

2018 INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

To the Board of Directors of the State Bar of Texas:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of a Matter

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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, statement of revenues, expenditures and changes in fund balance—budget (GAAP basis) and actual—general fund, schedule of changes in State Bar's proportionate share of net pension liability

and related ratios, schedule of employer contributions and related note to required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

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

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

RSM US LLP
Austin, Texas
November 20, 2018

STATE BAR *of* TEXAS

STATEMENT OF NET POSITION: MAY 31, 2018

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS—CASH IN BANK	\$10,825,229	—	10,825,229
INVESTMENTS	35,962,560	—	35,962,560
RECEIVABLES:			
SALES TO MEMBERS AND OTHERS, NET OF AN ALLOWANCE			
FOR UNCOLLECTIBLES OF \$3,138 AND \$74,008	59,620	710,184	769,804
INTEREST RECEIVABLE	48,001	—	48,001
OTHER ACCOUNTS RECEIVABLE	2,044,983	—	2,044,983
INTERNAL BALANCES	(440,261)	440,261	—
INVENTORIES	9,453	758,756	768,209
PREPAID ITEMS	817,561	—	817,561
TOTAL CURRENT ASSETS	<u>\$49,327,146</u>	<u>1,909,201</u>	<u>51,236,347</u>
NONCURRENT ASSETS			
CAPITAL ASSETS			
LAND	154,074	—	154,074
CONSTRUCTION IN PROGRESS	20,960	—	20,960
BUILDINGS, NET	824,028	—	824,028
FURNITURE, FIXTURES, COMPUTER EQUIPMENT, SOFTWARE			
AND OTHER EQUIPMENT, NET	5,954,927	35,322	5,990,249
TOTAL NONCURRENT ASSETS	<u>\$6,953,989</u>	<u>35,322</u>	<u>6,989,311</u>
TOTAL ASSETS	<u>\$56,281,135</u>	<u>1,944,523</u>	<u>58,225,658</u>
DEFERRED OUTFLOWS OF RESOURCES			
DEFERRED OUTFLOWS ON PENSION LIABILITY	\$11,639,847	742,969	12,382,816
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$11,639,847</u>	<u>742,969</u>	<u>12,382,816</u>
LIABILITIES			
CURRENT LIABILITIES			
ACCOUNTS PAYABLE	\$1,353,348	—	1,353,348
ACCRUED LIABILITIES	1,055,924	94,708	1,150,632
DUE TO AGENCY FUNDS	781,831	—	781,831
UNEARNED REVENUE	13,640,683	—	13,640,683
CAPITAL LEASE OBLIGATIONS	46,571	—	46,571
ACCRUED COMPENSATED ABSENCES	578,121	34,698	612,819
TOTAL CURRENT LIABILITIES	<u>\$17,456,478</u>	<u>129,406</u>	<u>17,585,884</u>
NONCURRENT LIABILITIES			
CAPITAL LEASE OBLIGATIONS	37,984	—	37,984
ACCRUED COMPENSATED ABSENCES	889,631	60,665	950,296
NET PENSION LIABILITY	56,802,309	3,625,679	60,427,988
TOTAL NONCURRENT LIABILITIES	<u>\$57,729,924</u>	<u>3,686,344</u>	<u>61,416,268</u>
TOTAL LIABILITIES	<u>\$75,186,402</u>	<u>3,815,750</u>	<u>79,002,152</u>
DEFERRED INFLOWS OF RESOURCES			
DEFERRED INFLOWS ON PENSION LIABILITY	\$1,758,945	\$112,273	1,871,218
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$1,758,945</u>	<u>\$112,273</u>	<u>1,871,218</u>
NET POSITION			
NET INVESTMENT IN CAPITAL ASSETS	\$6,869,434	35,322	6,904,756
UNRESTRICTED (DEFICIT)	(15,893,799)	(1,275,853)	(17,169,652)
TOTAL NET POSITION	<u>(9,024,365)</u>	<u>(1,240,531)</u>	<u>(10,264,896)</u>

STATE BAR *of* TEXAS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2018

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	\$9,803,273	501,606	—	(9,301,667)	—	(9,301,667)
PUBLIC SERVICES	4,916,027	384,618	497,877	(4,033,532)	—	(4,033,532)
MEMBER SERVICES	24,364,583	20,059,591	1,123,281	(3,181,711)	—	(3,181,711)
PUBLIC PROTECTION	13,612,929	577,314	—	(13,035,615)	—	(13,035,615)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$52,696,812</u>	<u>21,523,129</u>	<u>1,621,158</u>	<u>(29,552,525)</u>	<u>—</u>	<u>(29,552,525)</u>
BUSINESS-TYPE ACTIVITIES						
BOOKS	\$3,760,496	2,295,723	—	—	(1,464,773)	(1,464,773)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$3,760,496</u>	<u>2,295,723</u>	<u>—</u>	<u>—</u>	<u>(1,464,773)</u>	<u>(1,464,773)</u>
TOTAL PRIMARY GOVERNMENTAL ACTIVITIES	<u>\$56,457,308</u>	<u>23,818,852</u>	<u>1,621,158</u>	<u>(29,552,525)</u>	<u>(1,464,773)</u>	<u>(31,017,298)</u>
GENERAL REVENUES:						
MEMBERSHIP DUES				\$23,038,553	—	23,038,553
INVESTMENT INCOME				448,156	5,822	453,978
ROYALTY REVENUE				1,291,089	1,049,625	2,340,714
OTHER INCOME				242,749	—	242,749
LOSS ON DISPOSAL OF CAPITAL ASSETS				(2,753)	—	(2,753)
TOTAL GENERAL REVENUES				<u>25,017,794</u>	<u>1,055,447</u>	<u>26,073,241</u>
CHANGE IN NET POSITION				<u>(4,534,731)</u>	<u>(409,326)</u>	<u>(4,944,057)</u>
NET POSITION AT BEGINNING OF YEAR, AS RESTATED				<u>(4,489,634)</u>	<u>(831,205)</u>	<u>(5,320,839)</u>
NET POSITION AT END OF YEAR				<u>(\$9,024,365)</u>	<u>(1,240,531)</u>	<u>(10,264,896)</u>

Effective June 1, 2015, the State Bar implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which resulted in a \$43.5 million restatement to Net Position. The State Bar contributes to the State of Texas' single-employer defined benefit pension plan administered by the Employees Retirement System of Texas. All risks and costs of the plan are the liability of the State of Texas. However, GASB Statement No. 68, paragraph 18, requires each government agency participating in a single-employer plan who issues separate audited financial statements to account for and report its participation in the single-employer plan as if it was a cost-sharing employer plan. As a result, the State Bar recorded its portion of the net pension liability, deferred inflows and outflows, and pension expense on the financial statements to comply with standards. Implementation of GASB Statement No. 68 does not affect the fund balances of the governmental funds as presented on the next page.

STATE BAR *of* TEXAS

BALANCE SHEET—GOVERNMENTAL FUNDS: MAY 31, 2018

	GENERAL FUND	SECTIONS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS—CASH IN BANK	\$3,868,479	6,243,990	712,760	10,825,229
INVESTMENTS	25,091,332	1,768,979	9,102,249	35,962,560
RECEIVABLES:				
SALES TO MEMBERS AND OTHERS, NET OF AN ALLOWANCE FOR UNCOLLECTIBLES OF \$3,138	59,620	—	—	59,620
INTEREST RECEIVABLE	31,332	212	16,457	48,001
OTHER ACCOUNTS RECEIVABLE	1,971,718	66,322	6,943	2,044,983
DUE FROM OTHER GOVERNMENTAL FUNDS	1,109,894	738,148	1,222,714	3,070,756
INVENTORIES	9,453	—	—	9,453
PREPAID ITEMS	504,335	30,243	282,983	817,561
TOTAL ASSETS	<u>\$32,646,163</u>	<u>8,847,894</u>	<u>11,344,106</u>	<u>52,838,163</u>
LIABILITIES AND FUND BALANCE				
CURRENT LIABILITIES				
ACCOUNTS PAYABLE	\$1,229,407	123,941	—	1,353,348
ACCRUED LIABILITIES	1,053,166	2,029	729	1,055,924
DUE TO OTHER GOVERNMENTAL FUNDS	1,960,862	—	1,109,894	3,070,756
DUE TO ENTERPRISE FUND	440,261	—	—	440,261
DUE TO AGENCY FUND	781,831	—	—	781,831
UNEARNED REVENUE	11,472,386	1,337,613	830,684	13,640,683
TOTAL LIABILITIES	<u>\$16,937,913</u>	<u>1,463,583</u>	<u>1,941,307</u>	<u>20,342,803</u>
FUND BALANCES				
NONSPENDABLE	513,788	30,243	282,983	827,014
COMMITTED	3,154,677	7,354,068	9,119,816	19,628,561
UNASSIGNED	12,039,785	—	—	12,039,785
TOTAL FUND BALANCES	<u>15,708,250</u>	<u>7,384,311</u>	<u>9,402,799</u>	<u>32,495,360</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$32,646,163</u>	<u>8,847,894</u>	<u>11,344,106</u>	<u>52,838,163</u>

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION: MAY 31, 2018

TOTAL FUND BALANCE—GOVERNMENTAL FUNDS BALANCE SHEET	\$32,495,360
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENCE BECAUSE:	
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS	6,953,989
THE FOLLOWING LIABILITIES ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS:	
NET PENSION LIABILITY	(56,802,309)
CAPITAL LEASE PAYABLE	(84,555)
ACCRUED COMPENSATED ABSENCES	(1,467,752)
CHANGE IN DEFERRED OUTFLOWS RELATED TO NET PENSION LIABILITY	11,639,847
CHANGE IN DEFERRED INFLOWS RELATED TO NET PENSION LIABILITY	(1,758,945)
NET POSITION OF GOVERNMENTAL ACTIVITIES—STATEMENT OF NET POSITION	<u>(\$9,024,365)</u>

STATE BAR *of* TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—GOVERNMENTAL FUNDS FOR THE YEAR ENDED MAY 31, 2018

	GENERAL FUND	SECTIONS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
MEMBERSHIP DUES	\$20,571,688	2,466,865	—	23,038,553
ACCOUNTING AND MANAGEMENT FEES	650,351	—	—	650,351
TEXAS BAR JOURNAL	530,322	—	—	530,322
MCLE FEES	2,903,788	—	—	2,903,788
PROFESSIONAL DEVELOPMENT	13,941,859	—	—	13,941,859
MINORITY AFFAIRS	409,437	—	—	409,437
INVESTMENT INCOME	326,166	26,550	95,440	448,156
GRANT REVENUE	—	—	528,777	528,777
MEMBER BENEFITS	831,891	—	—	831,891
WEBSITE	429,303	—	—	429,303
ADVERTISING REVIEW	385,975	—	—	385,975
OTHER INCOME	1,489,183	1,143,805	2,118,098	4,751,086
TOTAL REVENUES	<u>\$42,469,963</u>	<u>3,637,220</u>	<u>2,742,315</u>	<u>48,849,498</u>
EXPENDITURES				
EXECUTIVE	\$2,174,881	—	—	2,174,881
EXTERNAL AFFAIRS	1,303,609	—	—	1,303,609
MEMBER AND PUBLIC SERVICE	1,904,386	—	—	1,904,386
PROFESSIONAL DEVELOPMENT	9,840,136	—	—	9,840,136
LEGAL AND ATTORNEY SERVICES	1,518,604	—	—	1,518,604
ACCESS TO JUSTICE COMMISSION	729,679	—	—	729,679
ATTORNEY COMPLIANCE	1,895,333	—	—	1,895,333
ADMINISTRATION	1,904,363	—	3,729	1,908,092
FINANCE AND INFORMATION TECHNOLOGY	5,127,914	—	700,519	5,828,433
COMMUNICATIONS	2,263,490	—	—	2,263,490
PUBLIC PROTECTION	10,548,855	—	894,799	11,443,654
SPECIAL SERVICES	—	3,608,968	2,216,119	5,825,087
EXPENDITURES RELATED TO BOARD COMMITMENTS	1,632,319	—	—	1,632,319
CAPITAL OUTLAY	—	—	271,349	271,349
DEBT SERVICE:				
PRINCIPAL	—	—	46,530	46,530
INTEREST	—	—	6,554	6,554
TOTAL EXPENDITURES	<u>\$40,843,569</u>	<u>3,608,968</u>	<u>4,139,599</u>	<u>48,592,136</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,626,394	28,252	(1,397,284)	257,362
OTHER FINANCING SOURCES (USES)				
TRANSFERS IN	—	—	1,838,800	1,838,800
TRANSFERS OUT	(1,838,800)	—	—	(1,838,800)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,838,800)</u>	<u>—</u>	<u>1,838,800</u>	<u>—</u>
NET CHANGE IN FUND BALANCES	(212,406)	28,252	441,516	257,362
FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED	15,920,656	7,356,059	8,961,283	32,237,998
FUND BALANCES AT END OF YEAR	<u>\$15,708,250</u>	<u>7,384,311</u>	<u>9,402,799</u>	<u>32,495,360</u>

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 FOR THE YEAR ENDED MAY 31, 2018

NET CHANGE IN FUND BALANCES—TOTAL GOVERNMENTAL FUNDS \$257,362

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

GOVERNMENTAL FUNDS REPORT CAPITAL OUTLAYS AS EXPENDITURES; HOWEVER, IN THE STATEMENT OF ACTIVITIES, THE COST OF THOSE ASSETS IS ALLOCATED OVER THEIR ESTIMATED USEFUL LIVES AS DEPRECIATION AND AMORTIZATION EXPENSE:

CAPITAL OUTLAY—EXCLUSIVE OF NONCAPITALIZED ITEMS	115,981
DEPRECIATION AND AMORTIZATION EXPENSE	(846,555)
LOSS ON DISPOSAL OF CAPITAL ASSETS	(2,753)

PROCEEDS FROM CAPITAL LEASES PROVIDE CURRENT FINANCIAL RESOURCES TO GOVERNMENTAL FUNDS, BUT ISSUING DEBT INCREASES NONCURRENT LIABILITIES IN THE STATEMENT OF NET POSITION; REPAYMENT OF CAPITAL LEASES IS AN EXPENDITURE IN THE GOVERNMENTAL FUNDS, BUT THE REPAYMENT REDUCES NONCURRENT LIABILITIES IN THE STATEMENT OF NET POSITION:

REPAYMENT OF CAPITAL LEASES	46,530
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SOME EXPENSES REPORTED IN THE STATEMENT OF ACTIVITIES DO NOT REQUIRE THE USE OF CURRENT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED AS EXPENDITURES IN GOVERNMENTAL FUNDS:

CHANGE IN PENSION LIABILITY AND RELATED DEFERRED INFLOWS AND OUTFLOWS	(4,100,388)
CHANGE IN COMPENSATED ABSENCES	(4,908)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES—STATEMENT OF ACTIVITIES **(\$4,534,731)**

Audited financial statements, including notes and supporting schedules, are available at texasbar.com/finances.