

2020 INDEPENDENT AUDITOR'S REPORT

Summary of the Independent Auditor's Report

The State Bar of Texas received an unmodified—or “clean”—opinion from an independent auditor on its annual financial report for the fiscal year that ended May 31, 2020. The auditor, Weaver, concluded the financial statements presented fairly, in all material respects, the respective financial position of the State Bar in accordance with generally accepted accounting principles.

The State Bar of Texas' basic financial statements are composed of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The user of the financial statements should refer to the full annual financial report to gain a complete understanding of the State Bar's financial position. The full report is available on the Our Finances page of the State Bar's website at texasbar.com/finances. This report also contains supplementary information in addition to the basic financial statements.

An excerpt of the State Bar's financial statements is presented on the following pages, consisting of the government-wide financial statements, the governmental fund financial statements, and reconciliations between the two statements.

Government-wide Financial Statements

Government-wide financial statements (pages 16-18 of the full report) are presented using full accrual accounting and report the State Bar's financial position, including all capital assets and long-term liabilities, including pension and other post-employment benefits, or retirees' health insurance benefits liabilities.

On the full accrual financial statement, the assets of the State Bar were below its liabilities for the fiscal year that ended May 31, 2020, by \$69,305,243 (net position). This is due to the implementation of Governmental Accounting Standards Board, or GASB, Statements No. 68 and No. 75, which require all governments to report pension and retirees' health insurance benefit liability on their government-wide financial statements in an effort to increase transparency. The State Bar participates in a plan to provide health insurance and defined pension benefits to its retirees that is administered by the Employees Retirement System of Texas (ERS), which determines the amount of contributions that the State Bar and all other participating state agencies must make to fund the plans. The State Bar has made all of the required contributions to ERS. The amount of pension and retirees' health insurance benefits liability recorded on the government-wide financial statements represents the State Bar's proportionate share of the plans' total actuarially determined liability based on the State Bar's total contributions to the plan. The State Bar does not control or establish the amount of unfunded liability.

Governmental-fund Financial Statements

Governmental-fund financial statements (pages 19-22 of the full report) are reported using the modified accrual basis of accounting. These financial statements provide a financial indication on the State Bar's ability to meet its purpose using the revenues it receives during the year. The State Bar is prohibited by statute to issue debt, and therefore, must budget and expend its resources in a controlled manner to maintain a healthy fund balance on its fund financial statements.

As of the close of the last fiscal year, the State Bar's governmental funds reported combined ending fund balances of \$39,701,398, an increase of \$3,709,671 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. As indicated on page 21 of the full report, the general fund, or the operating fund of the State Bar, retained a fund balance of \$20,390,297, or 49% of the total general fund expenditures and transfers for the fiscal year that ended May 31, 2020.

STATE BAR of TEXAS

STATEMENT OF NET POSITION: MAY 31, 2020

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
CASH AND CASH EQUIVALENTS—CASH IN BANK	\$20,016,432	—	\$20,016,432
INVESTMENTS	30,673,108	—	30,673,108
RECEIVABLES:			
SALES, NET OF AN ALLOWANCE FOR UNCOLLECTIBLES OF \$4,797 AND \$93,101, RESPECTIVELY	91,152	761,902	853,054
INTEREST RECEIVABLE	121,540	—	121,540
OTHER ACCOUNTS RECEIVABLE	2,675,671	—	2,675,671
INTERNAL BALANCES	(369,774)	369,774	—
INVENTORIES, NET OF OBSOLESCENCE	11,572	402,646	414,218
PREPAID EXPENSES	1,183,441	1,745	1,185,186
TOTAL CURRENT ASSETS	<u>\$54,403,142</u>	<u>\$1,536,067</u>	<u>\$55,939,209</u>
NONCURRENT ASSETS:			
CAPITAL ASSETS:			
LAND	154,074	—	154,074
CONSTRUCTION IN PROGRESS	604,551	180,183	784,734
BUILDINGS, NET	780,927	—	780,927
FURNITURE, FIXTURES, COMPUTER EQUIPMENT, SOFTWARE AND OTHER EQUIPMENT, NET	4,726,886	35,322	4,762,208
TOTAL NONCURRENT ASSETS	<u>\$6,266,438</u>	<u>\$215,505</u>	<u>\$6,481,943</u>
TOTAL ASSETS	<u>\$60,669,580</u>	<u>\$1,751,572</u>	<u>\$62,421,152</u>
DEFERRED OUTFLOWS OF RESOURCES			
OPEB RELATED AMOUNTS	7,769,115	495,901	8,265,016
PENSION RELATED AMOUNTS	20,714,722	1,322,217	22,036,939
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$28,483,837</u>	<u>\$1,818,118</u>	<u>\$30,301,955</u>
LIABILITIES			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	\$903,187	—	\$903,187
ACCRUED LIABILITIES	473,390	97,550	570,940
DUE TO AGENCY FUNDS	651,380	—	651,380
UNEARNED REVENUE	12,673,787	—	12,673,787
CURRENT PORTION CAPITAL LEASE OBLIGATIONS	77,362	—	77,362
CURRENT PORTION OPEB LIABILITY	949,641	60,615	1,010,256
CURRENT PORTION COMPENSATED ABSENCES	630,981	46,811	677,792
TOTAL CURRENT LIABILITIES	<u>\$16,359,728</u>	<u>\$204,976</u>	<u>\$16,564,704</u>
NONCURRENT LIABILITIES:			
CAPITAL LEASE OBLIGATIONS	98,234	—	98,234
DEFERRED RENT	220,908	—	220,908
OPEB LIABILITY	39,626,404	2,529,345	42,155,749
COMPENSATED ABSENCES	974,698	54,705	1,029,403
NET PENSION LIABILITY	82,055,157	5,237,563	87,292,720
TOTAL NONCURRENT LIABILITIES	<u>\$122,975,401</u>	<u>\$7,821,613</u>	<u>\$130,797,014</u>
TOTAL LIABILITIES	<u>\$139,335,129</u>	<u>\$8,026,589</u>	<u>\$147,361,718</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB RELATED AMOUNTS	10,123,032	646,151	10,769,183
PENSION RELATED AMOUNTS	\$3,663,602	\$233,847	\$3,897,449
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$13,786,634</u>	<u>\$879,998</u>	<u>\$14,666,632</u>
NET POSITION (DEFICIT)			
NET INVESTMENT IN CAPITAL ASSETS	\$6,090,842	\$215,505	\$6,306,347
UNRESTRICTED (DEFICIT)	(70,059,188)	(5,552,402)	(75,611,590)
TOTAL NET POSITION (DEFICIT)	<u>\$(63,968,346)</u>	<u>\$(5,336,897)</u>	<u>\$(69,305,243)</u>

STATE BAR *of* TEXAS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2020

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	\$11,531,101	\$1,135,617	—	\$(10,395,484)	—	\$(10,395,484)
PUBLIC SERVICES	5,027,902	439,487	276,106	(4,312,309)	—	(4,312,309)
MEMBER SERVICES	25,078,524	18,729,866	1,363,120	(4,985,538)	—	(4,985,538)
PUBLIC PROTECTION	16,122,685	567,182	38,919	(15,516,584)	—	(15,516,584)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$57,760,212</u>	<u>\$20,872,152</u>	<u>\$1,678,145</u>	<u>\$(35,209,915)</u>	<u>—</u>	<u>\$(35,209,915)</u>
BUSINESS-TYPE ACTIVITIES						
BOOKS	4,255,854	2,341,355	—	—	(1,914,499)	(1,914,499)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$4,255,854</u>	<u>\$2,341,355</u>	<u>—</u>	<u>—</u>	<u>\$(1,914,499)</u>	<u>\$(1,914,499)</u>
TOTAL PRIMARY GOVERNMENTAL ACTIVITIES	<u>\$62,016,066</u>	<u>\$23,213,507</u>	<u>\$1,678,145</u>	<u>\$(35,209,915)</u>	<u>\$(1,914,499)</u>	<u>\$(37,124,414)</u>
GENERAL REVENUES:						
MEMBERSHIP DUES				24,872,966	—	24,872,966
INVESTMENT INCOME				1,427,944	9,366	1,437,310
ROYALTY REVENUE				1,591,507	1,227,197	2,818,704
OTHER INCOME				448,977	—	448,977
TOTAL GENERAL REVENUES				<u>\$28,341,394</u>	<u>\$1,236,563</u>	<u>\$29,577,957</u>
CHANGE IN NET POSITION				<u>\$(6,868,521)</u>	<u>\$(677,936)</u>	<u>\$(7,546,457)</u>
NET POSITION (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED				<u>\$(57,099,825)</u>	<u>\$(4,658,961)</u>	<u>\$(61,758,786)</u>
NET POSITION (DEFICIT) AT END OF YEAR				<u>\$(63,968,346)</u>	<u>\$(5,336,897)</u>	<u>\$(69,305,243)</u>

STATE BAR of TEXAS

BALANCE SHEET—GOVERNMENTAL FUNDS: MAY 31, 2020

	GENERAL FUND	SECTIONS AND DIVISIONS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS—CASH IN BANK	\$8,258,304	\$7,887,095	\$3,871,033	\$20,016,432
INVESTMENTS	21,933,831	1,163,668	7,575,609	30,673,108
RECEIVABLES:				
SALES TO MEMBERS AND OTHERS, NET OF AN ALLOWANCE FOR UNCOLLECTIBLES OF \$4,797	91,152	—	—	91,152
INTEREST RECEIVABLE	84,637	162	36,741	121,540
OTHER ACCOUNTS RECEIVABLE	2,428,491	240,202	6,978	2,675,671
DUE FROM OTHER GOVERNMENTAL FUNDS	1,115,863	1,048,500	97,803	2,262,166
INVENTORIES	11,572	—	—	11,572
PREPAID ITEMS	802,933	74,018	306,490	1,183,441
TOTAL ASSETS	<u>\$34,726,783</u>	<u>\$10,413,645</u>	<u>\$11,894,654</u>	<u>\$57,035,082</u>
LIABILITIES AND FUND BALANCE				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE	\$817,114	\$86,073	—	\$903,187
ACCRUED LIABILITIES	472,556	16	818	473,390
DUE TO OTHER GOVERNMENTAL FUNDS	1,146,303	198,828	917,035	2,262,166
DUE TO ENTERPRISE FUND	369,774	—	—	369,774
DUE TO AGENCY FUND	651,380	—	—	651,380
UNEARNED REVENUE	10,879,359	1,193,329	601,099	12,673,787
TOTAL CURRENT LIABILITIES	<u>\$14,336,486</u>	<u>\$1,478,246</u>	<u>\$1,518,952</u>	<u>\$17,333,684</u>
FUND BALANCES:				
NONSPENDABLE	814,505	74,018	306,490	1,195,013
COMMITTED	4,694,066	8,861,381	10,069,212	23,624,659
UNASSIGNED	14,881,726	—	—	14,881,726
TOTAL FUND BALANCES	<u>\$20,390,297</u>	<u>\$8,935,399</u>	<u>\$10,375,702</u>	<u>\$39,701,398</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$34,726,783</u>	<u>\$10,413,645</u>	<u>\$11,894,654</u>	<u>\$57,035,082</u>

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION: MAY 31, 2020

TOTAL FUND BALANCE—GOVERNMENTAL FUNDS	\$39,701,398
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENCE BECAUSE:	
CAPITAL ASSETS, INCLUDING ACCUMULATED DEPRECIATION, USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS.	6,266,438
EMPLOYEE BENEFIT RELATED LIABILITIES, AND RELATED ACCOUNTS, ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND ARE NOT INCLUDED IN THE FUND FINANCIAL STATEMENTS, BUT ARE REPORTED IN THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITIONS. THESE ITEMS INCLUDE:	
NET PENSION LIABILITY	(82,055,157)
OPEB LIABILITY	(40,576,045)
DEFERRED OUTFLOWS RELATED TO NET OPEB LIABILITY	7,769,115
DEFERRED INFLOWS RELATED TO NET OPEB LIABILITY	(10,123,032)
DEFERRED OUTFLOWS RELATED TO NET PENSION LIABILITY	20,714,722
DEFERRED INFLOWS RELATED TO NET PENSION LIABILITY	(3,663,602)
LONG-TERM LIABILITIES ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND THEREFORE ARE NOT REPORTED IN THE FUNDS. THESE ITEMS INCLUDE:	
CAPITAL LEASE PAYABLE	(175,596)
DEFERRED RENT	(220,908)
COMPENSATED ABSENCES	(1,605,679)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (63,968,346)</u>

STATE BAR *of* TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—GOVERNMENTAL FUNDS FOR THE YEAR ENDED MAY 31, 2020

	GENERAL FUND	SECTIONS AND DIVISIONS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
MEMBERSHIP DUES	\$21,109,358	\$2,557,623	1,205,985	\$24,872,966
ACCOUNTING AND MANAGEMENT FEES	650,351	—	—	650,351
TEXAS BAR JOURNAL	632,032	—	—	632,032
MCLE FEES	3,376,884	—	—	3,376,884
PROFESSIONAL DEVELOPMENT	13,628,029	599,360	—	14,227,389
MINORITY AFFAIRS	482,478	—	—	482,478
INVESTMENT INCOME	939,126	49,873	438,945	1,427,944
GRANT REVENUE	—	—	363,606	363,606
MEMBER BENEFITS	872,804	—	—	872,804
WEBSITE	586,256	—	—	586,256
ADVERTISING REVIEW	329,300	—	—	329,300
CDC DISCIPLINARY FEES	567,182	—	—	567,182
OTHER INCOME	948,966	790,862	877,474	2,617,302
TOTAL REVENUES	<u>\$44,122,766</u>	<u>\$3,997,718</u>	<u>\$2,886,010</u>	<u>\$51,006,494</u>
EXPENDITURES:				
EXECUTIVE	\$2,882,528	—	—	\$2,882,528
MEMBER AND PUBLIC SERVICE	2,707,219	—	—	2,707,219
PROFESSIONAL DEVELOPMENT	9,312,703	—	—	9,312,703
LEGAL AND ATTORNEY SERVICES	1,981,183	—	—	1,981,183
ACCESS TO JUSTICE COMMISSION	626,729	—	—	626,729
MEMBER BENEFITS AND RESEARCH	203,771	—	—	203,771
ATTORNEY COMPLIANCE	1,856,243	—	—	1,856,243
OPERATIONS AND SECURITY DIVISION	1,263,683	—	72,011	1,335,694
FINANCE AND INFORMATION TECHNOLOGY	5,063,957	—	540,402	5,604,359
COMMUNICATIONS	2,360,465	—	—	2,360,465
PUBLIC PROTECTION	10,646,348	—	719,211	11,365,559
SPECIAL SERVICES	—	3,293,221	2,300,915	5,594,136
EXPENDITURES RELATED TO BOARD COMMITMENTS	748,590	—	—	748,590
CAPITAL OUTLAY	—	—	706,334	706,334
DEBT SERVICE:				
PRINCIPAL	—	—	169,540	169,540
INTEREST	—	—	5,753	5,753
TOTAL EXPENDITURES	<u>\$39,653,419</u>	<u>\$3,293,221</u>	<u>\$4,514,166</u>	<u>\$47,460,806</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,469,347</u>	<u>704,497</u>	<u>(1,628,156)</u>	<u>3,545,688</u>
OTHER FINANCING SOURCES (USES):				
PROCEEDS FROM CAPITAL LEASES	—	—	163,983	163,983
TRANSFERS IN	—	—	1,738,800	1,738,800
TRANSFERS OUT	(1,738,800)	—	—	(1,738,800)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$(1,738,800)</u>	<u>—</u>	<u>\$1,902,783</u>	<u>\$163,983</u>
NET CHANGE IN FUND BALANCES	2,730,547	704,497	274,627	3,709,671
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	<u>17,659,750</u>	<u>8,230,902</u>	<u>10,101,075</u>	<u>35,991,727</u>
FUND BALANCES, END OF YEAR	<u>\$20,390,297</u>	<u>\$8,935,399</u>	<u>\$10,375,702</u>	<u>\$39,701,398</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, 2020

NET CHANGE IN FUND BALANCE — TOTAL GOVERNMENTAL FUNDS \$3,709,671

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

REVENUES IN THE STATEMENT OF ACTIVITIES THAT DO NOT PROVIDE CURRENT FINANCIAL RESOURCES ARE NOT REPORTED AS REVENUES IN THE FUNDS

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

CAPITAL OUTLAY	849,504
DEPRECIATION AND AMORTIZATION EXPENSE	(888,188)

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

PROCEEDS FROM CAPITAL LEASES	(163,983)
REPAYMENT OF CAPITAL LEASES	119,471

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	(14,731,469)
CHANGE IN OPEB LIABILITY AND RELATED DEFERRED INFLOWS AND OUTFLOWS	4,385,628
CHANGE IN DEFERRED RENT	(64,968)
CHANGE IN COMPENSATED ABSENCES	(84,187)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$(6,868,521)

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