Maxwell, Locke & Ritter, L.L.P. 401 Congress Ave., Ste. 1100 Austin, TX 78701

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State Bar of Texas (the "State Bar") as of and for the year ended May 31, 2009, which collectively comprise the State Bar's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the State Bar. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, 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.

The management's discussion and analysis on pages 3 through 10 and the supplemental schedules for the General Fund on pages 31 through 33 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 and individual nonmajor fund financial statements and the schedule of revenues, expenditures, and changes in fund balances for governmental funds on pages 34 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of revenues, expenditures, and changes in fund balances for governmental funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maxwell, Locke & Ritter, L.L.P. October 13, 2009

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STATEMENT OF NET ASSETS: MAY 31, 2009

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CASH AND CASH EQUIVALENTS	\$12,350,253	_	12,350,253
Investments	16,836,367	_	16,836,367
Receivables:			
Sales to members and others, net of			
ALLOWANCE FOR UNCOLLECTIBLES			
OF \$3,844 AND \$21,980	73,035	417,630	490,665
Interest receivable	90,698	_	90,698
OTHER ACCOUNTS RECEIVABLE	296,459	_	296,459
Due from other entities	83,104	_	83,104
Internal balances	(1,691,399)	1,691,399	_
Inventories, at cost	6,938	764,158	771,096
Prepaid expenses	769,959	_	769,959
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION):			
Land	154,074	_	154,074
Building	628,225	_	628,225
Furniture, equipment, and other	10,975,166	154,585	11,129,751
Construction in progress	57,594	_	57,594
TOTAL ASSETS	\$40,630,473	3,027,772	43,658,245
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	\$1,465,705	_	1,465,705
Accrued liabilities	423,236	26,836	450,072
Due to agency funds	251,255	_	251,255
Unearned revenue	7,585,014	_	7,585,014
Capital lease payable	155,638	8,390	164,028
Deferred rent liability	11,726	_	11,726
Accrued compensated absences	436,543	19,621	456,164
Noncurrent liabilities:		·	
Capital lease payable	103,085	8,390	111,475
Deferred rent liability	58,629	_	58,629
ACCRUED COMPENSATED ABSENCES	728,936	27,683	756,619
TOTAL LIABILITIES	\$11,219,767	90,920	11,310,687
NET ASSETS			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	11,815,059	154,585	11,969,644
	11,017,077	171,707	11,,,0,,011
UNRESTRICTED	17,595,647	2,782,267	20,377,914

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2009

		PROGRAM	A REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
GOVERNMENTAL ACTIVITIES							
General government	\$ 5,710,220	41,668	2,678	(5,665,874))	_	(5,665,874)	
PUBLIC SERVICES	2,164,013	347,728	732,515	(1,083,770)	_	(1,083,770)	
Member services	21,827,914	17,410,363	972,867	(3,444,684)	_	(3,444,684)	
PUBLIC PROTECTION	8,725,313	363,024	_	(8,362,289)	_	(8,362,289)	
OTAL GOVERNMENTAL ACTIVITIES	\$38,427,460	18,162,783	1,708,060	(18,556,617)		(18,556,617)	
BUSINESS-TYPE ACTIVITIES							
Books	\$ 2,732,955	2,386,130	_	_	(346,825)	(346,825)	
OTAL BUSINESS-TYPE ACTIVITIES	\$ 2,732,955	2,386,130			(346,825)	(346,825)	
OTAL PRIMARY GOVERNMENT	<u>\$41,160,415</u>	20,548,913	1,708,060	(18,556,617)	(346,825)	(18,903,442)	
	GENERAL REV	ENUES:					
	Membership dues Investment income			\$ 19,129,561	_	19,129,561	
				664,950	17,742	682,692	
	Royalty revenue			269,268	564,769	834,037	
	Other income			206,530	85	206,615	
	LOSS ON DISPOSAL OF CAPITAL ASSETS TOTAL GENERAL REVENUES CHANGE IN NET ASSETS			(192,334)	_	(192,334)	
				20,077,975	582,596	20,660,571	
				1,521,358	235,771	1,757,129	
	NET ASSETS, BEGI	NNING		27,889,348	2,701,081	30,590,429	
	NET ASSETS, ENDI	NG		\$29,410,706	2,936,852	32,347,558	

The notes to the financial statements are an integral part of this statement.

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BALANCE SHEET — GOVERNMENTAL FUNDS: MAY 31, 2009

	GENERAL FUND	LAW CENTER FUND	CLIENT SECURITY FUND	SECTIONS	OTHER GOVERNMENTAL FUNDS	TOTAI GOVERNMENTAI FUNDS
ASSETS	10,12	70/15	10112	020110110	101120	10,12,
Cash and cash equivalents	\$6,723,749	_	254,910	3,404,518	1,967,076	12,350,253
Investments	12,323,677	_	2,731,730	1,531,007	249,953	16,836,36
Receivables:	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,,
Sales to members and others, net of an						
ALLOWANCE FOR UNCOLLECTIBLES OF \$3,844	73,035	_	_	_	_	73,035
Interest receivable	80,782	_	3,686	6,230	_	90,69
OTHER ACCOUNTS RECEIVABLE	268,309	_		975	27,175	296,459
Due from other entities	83,104	_	_		_	83,104
Due from other governmental funds	112,579		9,674	480,815	437,133	1,040,20
Inventories, at cost	6,938	_		_		6,93
Prepaid expenditures	572,344	_	_	12,771	184,844	769,959
TOTAL ASSETS	\$20,244,517	_	3,000,000	5,436,316	2,866,181	\$31,547,01
LIABILITIES AND FUND BALANCES						
ACCOUNTS PAYABLE	\$1,356,797			108,908		1,465,70
ACCRUED LIABILITIES	373,124	50,112		100,700		423,230
Due to other governmental funds	927,622	2,386			110,193	1,040,20
Due to enterprise fund	1,691,399	2,300				1,691,39
DUE TO AGENCY FUND	251,255					251,25
Unearned revenue	5,633,756			643,860	1,307,398	7,585,014
TOTAL LIABILITIES	\$10,233,953	52,498		752,768	1,417,591	12,456,810
FUND BALANCES:						
Reserved for:						
Prepaid expenditures	572,344			12,771	161,352	746,467
Inventories	6,938					6,93
Unrecognized gains on investments	1,938				694	2,632
Designated for operating expenditures	6,013,273					6,013,273
Designated for Texas Law Center repairs	438,082					438,082
Designated for technology fund	290,000					290,000
Designated for client security fund	1,000,000					1,000,000
Designated for corpus			3,000,000			3,000,000
Unrestricted, undesignated	1,687,989	(52,498)		4,670,777	1,286,544	7,592,812
TOTAL FUND BALANCES	10,010,564	(52,498)	3,000,000	4,683,548	1,448,590	19,090,204
TOTAL LIABILITIES AND FUND BALANCES	\$20,244,517		3,000,000	5,436,316	<u>2,866,181</u>	
Amounts reported for governmental activities in a Capital assets used in governmental activities are reported in the funds. The following liabilities are not due and payable	are not financial	resources ar	nd, therefore,	are not	the funds:	11,815,059
CAPITAL LEASE PAYABLE	the current p	chod and th	ciciore are m	st reported III	are rarras.	(258,723)
VALUED LEADE FAIABLE						(4)0,/43)
						(70 255)
Deferred rent liability Accrued compensated absences						(70,355) (1,165,479)

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MAY 31, 2009

	GENERAL FUND	LAW CENTER FUND	CLIENT SECURITY FUND	SECTIONS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES	GENERAL FUND	FUND	FUND	SECTIONS	FUNDS	FUNDS
Membership dues	\$17,389,467	_	_	1,740,094	_	19,129,561
ACCOUNTING/MANAGEMENT FEES	506,777					506,777
Bar Journal	845,667		_	_		845,667
MCLE FEES	1,992,871	_	_		_	1,992,871
Professional Development	12,190,903	_	_		_	12,190,903
INVESTMENT INCOME	450,700	382	75,271	99,604	38,993	664,950
Grant revenue	_	_	_		732,515	732,515
OTHER INCOME	1,551,984	100,608	27,891	905,142	2,015,810	4,601,435
TOTAL REVENUES	\$34,928,369	100,990	103,162	2,744,840	2,787,318	40,664,679
EXPENDITURES						
Executive	\$ 2,254,300	_	_	_	_	2,254,300
Governmental relations	774,610	_			_	774,610
SPECIAL SERVICES	_	_	_	2,466,058	3,041,491	5,507,549
Professional development	9,623,512	_	_	_	_	9,623,512
Access to Justice	1,367,209	_		_	_	1,367,209
Attorney compliance	2,616,697	_	_	_	_	2,616,697
Administration	1,936,923	5,397,498	_	_	_	7,334,42
FINANCE AND INFORMATION TECHNOLOGY	2,468,995	_	_	_	690,567	3,159,562
Communications	3,746,099	_	_	_	_	3,746,099
CHIEF DISCIPLINARY COUNSEL	7,663,089	_	458,124	_	_	8,121,213
TOTAL EXPENDITURES	\$32,451,434	5,397,498	458,124	2,466,058	3,732,058	44,505,172
Excess (deficiency) of revenues						
OVER (UNDER) EXPENDITURES	2,476,935	(5,296,508)	(354,962)	278,782	(944,740)	(3,840,493
OTHER FINANCING SOURCES (USES)						
Proceeds from Capital Leases	_	_	_	_	271,371	271,371
Transfers in	_	5,808,801	309,430	_	414,266	6,532,497
Transfers out	(6,532,497)	_	_	_	_	(6,532,497)
Other financing sources (uses)	(6,532,497)	5,808,801	309,430		685,637	271,371
NET CHANGE IN FUND BALANCES	(4,055,562)	512,293	(45,532)	278,782	(259,103)	(3,569,122)
FUND BALANCES — BEGINNING	14,066,126	(564,791)	3,045,532	4,404,766	1,707,693	22,659,320
FUND BALANCES — ENDING	\$10,010,564	(52,498)	3,000,000	4,683,548	1,448,590	19,090,204

The notes to the financial statements are an integral part of this statement.

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2009

NET CHANGE IN FUND BALANCES — TOTAL GOVERNMENTAL FUNDS

\$(3,569,122)

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

GOVERNMENTAL FUNDS REPORT CAPITAL OUTLAYS AS EXPENDITURES.

HOWEVER, IN THE STATEMENT OF ACTIVITIES, THE COST OF THOSE ASSETS IS ALLOCATED OVER THEIR ESTIMATED USEFUL LIVES AS DEPRECIATION EXPENSE.

CAPITAL OUTLAY, EXCLUSIVE OF NON-CAPITALIZED ITEMS 5,902,226 DEPRECIATION EXPENSE (531,706)LOSS ON DISPOSAL OF CAPITAL ASSETS (192,334)

PROCEEDS FROM CAPITAL LEASES PROVIDE CURRENT FINANCIAL RESOURCES TO GOVERNMENTAL

FUNDS, BUT ISSUING DEBT INCREASES NONCURRENT LIABILITIES IN THE STATEMENT OF NET ASSETS. REPAYMENT OF NOTE PAYABLE AND CAPITAL LEASES IS AN EXPENDITURE IN THE GOVERNMENTAL FUNDS, BUT THE REPAYMENT REDUCES NONCURRENT LIABILITIES IN THE STATEMENT OF NET ASSETS.

PROCEEDS FROM CAPITAL LEASES (271,371)REPAYMENT OF CAPITAL LEASES 177,297 REPAYMENT OF NOTE PAYABLE 46,728

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 DEFERRED RENT LIABILITY 11,726 CHANGE IN COMPENSATED ABSENCES (52,086)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

1,521,358

The notes to the financial statements are an integral part of this statement.