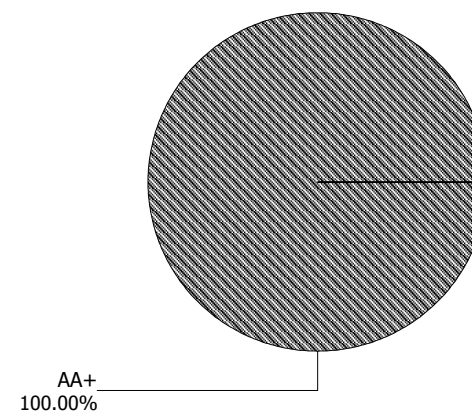
For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

Issuer Summary

| Issuer | Market Value of Holdings | Percent |
|-------------------------|-----------------------------|----------------|
| FANNIE MAE | 1,188,650.99 | 27.22 |
| FEDERAL HOME LOAN BANKS | 824,987.35 | 18.89 |
| FREDDIE MAC | 1,078,922.68 | 24.71 |
| UNITED STATES TREASURY | 1,274,515.26 | 29.18 |
| Total | \$4,367,076.28 | 100.00% |

Credit Quality (S&P Ratings)





Managed Account Detail of Securities Held

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|---|-----------|-----------------------|---------------|-------------------|---------------|----------------|-----------------------|----------------|---------------------|-----------------------|-----------------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/31/2014 1.625% 12/31/2019 | 912828G95 | 885,000.00 | AA+ | Aaa | 10/01/18 | 10/01/18 | 873,211.52 | 2.72 | 6,018.24 | 884,222.54 | 884,911.50 |
| US TREASURY NOTES DTD 03/31/2015 1.375% 03/31/2020 | 912828J84 | 390,000.00 | AA+ | Aaa | 09/18/18 | 09/19/18 | 381,910.55 | 2.77 | 908.40 | 388,227.52 | 389,603.76 |
| Security Type Sub-Total | | 1,275,000.00 | | | | | 1,255,122.07 | 2.73 | 6,926.64 | 1,272,450.06 | 1,274,515.26 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLMC NOTES DTD 04/19/2018 2.500% 04/23/2020 | 3137EAEM7 | 1,075,000.00 | AA+ | Aaa | 08/03/18 | 08/07/18 | 1,072,129.75 | 2.66 | 2,836.81 | 1,074,332.80 | 1,078,922.68 |
| FEDERAL HOME LOAN BANKS NOTES DTD 10/12/2018 3.000% 10/12/2021 | 3130AF5B9 | 805,000.00 | AA+ | Aaa | 02/14/19 | 02/15/19 | 814,724.40 | 2.53 | 3,287.08 | 811,895.32 | 824,987.35 |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 435,000.00 | AA+ | Aaa | 08/02/19 | 08/05/19 | 435,465.45 | 1.73 | 3,023.85 | 435,437.20 | 436,340.24 |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 750,000.00 | AA+ | Aaa | 07/29/19 | 07/30/19 | 745,237.50 | 1.89 | 5,213.54 | 745,550.84 | 752,310.75 |
| Security Type Sub-Total | | 3,065,000.00 | | | | | 3,067,557.10 | 2.30 | 14,361.28 | 3,067,216.16 | 3,092,561.02 |
| Managed Account Sub-Total | | 4,340,000.00 | | | | | 4,322,679.17 | 2.43 | 21,287.92 | 4,339,666.22 | 4,367,076.28 |
| Securities Sub-Total | | \$4,340,000.00 | | | | | \$4,322,679.17 | 2.43% | \$21,287.92 | \$4,339,666.22 | \$4,367,076.28 |
| Accrued Interest | | | | | | | | | | | \$21,287.92 |
| Total Investments | | | | | | | | | | | \$4,388,364.20 |



Managed Account Fair Market Value & Analytics

For the Month Ending **November 30, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst | YTM at Mkt |
|---|-----------|-----------------------|----------|-------------------|-----------------|-----------------------|-----------------------|--------------------------|-----------------------|----------------------|---------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/31/2014 1.625% 12/31/2019 | 912828G95 | 885,000.00 | CITIGRP | | 99.99 | 884,911.50 | 11,699.98 | 688.96 | 0.08 | 0.08 | 1.73 |
| US TREASURY NOTES DTD 03/31/2015 1.375% 03/31/2020 | 912828J84 | 390,000.00 | CITIGRP | | 99.90 | 389,603.76 | 7,693.21 | 1,376.24 | 0.33 | 0.33 | 1.68 |
| Security Type Sub-Total | | 1,275,000.00 | | | | 1,274,515.26 | 19,393.19 | 2,065.20 | 0.16 | 0.16 | 1.72 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLMC NOTES DTD 04/19/2018 2.500% 04/23/2020 | 3137EAEM7 | 1,075,000.00 | NOMURA | | 100.36 | 1,078,922.68 | 6,792.93 | 4,589.88 | 0.39 | 0.39 | 1.57 |
| FEDERAL HOME LOAN BANKS NOTES DTD 10/12/2018 3.000% 10/12/2021 | 3130AF5B9 | 805,000.00 | MORGAN_S | | 102.48 | 824,987.35 | 10,262.95 | 13,092.03 | 1.81 | 1.81 | 1.64 |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 435,000.00 | TD | | 100.31 | 436,340.24 | 874.79 | 903.04 | 4.36 | 4.36 | 1.68 |
| FANNIE MAE NOTES DTD 07/08/2019 1.750% 07/02/2024 | 3135G0V75 | 750,000.00 | WELLS_FA | | 100.31 | 752,310.75 | 7,073.25 | 6,759.91 | 4.36 | 4.36 | 1.68 |
| Security Type Sub-Total | | 3,065,000.00 | | | | 3,092,561.02 | 25,003.92 | 25,344.86 | 2.30 | 2.30 | 1.63 |
| Managed Account Sub-Total | | 4,340,000.00 | | | | 4,367,076.28 | 44,397.11 | 27,410.06 | 1.67 | 1.67 | 1.66 |
| Securities Sub-Total | | \$4,340,000.00 | | | | \$4,367,076.28 | \$44,397.11 | \$27,410.06 | 1.67 | 1.67 | 1.66% |
| Accrued Interest | | | | | | \$21,287.92 | | | | | |
| Total Investments | | | | | | \$4,388,364.20 | | | | | |

Consolidated Summary Statement

For the Month Ending **November 30, 2019**

State Bar of Texas

Portfolio Summary

| Portfolio Holdings | Cash Dividends and Income | Closing Market Value | Current Yield |
|-----------------------------------|------------------------------|-------------------------|------------------|
| PFM Funds - Govt Select, Instl CI | 4,587.08 | 2,634,752.72 | 1.53 % |
| PFM Funds CD Program | 0.00 | 700,000.00 | * N/A |
| Total | \$4,587.08 | \$3,334,752.72 | |

* Not Applicable

Investment Allocation

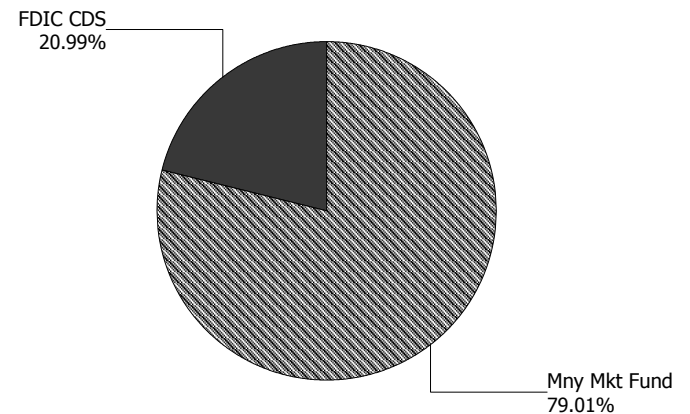
| Investment Type | Closing Market Value | Percent |
|---|-----------------------|----------------|
| Money Market Mutual Fund | 2,634,752.72 | 79.01 |
| FDIC Insured Bank Certificates of Deposit | 700,000.00 | 20.99 |
| Total | \$3,334,752.72 | 100.00% |

Maturity Distribution (Fixed Income Holdings)

| Portfolio Holdings | Closing Market Value | Percent |
|--------------------|-----------------------|----------------|
| Under 30 days | 2,634,752.72 | 79.01 |
| 31 to 60 days | 0.00 | 0.00 |
| 61 to 90 days | 0.00 | 0.00 |
| 91 to 180 days | 700,000.00 | 20.99 |
| 181 days to 1 year | 0.00 | 0.00 |
| 1 to 2 years | 0.00 | 0.00 |
| 2 to 3 years | 0.00 | 0.00 |
| 3 to 4 years | 0.00 | 0.00 |
| 4 to 5 years | 0.00 | 0.00 |
| Over 5 years | 0.00 | 0.00 |
| Total | \$3,334,752.72 | 100.00% |

Weighted Average Days to Maturity **30**

Sector Allocation



Consolidated Summary Statement

For the Month Ending **November 30, 2019**

State Bar of Texas

| Account Number | Account Name | Opening Market Value | Purchases / Deposits | Redemptions / Sales/ Maturities | Unsettled Trades | Change in Value | Closing Market Value | Cash Dividends and Income |
|----------------|---|-----------------------|----------------------|---------------------------------|------------------|-----------------|-----------------------|---------------------------|
| 200-00 | STATE BAR OF TEXAS - MM | 1,337,615.59 | 1,553.94 | (1,000,000.00) | 0.00 | 0.00 | 339,169.53 | 1,553.94 |
| 995192 | CLIENT SECURITY FUND | 727,590.29 | 935.13 | 0.00 | 0.00 | 0.00 | 728,525.42 | 935.13 |
| 995235 | TEXAS LAW CENTER | 27,733.26 | 35.64 | 0.00 | 0.00 | 0.00 | 27,768.90 | 35.64 |
| 995426 | TBLS | 1,826,674.12 | 1,406.07 | (100,089.18) | 0.00 | 0.00 | 1,727,991.01 | 1,406.07 |
| 995463 | Annual Meeting Funds | 317,068.15 | 407.51 | 0.00 | 0.00 | 0.00 | 317,475.66 | 407.51 |
| 995464 | Texas Bar College Special Revenue Funds | 193,573.41 | 248.79 | 0.00 | 0.00 | 0.00 | 193,822.20 | 248.79 |
| Total | | \$4,430,254.82 | \$4,587.08 | (\$1,100,089.18) | \$0.00 | \$0.00 | \$3,334,752.72 | \$4,587.08 |

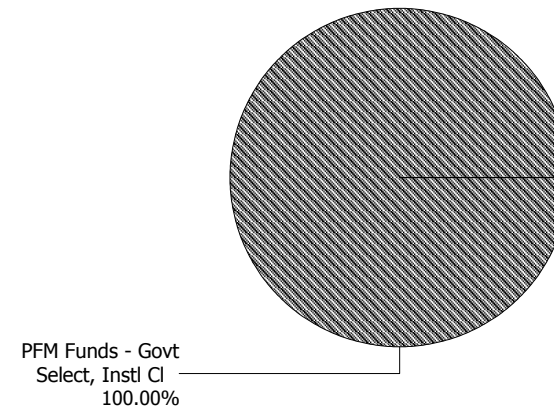
Account Statement - Transaction Summary

For the Month Ending **November 30, 2019**

State Bar of Texas - STATE BAR OF TEXAS - MM - 200-00

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|---------------------|
| Opening Market Value | 1,337,615.59 |
| Purchases | 1,553.94 |
| Redemptions | (1,000,000.00) |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$339,169.53 |
| Cash Dividends and Income | 1,553.94 |

| Asset Summary | | |
|--|---------------------|-----------------------|
| | November 30, 2019 | October 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 339,169.53 | 1,337,615.59 |
| Total | \$339,169.53 | \$1,337,615.59 |
| Asset Allocation | | |



Account Statement

For the Month Ending **November 30, 2019**

State Bar of Texas - STATE BAR OF TEXAS - MM - 200-00

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|---------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 1,337,615.59 |
| 11/27/19 | 11/27/19 | Redemption - Wire Redemption | 1.00 | (1,000,000.00) | 337,615.59 |
| 11/29/19 | 12/02/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 1,553.94 | 339,169.53 |
| Closing Balance | | | | | 339,169.53 |

| | Month of November | Fiscal YTD January-November |
|-----------------------------------|-------------------|-----------------------------|
| Opening Balance | 1,337,615.59 | 332,029.31 |
| Purchases | 1,553.94 | 11,307,140.22 |
| Redemptions (Excl. Checks) | (1,000,000.00) | (11,300,000.00) |
| Check Disbursements | 0.00 | 0.00 |
| Closing Balance | 339,169.53 | 339,169.53 |
| Cash Dividends and Income | 1,553.94 | 57,054.64 |

| | |
|-----------------------------------|--------------|
| Closing Balance | 339,169.53 |
| Average Monthly Balance | 1,204,385.85 |
| Monthly Distribution Yield | 1.57% |

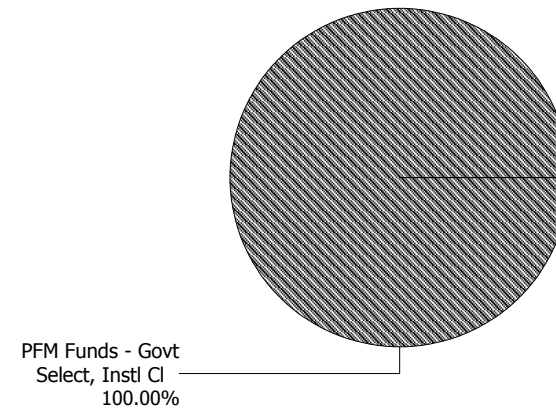
Account Statement - Transaction Summary

For the Month Ending **November 30, 2019**

State Bar of Texas - CLIENT SECURITY FUND - 995192

| PFM Funds - Govt Select, Instl CI | |
|--|---------------------|
| Opening Market Value | 727,590.29 |
| Purchases | 935.13 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$728,525.42 |
| Cash Dividends and Income | 935.13 |

| Asset Summary | | |
|--|--------------------------|-------------------------|
| | November 30, 2019 | October 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 728,525.42 | 727,590.29 |
| Total | \$728,525.42 | \$727,590.29 |
| Asset Allocation | | |



Account Statement

For the Month Ending **November 30, 2019**

State Bar of Texas - CLIENT SECURITY FUND - 995192

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 727,590.29 |
| 11/29/19 | 12/02/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 935.13 | 728,525.42 |
| Closing Balance | | | | | 728,525.42 |

| | Month of November | Fiscal YTD January-November | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|------------|
| Opening Balance | 727,590.29 | 714,558.48 | Closing Balance | 728,525.42 |
| Purchases | 935.13 | 13,966.94 | Average Monthly Balance | 727,652.63 |
| Redemptions (Excl. Checks) | 0.00 | 0.00 | Monthly Distribution Yield | 1.57% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 728,525.42 | 728,525.42 | | |
| Cash Dividends and Income | 935.13 | 13,966.94 | | |

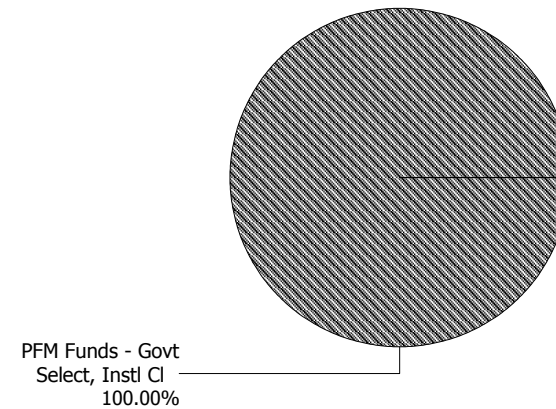
Account Statement - Transaction Summary

For the Month Ending **November 30, 2019**

State Bar of Texas - TEXAS LAW CENTER - 995235

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|--------------------|
| Opening Market Value | 27,733.26 |
| Purchases | 35.64 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$27,768.90 |
| Cash Dividends and Income | 35.64 |

| Asset Summary | | |
|--|--------------------|--------------------|
| | November 30, 2019 | October 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 27,768.90 | 27,733.26 |
| Total | \$27,768.90 | \$27,733.26 |
| Asset Allocation | | |



Account Statement

For the Month Ending **November 30, 2019**

State Bar of Texas - TEXAS LAW CENTER - 995235

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 27,733.26 |
| 11/29/19 | 12/02/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 35.64 | 27,768.90 |
| Closing Balance | | | | | 27,768.90 |

| | Month of November | Fiscal YTD January-November | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|-----------|
| Opening Balance | 27,733.26 | 67,100.49 | Closing Balance | 27,768.90 |
| Purchases | 35.64 | 668.41 | Average Monthly Balance | 27,735.64 |
| Redemptions (Excl. Checks) | 0.00 | (40,000.00) | Monthly Distribution Yield | 1.57% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 27,768.90 | 27,768.90 | | |
| Cash Dividends and Income | 35.64 | 668.41 | | |

Account Statement - Transaction Summary

For the Month Ending **November 30, 2019**

State Bar of Texas - TBLS - 995426

PFM Funds - Govt Select, Instl CI

| | |
|----------------------|--------------|
| Opening Market Value | 1,126,674.12 |
| Purchases | 1,406.07 |
| Redemptions | (100,089.18) |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |

Closing Market Value **\$1,027,991.01**

Cash Dividends and Income 1,406.07

PFM Funds CD Program

| | |
|----------------------|------------|
| Opening Market Value | 700,000.00 |
| Purchases | 0.00 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |

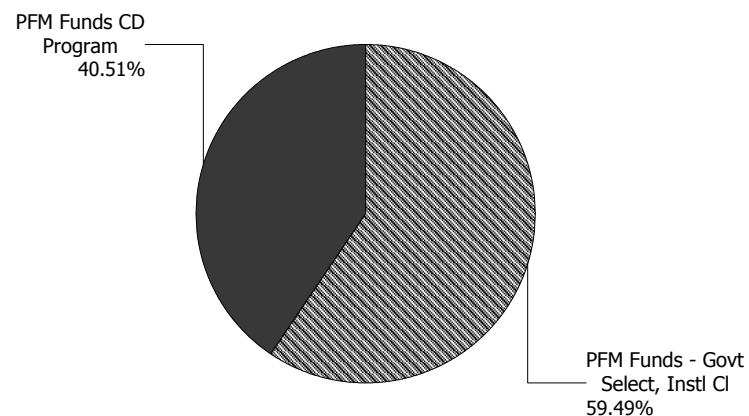
Closing Market Value **\$700,000.00**

Cash Dividends and Income 0.00

Asset Summary

| | November 30, 2019 | October 31, 2019 |
|--|-----------------------|-----------------------|
| PFM Funds - Govt Select, Instl CI | 1,027,991.01 | 1,126,674.12 |
| PFM Funds CD Program | 700,000.00 | 700,000.00 |
| Total | \$1,727,991.01 | \$1,826,674.12 |

Asset Allocation



Investment Holdings

For the Month Ending **November 30, 2019**

State Bar of Texas - TBLS - 995426

| Trade Date | Settlement Date | Security Description | Maturity Date | Rate | Investment Amount | Accrued Interest | Est. Value at Maturity |
|-----------------------------|-----------------|--|---------------|------|---------------------|--------------------|------------------------|
| PFM Funds CD Program | | | | | | | |
| 04/22/19 | 04/22/19 | CD - Pacific Western Bank (Acquired Security Pacific Bank, Los Angel | 04/21/20 | 2.75 | 243,000.00 | 4,082.73 | 249,682.50 |
| 04/22/19 | 04/22/19 | CD - First Internet Bank Of Indiana, IN | 04/21/20 | 2.75 | 243,000.00 | 4,082.73 | 249,682.50 |
| 04/22/19 | 04/22/19 | CD - Cfg Community Bank, MD | 04/21/20 | 2.75 | 214,000.00 | 3,595.49 | 219,885.00 |
| Total | | | | | \$700,000.00 | \$11,760.95 | \$719,250.00 |

Account Statement

For the Month Ending **November 30, 2019**

State Bar of Texas - TBLS - 995426

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|---------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 1,126,674.12 |
| 11/01/19 | 11/01/19 | IA_FEE CD GROUPED FEE TRANSACTION FOR: 10-31-2019 | 1.00 | (89.18) | 1,126,584.94 |
| 11/21/19 | 11/21/19 | Redemption - Wire Redemption | 1.00 | (100,000.00) | 1,026,584.94 |
| 11/29/19 | 12/02/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 1,406.07 | 1,027,991.01 |

Closing Balance **1,027,991.01**

| | Month of November | Fiscal YTD January-November | | |
|-----------------------------------|---------------------|-----------------------------|-----------------------------------|--------------|
| Opening Balance | 1,126,674.12 | 611,229.55 | Closing Balance | 1,027,991.01 |
| Purchases | 1,406.07 | 1,537,650.36 | Average Monthly Balance | 1,093,345.34 |
| Redemptions (Excl. Checks) | (100,089.18) | (1,120,888.90) | Monthly Distribution Yield | 1.57% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 1,027,991.01 | 1,027,991.01 | | |
| Cash Dividends and Income | 1,406.07 | 21,525.31 | | |

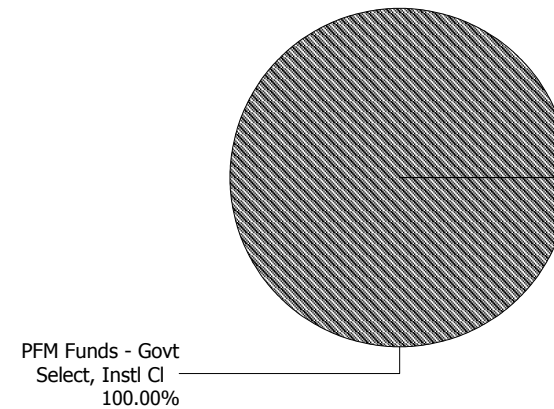
Account Statement - Transaction Summary

For the Month Ending **November 30, 2019**

State Bar of Texas - Annual Meeting Funds - 995463

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|---------------------|
| Opening Market Value | 317,068.15 |
| Purchases | 407.51 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$317,475.66 |
| Cash Dividends and Income | 407.51 |

| Asset Summary | | |
|--|---------------------|---------------------|
| | November 30, 2019 | October 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 317,475.66 | 317,068.15 |
| Total | \$317,475.66 | \$317,068.15 |
| Asset Allocation | | |



Account Statement

For the Month Ending **November 30, 2019**

State Bar of Texas - Annual Meeting Funds - 995463

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 317,068.15 |
| 11/29/19 | 12/02/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 407.51 | 317,475.66 |
| Closing Balance | | | | | 317,475.66 |

| | Month of November | Fiscal YTD January-November | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|------------|
| Opening Balance | 317,068.15 | 345,280.00 | Closing Balance | 317,475.66 |
| Purchases | 407.51 | 307,695.66 | Average Monthly Balance | 317,095.32 |
| Redemptions (Excl. Checks) | 0.00 | (335,500.00) | Monthly Distribution Yield | 1.57% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 317,475.66 | 317,475.66 | | |
| Cash Dividends and Income | 407.51 | 7,695.66 | | |

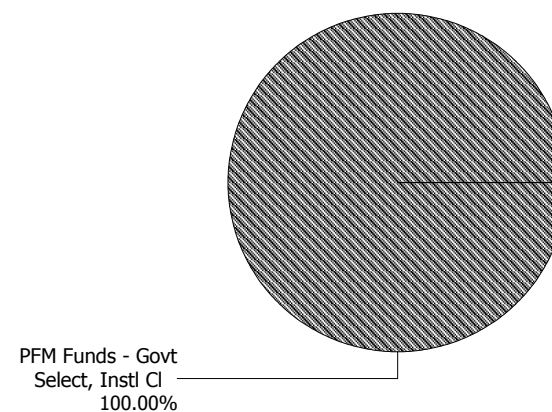
Account Statement - Transaction Summary

For the Month Ending **November 30, 2019**

State Bar of Texas - Texas Bar College Special Revenue Funds - 995464

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|---------------------|
| Opening Market Value | 193,573.41 |
| Purchases | 248.79 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$193,822.20 |
| Cash Dividends and Income | 248.79 |

| Asset Summary | | |
|--|---------------------|---------------------|
| | November 30, 2019 | October 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 193,822.20 | 193,573.41 |
| Total | \$193,822.20 | \$193,573.41 |
| Asset Allocation | | |



Account Statement

For the Month Ending **November 30, 2019**

State Bar of Texas - Texas Bar College Special Revenue Funds - 995464

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 193,573.41 |
| 11/29/19 | 12/02/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 248.79 | 193,822.20 |
| Closing Balance | | | | | 193,822.20 |

| | Month of November | Fiscal YTD January-November | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|------------|
| Opening Balance | 193,573.41 | 193,012.74 | Closing Balance | 193,822.20 |
| Purchases | 248.79 | 104,809.46 | Average Monthly Balance | 193,590.00 |
| Redemptions (Excl. Checks) | 0.00 | (104,000.00) | Monthly Distribution Yield | 1.57% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 193,822.20 | 193,822.20 | | |
| Cash Dividends and Income | 248.79 | 4,809.46 | | |

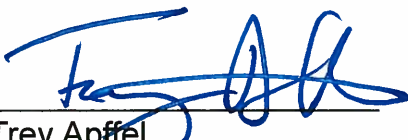

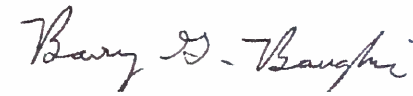
Quarterly Investment Report Certification

This report fairly represents the investment standing of the State Bar of Texas as of November 30, 2019 and the investment activity for the period September 1, 2019 through November 30, 2019.

We believe the data presented for the quarter ending November 30, 2019 is accurate in all material respects, and is presented in a manner that fairly sets forth the investment standing of the State Bar of Texas. We further believe that all data necessary to represent the activity for the quarter is included in this text.

This report was prepared in compliance with the State of Texas "Public Funds Investment Act" and the State Bar of Texas' "Investment Policy".

Public Funds Investment Act Training Report: All State Bar board members and officers have received training as required by the Texas Government Code Section 2256.007 as of the date of this investment report. All new board members have received training within 6 months of taking office. The investment officer received training from a board approved training provider within the fiscal biennium.


Trey Appfel
Executive Director
State Bar of Texas
Tracy Jarratt, CPA
Finance Division Director
State Bar of Texas
Barry Baughier
Sr. Managing Consultant
PFM Asset Management LLC

Dated: 1/7/2020