State Bar of Texas

Financial Statements

For the Year Ended May 31, 2012

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State Bar of Texas

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PS&Co. Padgett Stratemann

Independent Auditors' Report

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

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") as of and for the year ended May 31, 2012, 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 State Bar's management. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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, 2012, 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.

As described in Note 1, the State Bar implemented the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of June 1, 2011.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and General Fund budgetary comparison 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

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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 supplementary 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's basic financial statements as a whole. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Padgett, Stratemann + Co., L.L.P.

Certified Public Accountants
November 20, 2012

State Bar of Texas

Management's Discussion and Analysis

May 31, 2012

The following is a discussion and analysis of the State Bar of Texas' (the "State Bar") financial performance for the fiscal year ended May 31, 2012. This section is a summary of the State Bar's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison to the prior year, with emphasis placed on the current year. 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 assets of the State Bar exceeded its liabilities at the close of the most recent fiscal year by $37,784,758 (net assets). This amount includes all State Bar-related assets including the reserves, all capital assets, all assets related to the Texas Bar Book Fund, the Sections, and all special revenue funds and capital project funds. Of this amount, $27,613,647 (unrestricted net assets) may be used to meet the State Bar's ongoing obligations to creditors.

- The State Bar's total net assets increased by $1,442,052 from the end of fiscal year 2011 to the end of fiscal year 2012.

- As of the close of the current fiscal year, the State Bar's governmental funds reported combined ending fund balances of $26,970,641, an increase of $2,679,719 in comparison with the prior year. Of this amount, $10,954,597 is available for spending at the State Bar's discretion (unassigned fund balance). The amount includes the General Fund, the Client Security Fund, the Special Revenue and Capital Projects Funds, and the Sections.

- At the end of the current fiscal year, the fund balance for the General Fund was $14,719,631 or 42% of the total General Fund expenditures for the year ending May 31, 2012. Of this amount, $3,283,352 is subject to the Board of Director's (the "Board") approval on how the funds may be used, and $390,355 is nonspendable.

Overview of the Financial Statements

The State Bar's basic financial statements are comprised of the following components: 1) the government-wide financial statements, 2) the fund financial statements, 3) notes to basic financial statements, and 4) the required supplementary information. 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 assets and the statement of activities. The government-wide financial statements can be found on pages 20 through 23 of this report.

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

The **statement of activities** presents information showing how the State Bar's net assets 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 assets 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). From the end of fiscal year 2011 to the end of fiscal year 2012, net assets increased by $1,442,052.

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 Texas Bar Book Fund.

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 24 through 32 of this report. All of the funds of the State Bar can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The State Bar has three types of funds:

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

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

The State Bar maintains 13 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Client Security Fund, and Sections, all of which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. These ten funds are: Texas Board of Legal Specialization, Annual Meeting, Law Focused Education, the Legal Administrators' Division, the Law Student Division, the Department of Public Services Fund, the State Bar College, the Technology Fund, the Law Center Fund, and the Hatton W. Sumners Grants. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

- *Proprietary funds* – The Texas Bar Book Fund is the State Bar's one 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 28 through 31 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 only fiduciary fund the State Bar has is an agency fund used to hold moneys for donations received for access to justice. The basic fiduciary fund financial statement can be found on page 32 of this report.

Notes to 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 basic financial statements can be found on pages 33 through 48 of this report.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary 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. Required supplementary information can be found on pages 50 through 52 of this report.

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State Bar, assets exceeded liabilities by $37,784,758 at the close of the most recent fiscal year.

The State Bar's net assets 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 28% of net assets. 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.

Table A-1
The State Bar's Net Assets

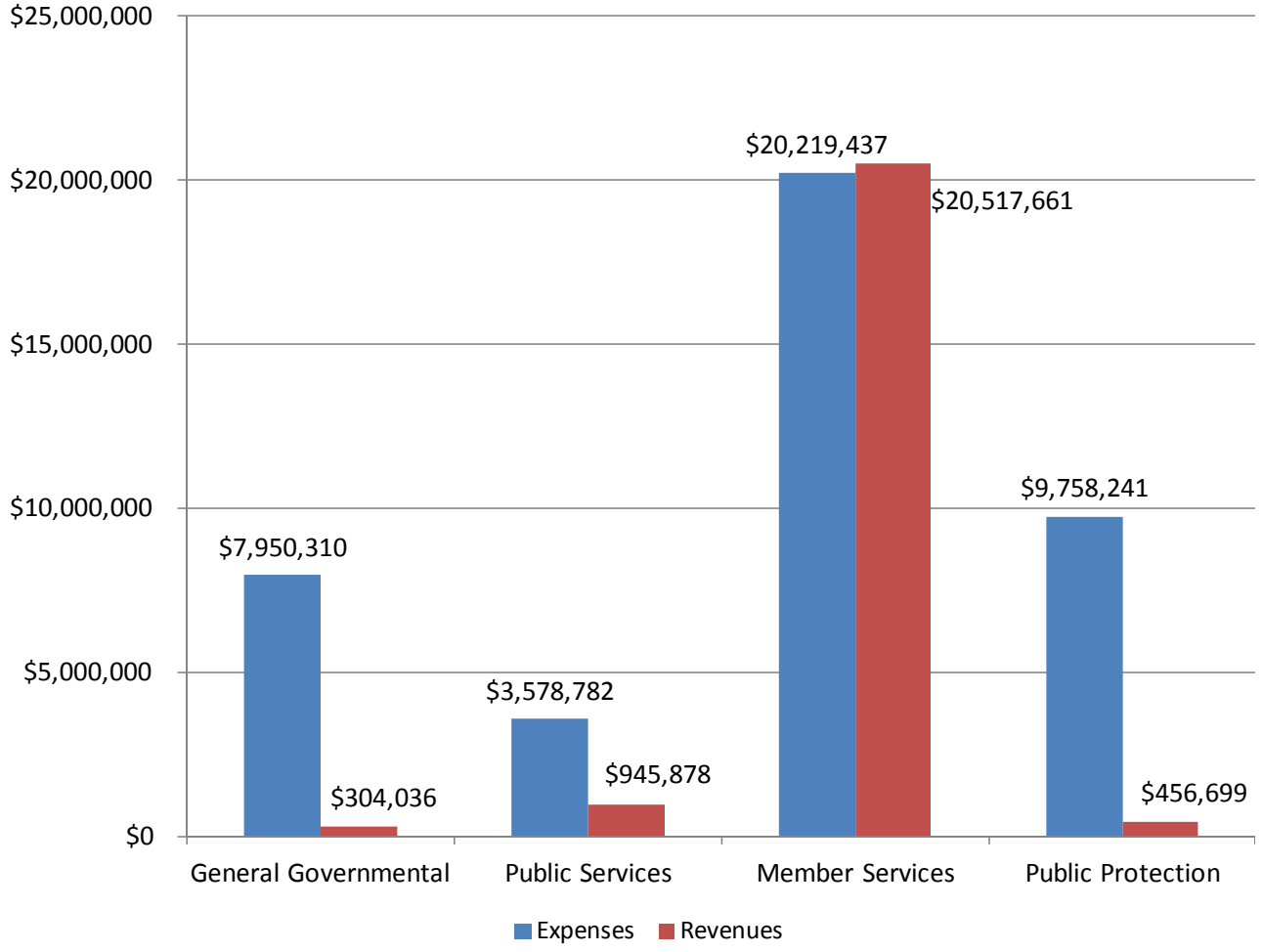
	2012			
	Governmental Activities	**Business-Type Activities**	**Total**	**2011 Total**
Current and other assets	$ 39,214,736	$ 2,350,258	$ 41,564,994	$ 40,966,426
Capital assets	10,191,463	89,427	10,280,890	10,774,230
Total assets	$ 49,406,199	$ 2,439,685	$ 51,845,884	$ 51,740,656
Total liabilities	$ 13,927,061	$ 134,065	$ 14,061,126	$ 15,397,950
Net assets:				
Invested in capital assets – net of related debt	$ 10,096,379	$ 74,732	$ 10,171,111	$ 10,631,604
Unrestricted	25,382,759	2,230,888	27,613,647	25,711,102
Total net assets	$ 35,479,138	$ 2,305,620	$ 37,784,758	$ 36,342,706

Government activities – Governmental activities increased the State Bar's net assets by $1,916,197. Key elements of this increase are as follows.

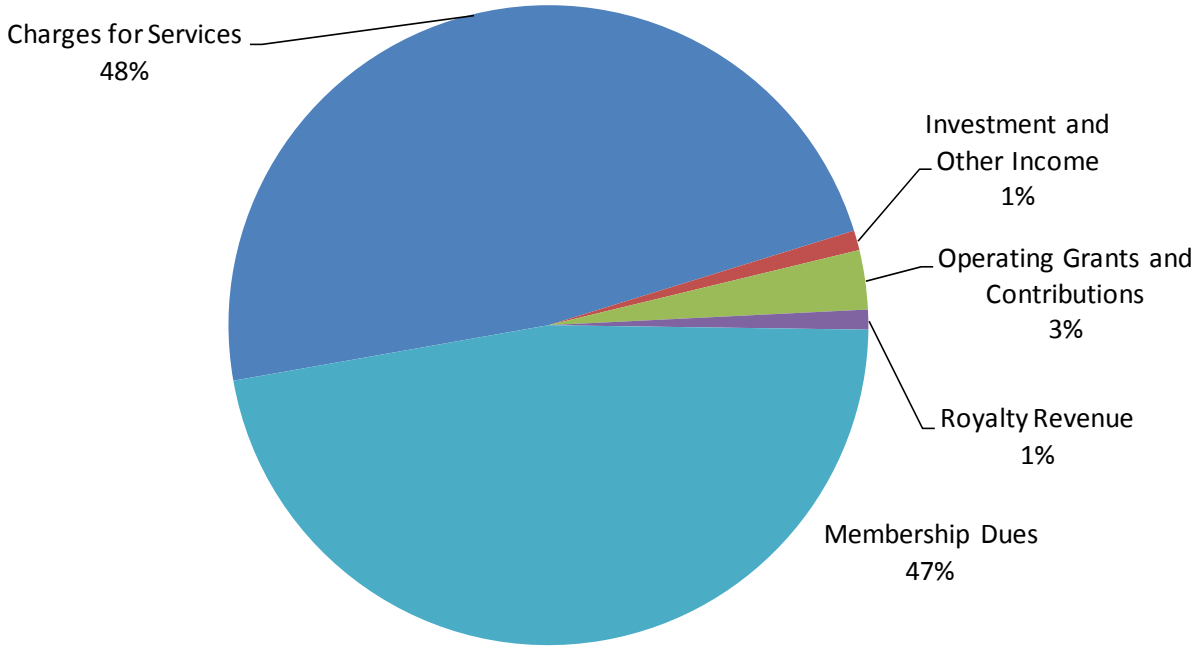
Table A-2
Changes in the State Bar's Net Assets

	2012			
	Governmental Activities	Business-Type Activities	Total	2011 Total
Revenues				
Program revenues:				
Charges for services	$ 20,856,407	$ 1,920,608	$ 22,777,015	$ 21,807,940
Operating grants and contributions	1,367,867	-	1,367,867	1,416,389
General revenues:				
Membership dues	20,580,181	-	20,580,181	20,149,026
Investment income	129,140	1,019	130,159	196,749
Royalty revenue	326,795	680,513	1,007,308	1,018,861
Other income	162,577	94	162,671	290,427
Total revenues	43,422,967	2,602,234	46,025,201	44,879,392
Expenses				
General government	7,950,310	-	7,950,310	7,115,431
Public services	3,578,782	-	3,578,782	3,553,637
Member services	20,219,437	-	20,219,437	20,071,399
Public protection	9,758,241	-	9,758,241	9,474,106
Books	-	3,076,379	3,076,379	2,848,010
Total expenses	41,506,770	3,076,379	44,583,149	43,062,583
Increase (decrease) in net assets	1,916,197	(474,145)	1,442,052	1,816,809
Net assets at beginning of year	33,562,941	2,779,765	36,342,706	34,525,897
Net assets at end of year	$ 35,479,138	$ 2,305,620	$ 37,784,758	$ 36,342,706

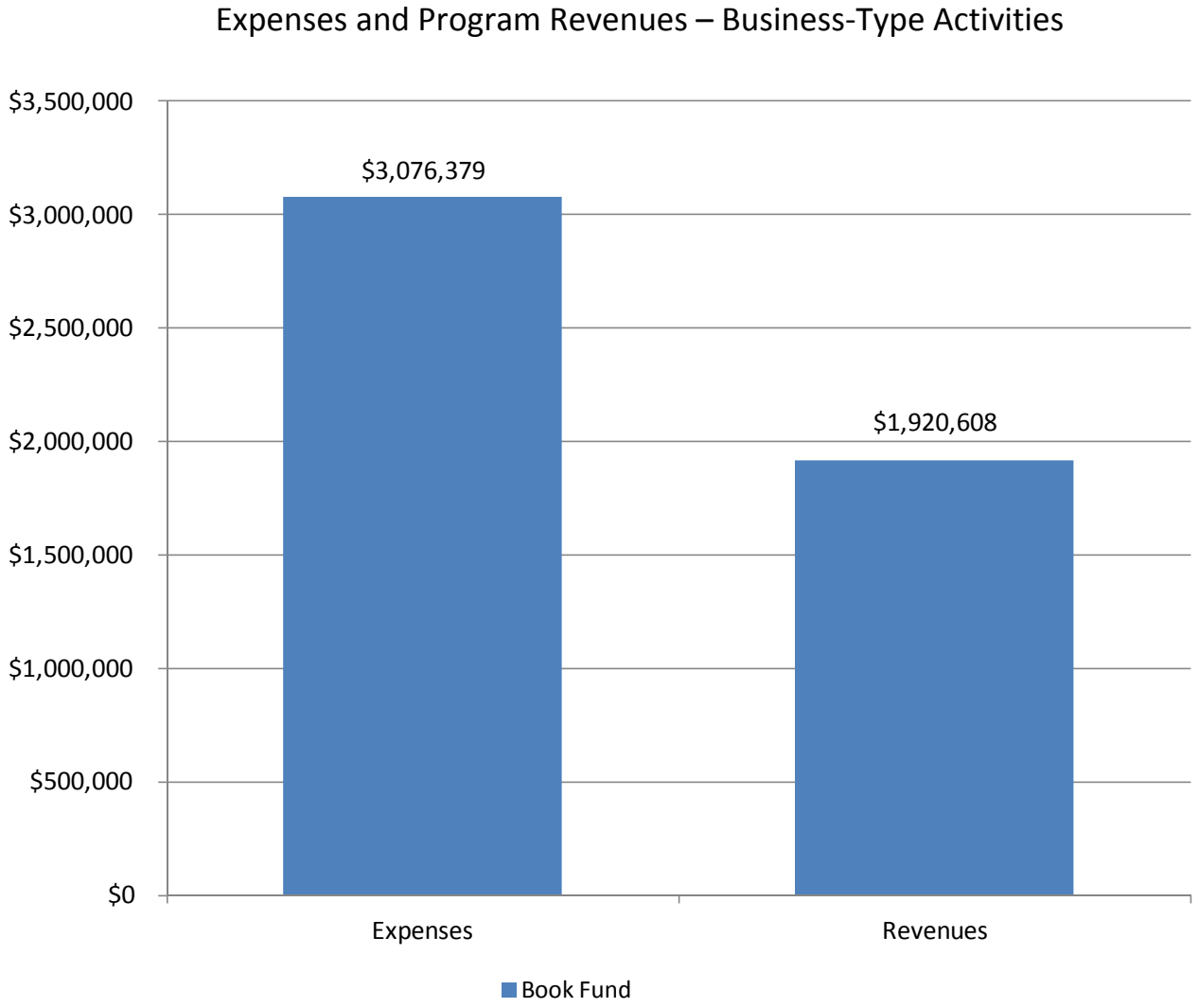
Expense and Program Revenues – Governmental Activities



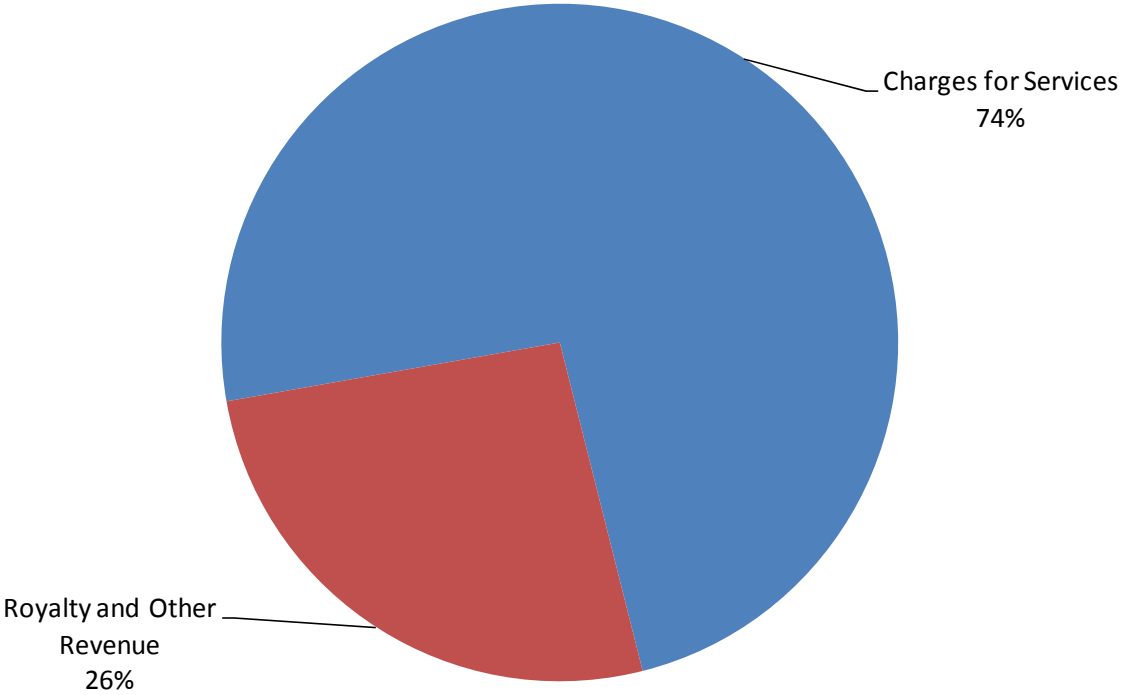
Revenues by Source – Governmental Activities



Business-type activities – Business-type activities decreased the State Bar's net assets by $474,145. A breakdown of expenses and program revenues and revenues by source type follows.



Revenues by Source – Business Activities



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, unreserved 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 $26,970,641, an increase of $2,679,719 in comparison with the prior year. Of this amount, $758,994 is nonspendable for prepaid expenditures and inventories, and $15,257,050 is committed for specific uses by the Board of Directors.

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 $14,719,631, which is 75% 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 31% of total General Fund expenditures. During the current fiscal year, the fund balance of the State Bar's General Fund increased by $1,709,427.

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 assets of the Texas Bar Book Fund totaled $2,305,620. The total decrease in net assets was $474,145. 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 $1,594,909 above budgeted amounts. The most significant positive variances resulted from professional development revenue and other income which were offset by negative variances from membership dues, investment income, and Bar Journal revenues. The State Bar's actual expenditures for the General Fund were $952,358 below budgeted amounts. The most significant positive variances resulted from professional development and legal service support expenditures.

Capital Asset Administration

Capital Assets – The State Bar's investment in capital assets for its governmental activities as of May 31, 2012, amounts to $10,280,890 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings, and furniture, equipment and other assets.

Table A-3
State Bar's Capital Assets – Net of Accumulated Depreciation

	2012			
	Governmental Activities	Business-Type Activities	Total	2011 Total
Land	$ 154,074	$ -	$ 154,074	$ 154,074
Construction in progress	175,611	-	175,611	-
Building	628,225	-	628,225	628,225
Furniture, equipment, and other	9,233,553	54,350	9,287,903	9,991,191
Digital publication	-	35,077	35,077	200,439
	$ 10,191,463	$ 89,427	$ 10,280,890	$ 10,973,929

Additional information on the State Bar's capital assets can be found in Note 4 on page 45 of this report.

Long-Term Liabilities – At the end of the current fiscal year, the State Bar had capital leases of $360,565 and accrued compensated absences of $1,422,492.

Table A-4
State Bar's Noncurrent Liabilities

	2012			
	Governmental Activities	Business-Type Activities	Total	2011 Total
Capital lease payable	$ 345,870	$ 14,695	$ 360,565	$ 166,260
Deferred rent liability	-	-	-	46,903
Accrued compensated absences	1,337,096	85,396	1,422,492	1,326,236
	1,682,966	100,091	1,783,057	1,539,399
Less current portion	(640,709)	(35,497)	(676,206)	(559,454)
Total noncurrent liabilities	$ 1,042,257	$ 64,594	$ 1,106,851	$ 979,945

Additional information on the State Bar's noncurrent liabilities can be found in Notes 7 on page 47 of this report.

Economic Factors and Next Year's Budget

For the General Fund, estimated revenues for fiscal year 2013 are $37,890,366 and estimated expenditures and other uses are $36,707,299. If these estimates are realized, and the General Fund transfers $1,183,067 to other funds as budgeted, the State Bar's budgetary General Fund fund balance is not expected to change.

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 Chief Financial Officer, State Bar of Texas, and P.O. Box 12487, Austin, Texas 78711.

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Basic Financial Statements

PS&Co.

State Bar of Texas

Statement of Net Assets

May 31, 2012

ASSETS	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 15,811,549	$ -	$ 15,811,549
Investments	22,607,843	-	22,607,843
Receivables:			
Sales to members and others – net of allowance for uncollectibles of $2,369 and $38,894	45,009	738,978	783,987
Interest receivable	91,583	-	91,583
Other accounts receivable	835,671	-	835,671
Internal balances	(935,913)	935,913	-
Inventories – at cost	6,039	675,367	681,406
Prepaid items	752,955	-	752,955
Total current assets	39,214,736	2,350,258	41,564,994
Noncurrent assets:			
Capital assets – net of accumulated depreciation/amortization:			
Land	154,074	-	154,074
Construction in progress	175,611	-	175,611
Building	628,225	-	628,225
Furniture, equipment, and other	9,233,553	54,350	9,287,903
Digital publication	-	35,077	35,077
Total noncurrent assets	10,191,463	89,427	10,280,890
Total assets	$ 49,406,199	$ 2,439,685	$ 51,845,884

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable	$ 1,307,307	$ -	$ 1,307,307
Accrued liabilities	436,416	33,974	470,390
Due to agency funds	447,079	-	447,079
Unearned revenue	10,053,293	-	10,053,293
Capital lease payable	160,172	6,664	166,836
Accrued compensated absences	480,537	28,833	509,370
Total current liabilities	12,884,804	69,471	12,954,275
Long-Term Liabilities			
Capital lease payable	185,698	8,031	193,729
Accrued compensated absences	856,559	56,563	913,122
Total noncurrent liabilities	1,042,257	64,594	1,106,851
Total liabilities	$ 13,927,061	$ 134,065	$ 14,061,126
Net Assets			
Invested in capital assets – net of related debt	$ 10,096,379	$ 74,732	$ 10,171,111
Unrestricted	25,382,759	2,230,888	27,613,647
Total net assets	$ 35,479,138	$ 2,305,620	$ 37,784,758

State Bar of Texas

Statement of Activities

Year Ended May 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Governmental activities:			
General government	$ 7,950,310	$ 304,036	$ -
Public services	3,578,782	515,917	429,961
Member services	20,219,437	19,579,755	937,906
Public protection	9,758,241	456,699	-
Total governmental activities	41,506,770	20,856,407	1,367,867
Business-type activities:			
Books	3,076,379	1,920,608	-
Total business-type activities	3,076,379	1,920,608	-
Total primary governmental activities	$ 44,583,149	$ 22,777,015	$ 1,367,867
General revenues:			
Membership dues			
Investment income			
Royalty revenue			
Other income			
Gain on disposal of capital assets			
Total general revenues			
Change in net assets			
Net assets at beginning of year			
Net assets at end of year			

The accompanying notes are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	**Business-Type Activities**	**Total**
$ (7,646,274)	$ -	$ (7,646,274)
(2,632,904)	-	(2,632,904)
298,224	-	298,224
(9,301,542)	-	(9,301,542)
(19,282,496)	-	(19,282,496)
-	(1,155,771)	(1,155,771)
-	(1,155,771)	(1,155,771)
(19,282,496)	(1,155,771)	(20,438,267)
20,580,181		20,580,181
129,140	1,019	130,159
326,795	680,513	1,007,308
158,151	94	158,245
4,426	-	4,426
21,198,693	681,626	21,880,319
1,916,197	(474,145)	1,442,052
33,562,941	2,779,765	36,342,706
$ 35,479,138	$ 2,305,620	$ 37,784,758

State Bar of Texas

Balance Sheet – Governmental Funds

May 31, 2012

ASSETS	General Fund	Client Security Fund	Sections	Other Governmental Funds	Total Governmental Funds
Assets					
Current assets:					
Cash and cash equivalents	$ 8,156,851	$ 922,485	$ 4,512,199	$ 2,220,014	$ 15,811,549
Investments	17,476,801	2,204,310	1,515,988	1,410,744	22,607,843
Receivables:					
Sales to members and others – net of allowance for uncollectibles of $2,369	45,009	-	-	-	45,009
Interest receivable	80,116	5,645	1,530	4,292	91,583
Other accounts receivable	626,774	-	208,672	225	835,671
Due from other governmental funds	207,796	-	763,175	796,468	1,767,439
Inventories – at cost	6,039	-	-	-	6,039
Prepaid expenditures	384,316	-	18,886	349,753	752,955
Total assets	$ 26,983,702	$ 3,132,440	$ 7,020,450	$ 4,781,496	$ 41,918,088
LIABILITIES AND FUND BALANCE					
Liabilities					
Current liabilities:					
Accounts payable	$ 1,188,084	$ -	$ 119,223	$ -	$ 1,307,307
Accrued liabilities	385,469	-	49,370	1,577	436,416
Due to other governmental funds	1,559,643	28,261	-	179,535	1,767,439
Due to enterprise fund	935,913	-	-	-	935,913
Due to agency fund	447,079	-	-	-	447,079
Unearned revenue	7,747,883	-	763,175	1,542,235	10,053,293
Total liabilities	12,264,071	28,261	931,768	1,723,347	14,947,447
Fund Balances					
Nonspendable	390,355	-	18,886	349,753	758,994
Committed	3,283,352	3,104,179	6,069,796	2,799,723	15,257,050
Unassigned	11,045,924	-	-	(91,327)	10,954,597
Total fund balances	14,719,631	3,104,179	6,088,682	3,058,149	26,970,641
Total liabilities and fund balances	$ 26,983,702	$ 3,132,440	$ 7,020,450	$ 4,781,496	$ 41,918,088

The accompanying notes are an integral part of this statement.

State Bar of Texas

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

May 31, 2012

Total fund balance – Governmental Funds balance sheet	$ 26,970,641
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,191,463
The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Capital lease payable	(345,870)
Accrued compensated absences	(1,337,096)
Net assets of governmental activities – statement of net assets	$ 35,479,138

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

Year Ended May 31, 2012

	General Fund	Client Security Fund	Sections	Other Governmental Funds	Total Governmental Funds
Revenues					
Membership dues	$ 18,624,636	$ -	$ 1,955,545	$ -	$ 20,580,181
Accounting/management fees	594,214	-	-	-	594,214
Bar Journal	665,413	-	-	-	665,413
MCLE fees	2,746,252	-	-	-	2,746,252
Professional development	13,269,615	-	-	-	13,269,615
Investment income	74,194	9,353	36,956	8,637	129,140
Grant revenue	-	-	-	416,711	416,711
Other income	2,321,014	12,769	1,159,274	2,162,884	5,655,941
Total revenues	38,295,338	22,122	3,151,775	2,588,232	44,057,467
Expenditures					
Executive	2,147,936	-	-	-	2,147,936
Governmental relations	2,102,816	-	-	-	2,102,816
Special services	-	-	2,501,301	2,464,791	4,966,092
Professional development	9,297,739	-	-	-	9,297,739
Legal services support	1,076,148	-	-	-	1,076,148
Access to justice	526,734	-	-	-	526,734
Attorney compliance	2,906,143	-	-	-	2,906,143
Administration	1,967,622	-	-	30,718	1,998,340
Finance	2,249,768	-	-	-	2,249,768
Information technology	1,515,510	-	-	1,021,082	2,536,592
Communications	2,304,759	-	-	-	2,304,759
Web management	422,111	-	-	-	422,111
Public protection division	8,581,292	576,450	-	-	9,157,742
Total expenditures	35,098,578	576,450	2,501,301	3,516,591	41,692,920
Excess (deficiency) of revenues over (under) expenditures	3,196,760	(554,328)	650,474	(928,359)	2,364,547
Other Financing Sources (Uses)					
Proceeds from capital leases	-	-	-	315,172	315,172
Transfers in	-	300,000	-	1,187,333	1,487,333
Transfers out	(1,487,333)	-	-	-	(1,487,333)
Total other financing sources (uses)	(1,487,333)	300,000	-	1,502,505	315,172
Net change in fund balances	1,709,427	(254,328)	650,474	574,146	2,679,719
Fund balances at beginning of year	13,010,204	3,358,507	5,438,208	2,484,003	24,290,922
Fund balances at end of year	$ 14,719,631	$ 3,104,179	$ 6,088,682	$ 3,058,149	$ 26,970,641

The accompanying notes are an integral part of this statement.

State Bar of Texas

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year Ended May 31, 2012

Net change in fund balance – total Governmental Funds	$ 2,679,719
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay – exclusive of noncapitalized items	245,254
Depreciation expense	(797,083)
Gain on disposal of capital assets	4,426
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 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	(315,172)
Repayment of capital leases	135,562
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	46,903
Change in compensated absences	(83,412)
Change in net assets of governmental activities – statement of activities	$ 1,916,197

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Net Assets – Proprietary Fund

May 31, 2012

	Business-Type Activities – Major Enterprise Fund
Assets	
Current assets:	
Sales to members and others – net of allowance for uncollectible accounts of $38,894	$ 738,978
Due from other funds	935,913
Inventories – at cost	675,367
Total current assets	2,350,258
Capital assets – furniture, equipment, digital publication, and other – net of accumulated depreciation and amortization of $586,912	89,427
Total assets	$ 2,439,685
Liabilities	
Current liabilities:	
Accrued liabilities	$ 33,974
Capital lease payable	6,664
Accrued compensated absences	28,833
Total current liabilities	69,471
Long-Term Liabilities	
Capital lease payable	8,031
Accrued compensated absences	56,563
Total long-term liabilities	64,594
Total liabilities	$ 134,065
Net Assets	
Invested in capital assets – net of related debt	$ 74,732
Unrestricted	2,230,888
Total net assets	$ 2,305,620

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Fund

Year Ended May 31, 2012

	Business-Type Activities – Major Enterprise Fund
Operating Revenues	
Charges for sales and services:	
Book sales	$ 1,920,608
Royalty revenue	680,513
Other income	94
Total operating revenues	2,601,215
Operating Expenses	
Costs of goods sold	576,847
Administrative	2,331,113
Depreciation	3,057
Amortization	165,362
Total operating expenses	3,076,379
Operating loss	(475,164)
Nonoperating Revenues	
Investment income	1,019
Total nonoperating revenues	1,019
Net loss	(474,145)
Net assets at beginning of year	2,779,765
Net assets at end of year	$ 2,305,620

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Cash Flows – Proprietary Fund

Year Ended May 31, 2012

	Business-Type Activities – Major Enterprise Fund
Cash Flows From Operating Activities	
Receipts from customers	$ 1,748,064
Receipts from royalties	680,513
Payments to suppliers for goods and services	(1,420,289)
Payments to employees	(1,001,959)
Net cash provided by operating activities	6,329
Cash Flows From Capital and Related Financing Activities	
Payments on capital leases	(7,348)
Net cash used in capital and related financing activities	(7,348)
Cash Flows From Investing Activities	
Interest received	1,019
Net cash provided by investing activities	1,019
Net change in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	$ -

The accompanying notes are an integral part of this statement.

State Bar of Texas

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities – Proprietary Fund

Year Ended May 31, 2012

Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating loss	$	(475,164)
Depreciation and amortization expense		168,419
Bad debt expense		32,799
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Decrease in accounts receivable		(205,437)
Increase in due from other funds		587,374
Decrease in merchandise inventories		(103,078)
Decrease in accrued liabilities		(11,428)
Increase in accrued compensated absences		12,844
Net cash provided by operating activities	$	6,329
Supplemental Disclosure of Cash Information		
Borrowings under capital lease	$	22,043

The accompanying notes are an integral part of this statement.

State Bar of Texas

Statement of Fiduciary Assets and Liabilities – Agency Fund

May 31, 2012

Assets	
Restricted cash	$ 6,407
Due from general fund	447,079
Total assets	$ 453,486
Liabilities	
Due to other organizations	$ 453,486
Total liabilities	$ 453,486

The accompanying notes are an integral part of this statement.

State Bar of Texas

Notes to Financial Statements

May 31, 2012

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

The State Bar is subject to the Texas Sunset Act (Chapter 325). Subsequent to May 31, 2003, the revised State Bar Act was approved (Texas Gov. Code Section 81.001 et. seq.), which recreated the State Bar until September 1, 2015 and thereafter, contingent upon the State of Texas legislature and the Supreme Court of Texas.

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.

Effective June 1, 1993, the State Bar adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, which resulted in inclusion of the Sections in the basic financial statements of the State Bar. The State Bar appoints a majority of members to the Texas Bar Foundation's (the "Foundation") 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, and because no financial burden or benefit exists between the State Bar and the Foundation, the Foundation is not considered a component unit of the State Bar. The State Bar also appoints a majority of members to the Texas Center For Legal Ethics' (the "Center") 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 Center, and because no financial burden or benefit exists between the State Bar and the Center, the Center is not considered a component unit of the State Bar.

1. Summary of Significant Accounting Policies (continued)

Blended Component Units

The College of the State Bar (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 a 18 member board of directors, of which 12 members are appointed by the State Bar's President and 6 members are appointed by the State Bar's President based on nominations submitted by the College's board. The College is a Section 501(c)3 corporation and is self-funded through membership dues, investment income, and merchandise sales. The College is reported as a Special Revenue Fund.

Law Focused Education, Inc. was created in 1975 as a Section 501(c)3 corporation to plan, promote, and support law-related education programs which are 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 three funds: Department of Public Services, Hatton W. Sumners Grants, and Law Focused Education, all of which are reported as Special Revenue Funds.

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, although the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

In the governmental fund financial statements, revenues are considered 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 of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

The State Bar reports the following major governmental funds:

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.

The Client Security Fund accounts for the payments associated with losses related to a lawyer's dishonest conduct or dishonest act against an individual. The Client Security Fund must maintain a corpus of $3,000,000, in accordance with resolutions of the State Bar's Board of Directors (the "Board"). The fund did not meet the criteria for a major fund; however, management decided to include it as a major fund in the interest of the users of the financial statements.

The Sections are a special revenue fund. The Sections include all entities created by the State Bar's Board, which serve the individual members of the State Bar in certain legal specialization areas. The Sections' officers are elected by the members of the individual sections and are responsible for maintaining and administering their operations. Although the Sections collect a portion of their revenues and pay expenditures for administration and operations individually, the State Bar administers the collection of dues for the Sections. The State Bar believes it is unlikely that it will be required to use its assets to satisfy future claims of the Sections; however, the State Bar is liable for any claims should they occur.

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The State Bar reports its Book Enterprise Fund, now known as "TexasBarBooks," as a major proprietary fund. The Book Fund accounts for the activities relating to the sales of books. 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 Book Fund are charges for the sales of books. Operating expenses include the cost of sales and services, administrative expenses, depreciation on capital assets, and amortization on the intangible asset. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The special revenue funds include the Legal Administrators' Division, Annual Meeting, the Law Student Division Fund, and the Texas Board of Legal Specialization Fund.

The special revenue funds function for the benefit of the members of the State Bar and the State Bar's Board administers and maintains all control over their operations. The State Bar is obligated to fund liabilities and deficits of the special revenue funds. Although expenses for administration and operations are paid by the special revenue funds individually, the State Bar controls the collection and disbursement of monies for the special revenue funds and executes all investment transactions.

The capital projects funds are used to account for the acquisition and construction of the State Bar's major capital facilities, and other capital expenditures, other than those financed by proprietary funds. The capital projects funds include the Technology Fund and the Texas Law Center Fund.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict, guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their proprietary funds, subject to this same limitation. The State Bar has elected to follow subsequent private-sector guidance.

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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the State Bar's policy to use restricted resources first, then unrestricted resources as they are needed.

The agency fund (a fiduciary fund type) is custodial in nature and is used to account for reporting voluntary access to justice contributions.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Investments

Investments, consisting primarily of government agency securities and United States Treasury securities and certificates of deposit ("CDs"), are stated at fair value. 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.

The State Bar is authorized to invest in the following investment instruments provided that they meet the guidelines established in the State Bar's investment policy and the Public Funds Investment Act:

- United States Treasury securities
- United States federal agency securities
- CDs and share certificates
- Banker's acceptances
- Fully collateralized repurchase agreements
- Money market mutual funds
- Commercial paper

Merchandise Inventories

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

1. Summary of Significant Accounting Policies (continued)

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 is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, consisting of land, buildings, and furniture and equipment, are reported in the governmental activities and business-type activities columns of the government-wide financial statements. Capital assets are defined by the State Bar as assets with an initial cost of at least $5,000. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Capital assets of the State Bar are depreciated using the straight-line method over the following estimated useful lives:

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

Intangible Asset

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

Income Taxes

The State Bar is operating as part of the judicial branch of the state government; therefore, it is not subject to Federal income taxes.

1. Summary of Significant Accounting Policies (continued)

Unearned Revenues

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

Interfund Receivables/Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. These balances will be repaid within the next year.

Net Assets – Net of Related Debt

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of related capital leases. Net assets are reported as restricted when there are external limitations imposed on their use by creditors, grantors, or laws or regulations of other governments. Unrestricted net assets represent the remaining portion of net assets.

Fund Balance

The State Bar has implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB No. 54 provides more clearly defined fund balance classifications. Fund balance is divided into five classifications based primarily on the extent to which the State Bar is bound to observe constraints imposed upon the use of the resources in the Governmental Funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or amounts that are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

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.

1. Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

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 is available, the State Bar considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board or its delegated official has provided otherwise in its commitment or assignment actions.

1. Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

The following table details fund balances between the various categories:

	General Fund	Client Security Fund	Sections	Other Funds	Total
Fund balances:					
Nonspendable:					
Prepaid items	$ 384,316	$ -	$ 18,886	$ 349,753	$ 752,955
Inventories	6,039	-	-	-	6,039
Committed to:					-
Texas Law Center projects	190,321	-	-	1,438,261	1,628,582
Information technology projects	1,179,871	-	-	796,468	1,976,339
ATJ student loan repayment program	1,363,160	-	-	-	1,363,160
TexasBarCLE scholarships	50,000	-	-	-	50,000
Law related education program	50,000	-	-	-	50,000
Texas Court Records Preservation Task Force	100,000	-	-	-	100,000
Presidential initiatives	100,000	-	-	-	100,000
Client Security Fund expenditures	250,000	3,104,179	-	-	3,354,179
Sections expenditures	-	-	6,069,796	-	6,069,796
Special revenue funds	-	-	-	564,994	564,994
Unassigned	11,045,924	-	-	(91,327)	10,954,597
Total fund balances	$ 14,719,631	$ 3,104,179	$ 6,088,682	$ 3,058,149	$ 26,970,641

Budgetary Information

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

The State Bar allows employees to accumulate vacation leave with certain limitations. Accumulated vacation leave that is expected to be liquidated with expendable available financial resources in the event of termination is reported as an expenditure and a liability of the governmental funds that will pay the liability. Amounts of accumulated vacation leave that are not expected to be liquidated are reported in the governmental activities. Accumulated vacation leave of the Proprietary Funds is recorded as an expense and liability of those funds as the benefits accrue to employees. All full-time employees accumulate compensable leave in amounts ranging from 8 to 15 hours per month, depending on service, up to a maximum allowable accumulation ranging from 180 to 388 hours.

2. Deposits and Investments

As of May 31, 2012, the carrying amount of deposits was $15,817,956, which consists of $7,495,986 cash in banks and $8,321,970 of cash equivalents in money market accounts. As of May 31, 2012, the total bank balance was $16,016,550, all of which is included in governmental funds.

Deposit Custodial Credit Risk

In the case of deposits, the risk is that in the event of a bank failure, the State Bar's deposits may not be returned to it. The State Bar has a deposit policy for custodial credit risk. As of May 31, 2012, the State Bar is not exposed to deposit custodial credit risk because it was collateralized with securities held by the Federal Reserve in the State Bar's name in the amount of $9,190,000. None of the State Bar's funds are held in foreign currency.

As of May 31, 2012, the State Bar had the following investments, all of which are included in governmental funds:

Description	Fair Value	Investment Rating	Rating Organization	Weighted Average Maturity (In Days)
United States government agency obligations	$ 18,722,578	AA+	Standard & Poor's	222
Commercial paper	2,785,600	A-1+/A-1	Standard & Poor's	57
Certificates of deposit	999,317	N/A	N/A	274
United States Treasury securities	100,348	Aaa	Moody's	502
Total investments	$ 22,607,843			

2. Deposits and Investments (continued)

Credit Risk

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

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 in the possession of an outside party. The State Bar had no exposed investment custodial credit risk at May 31, 2012.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. Information regarding investments in any one issuer that represents 5% or more of the State Bar's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the United States government.

As of May 31, 2012, the State Bar's investments consist of the following:

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 10,465,481	47%
Federal Home Loan Mortgage Corp.	5,445,161	24%
Commercial paper	2,785,600	12%
Federal National Mortgage Association	2,395,727	11%
Certificates of deposit	999,317	4%
United States government agency obligations	416,209	2%
United States Treasury securities	100,348	-
Total investments	$ 22,607,843	100%

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 investments 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.

3. Interfund Receivables, Payables, and Transfers

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." The composition of interfund balances as of May 31, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 179,535
General Fund	Client Security Fund	28,261
Agency Fund	General Fund	447,079
Sections	General Fund	763,175
Enterprise Fund	General Fund	935,913
Nonmajor Governmental Funds	General Fund	796,468
Total		$ 3,150,431

During the year, the General Fund transferred $300,000 to the Client Security Fund and $1,187,333 to nonmajor governmental funds to supplement operations, to fund technology projects, and to fund future renovations to the Texas Law Center.

4. Changes in Capital Assets

Capital asset activity for the year ended May 31, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 154,074	$ -	$ -	$ 154,074
Construction in progress	-	175,611	-	175,611
Total capital assets not being depreciated	154,074	175,611	-	329,685
Capital assets being depreciated				
Building	6,282,249	-	-	6,282,249
Furniture, equipment, and other	15,576,877	74,643	(145,304)	15,506,216
Total capital assets being depreciated	21,859,126	74,643	(145,304)	21,788,465
Less accumulated depreciation for:				
Building	(5,654,024)	-	-	(5,654,024)
Furniture, equipment, and other	(5,620,310)	(797,083)	144,730	(6,272,663)
Total accumulated depreciation	(11,274,334)	(797,083)	144,730	(11,926,687)
Total capital assets being depreciated – net	10,584,792	(722,440)	(574)	9,861,778
Governmental activities capital assets – net	$ 10,738,866	$ (546,829)	$ (574)	$ 10,191,463
Business-type activities:				
Digital publication	$ 300,659	$ -	$ -	$ 300,659
Furniture, equipment, and other	353,637	22,043	-	375,680
Accumulated depreciation/amortization	(418,493)	(168,419)	-	(586,912)
Business-type activities capital assets – net	$ 235,803	$ (146,376)	$ -	$ 89,427

Depreciation expense for the year ended May 31, 2012 for governmental activities totaled $797,083, all of which was charged to the general government program. Depreciation and amortization expense for business-type activities totaled $168,419 for the year ended May 31, 2012.

5. Capital Lease Obligations

The State Bar is obligated under capital leases for certain equipment. The following is a schedule of future minimum lease payments under the capital leases, together with the net present value of all minimum lease payments as of May 31, 2012:

	Governmental Activities	Business-Type Activities	Total
2013	$ 172,915	$ 7,864	$ 180,779
2014	161,048	7,864	168,912
2015	39,490	-	39,490
Total minimum lease payments	373,453	15,728	389,181
Less amounts representing interest	27,583	1,033	28,616
Due under capital lease obligations	345,870	14,695	360,565
Current capital lease obligations	160,172	6,664	166,836
Long-term capital lease obligations	$ 185,698	$ 8,031	$ 193,729

At May 31, 2012, $259,753 of equipment purchased through capital leases met the capitalization threshold for inclusion in capital assets.

6. Operating Lease Obligations

At May 31, 2012, 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. Future minimum lease payments on these operating leases are as follows:

Year ending May 31,	
2013	$ 366,986
2014	438,000
2015	443,538
2016	384,808
2017	344,390
Later years	1,421,902
	$ 3,399,624

6. Operating Lease Obligations (continued)

Rent expense incurred under all office space operating leases for the year ended May 31, 2012 was approximately $559,750, or $466,344 net of the intercompany lease with TexasBarBooks.

7. Long-Term Liabilities

A summary of changes in long-term liabilities for the State Bar is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental activities:					
Capital lease obligations	$ 166,260	$ 315,172	$ (135,562)	$ 345,870	$ 160,172
Accrued compensated absences	1,253,684	903,259	(819,847)	1,337,096	480,537
Total governmental activities	$ 1,419,944	$ 1,218,431	$ (955,409)	$ 1,682,966	$ 640,709
Business-type activities:					
Capital lease obligations	$ -	$ 22,043	$ (7,348)	$ 14,695	$ 6,664
Accrued compensated absences	72,552	71,397	(58,553)	85,396	28,833
Total business-type activities	$ 72,552	$ 93,440	$ (65,901)	$ 100,091	$ 35,497

Retirement Plan

The State Bar contributes to the Employees Retirement System of Texas ("ERS"), a public employee retirement system. It is a single employer defined benefit pension plan, with all risks and costs the liability of the State of Texas. 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.

7. Long-Term Liabilities (continued)

Retirement Plan (continued)

Under provisions in state law, plan members are required to contribute 6.50% of their annual covered salary and the State Bar contributes an amount equal to 6.00% of the State Bar's covered payroll. The State Bar's contributions to ERS for the years ending May 31, 2012, 2011, and 2010, were approximately $1,014,000, $1,082,000, and $1,006,000, respectively, which are equal to the required contributions for each year.

8. Risk Management

The State Bar is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The State Bar purchased commercial insurance to cover risks associated with potential claims in 2012. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

Required Supplemental Information

PS&Co.

State Bar of Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund

Year Ended May 31, 2012

	Budgeted Amounts – Original and Final	Actual	Variance Favorable (Unfavorable)
Revenues			
Membership dues	$ 18,863,600	$ 18,624,636	$ (238,964)
Accounting and management fees	582,774	594,214	11,440
Bar Journal	807,800	665,413	(142,387)
MCLE fees	2,620,000	2,746,252	126,252
Professional development	11,926,379	13,269,615	1,343,236
Investment income	100,000	74,194	(25,806)
Other income	1,799,876	2,321,014	521,138
Total revenues	36,700,429	38,295,338	1,594,909
Expenditures			
Executive:			
Office of executive director	444,023	405,668	38,355
Office of deputy executive director	284,259	281,604	2,655
Director of special projects	150,305	156,207	(5,902)
Legal counsel	324,074	341,335	(17,261)
Unauthorized practice of law	170,000	132,997	37,003
Officers and directors	761,837	723,668	38,169
Presidential initiatives	100,000	106,457	(6,457)
Total executive	2,234,498	2,147,936	86,562
Governmental relations:			
Governmental relations	392,679	406,382	(13,703)
Center for Legal History	130,755	124,823	5,932
Law related education	435,806	455,680	(19,874)
Sections	241,699	246,671	(4,972)
Texas Young Lawyers Association	882,531	869,260	13,271
Total governmental relations	2,083,470	2,102,816	(19,346)
Professional development:			
Texas Bar CLE	9,400,530	8,959,934	440,596
Minority affairs	317,805	337,805	(20,000)
Total professional development	9,718,335	9,297,739	420,596
Legal services support:			
Legal services support	1,291,584	1,056,148	235,436
Matching funds contingency	20,000	20,000	-
Total legal services support	1,311,584	1,076,148	235,436
Access to justice commission	437,195	526,734	(89,539)
Total access to justice commission	437,195	526,734	(89,539)

State Bar of Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund

Year Ended May 31, 2012

(Continued)

	Budgeted Amounts – Original and Final	Actual	Variance Favorable (Unfavorable)
Attorney compliance:			
Advertising review	$ 252,838	$ 277,164	$ (24,326)
Client attorney assistance program	516,794	514,405	2,389
Lawyer referral	293,080	338,223	(45,143)
Membership	1,015,549	924,098	91,451
MCLE	586,327	582,501	3,826
Volunteer committees	301,980	268,713	33,267
Referendum	100,000	1,039	98,961
Total attorney compliance	3,066,568	2,906,143	160,425
Administration:			
Office of administration director	99,069	96,882	2,187
Human resources	343,068	340,124	2,944
Training and tuition	101,133	75,073	26,060
Purchasing and facilities	1,121,900	1,066,654	55,246
Research and analysis	104,908	91,781	13,127
Texas lawyers assistance	304,687	297,108	7,579
Total administration	2,074,765	1,967,622	107,143
Finance:			
Finance	885,543	899,113	(13,570)
Other administrative	1,377,340	1,350,655	26,685
Total finance	2,262,883	2,249,768	13,115
Information technology:			
Information technology	1,182,617	1,172,554	10,063
Customer service	337,220	342,956	(5,736)
Total information technology	1,519,837	1,515,510	4,327
Communications:			
Office of communications director	255,914	173,052	82,862
State Bar of Texas leadership academy	100,000	100,115	(115)
Bar Journal	1,379,802	1,468,410	(88,608)
Local bars	476,039	384,825	91,214
Public information	187,506	178,357	9,149
Total communications	2,399,261	2,304,759	94,502
Web management	437,490	422,111	15,379
Total web management	437,490	422,111	15,379

State Bar of Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund

Year Ended May 31, 2012

(Continued)

	Budgeted Amounts – Original and Final	Actual	Variance Favorable (Unfavorable)
Public protection division:			
Chief disciplinary counsel	$ 7,973,763	$ 8,133,979	$ (160,216)
Grievance Oversight Committee	48,800	42,584	6,216
Professional Ethics Commission	6,950	7,765	(815)
Board of disciplinary appeals	475,537	396,964	78,573
Total public protection division	8,505,050	8,581,292	(76,242)
Total expenditures	36,050,936	35,098,578	952,358
Excess of revenues over expenditures	649,493	3,196,760	2,547,267
Other Financing Sources (Uses)			
Transfers out to:			
Technology Fund	(690,000)	(690,000)	-
Texas Law Center Fund	(483,067)	(483,067)	-
Client Security Fund	(300,000)	(300,000)	-
Law Student Division	(14,266)	(14,266)	-
Total other financing sources (uses)	(1,487,333)	(1,487,333)	-
Net change in fund balances	(837,840)	1,709,427	2,547,267
Fund balance at beginning of year	13,010,204	13,010,204	-
Fund balance at end of year	$ 12,172,364	$ 14,719,631	$ 2,547,267

Other Supplemental Information

PS&Co.

State Bar of Texas

Combining Balance Sheet – Nonmajor Governmental Funds

May 31, 2012

ASSETS	Texas Board of Legal Specialization Fund	State Bar College	Annual Meeting	Legal Administrators' Division	Texas Law Center
Assets					
Current assets:					
Cash and cash equivalents	$ 1,146,011	$ 283,976	$ 505,209	$ 23,187	$ 23,852
Investments	-	-	-	-	1,410,744
Receivables:					
Interest receivable	-	-	-	-	4,292
Other accounts receivable	225	-	-	-	-
Due from other governmental funds	-	-	-	-	-
Prepaid expenditures	64,965	2,500	282,288	-	-
Total assets	$ 1,211,201	$ 286,476	$ 787,497	$ 23,187	$ 1,438,888
LIABILITIES AND FUND BALANCE					
Liabilities					
Current liabilities:					
Accrued liabilities	$ -	$ 951	$ 626	$ -	$ -
Due to other governmental funds	127,355	17,020	18,428	86	627
Unearned revenue	616,890	146,625	577,482	-	-
Total liabilities	744,245	164,596	596,536	86	627
Fund Balances					
Nonspendable	64,965	2,500	282,288	-	-
Committed	401,991	119,380	-	23,101	1,438,261
Unassigned	-	-	(91,327)	-	-
Total fund balances	466,956	121,880	190,961	23,101	1,438,261
Total liabilities and fund balances	$ 1,211,201	$ 286,476	$ 787,497	$ 23,187	$ 1,438,888

Technology Fund	Law Student Division Fund	Department of Public Services	Hatton W. Sumners Grants Fund	Law Focused Education	Total Nonmajor Governmental Funds
$ -	$ 20,812	$ -	$ 216,967	$ -	$ 2,220,014
-	-	-	-	-	1,410,744
-	-	-	-	-	4,292
-	-	-	-	-	225
796,468	-	-	-	-	796,468
-	-	-	-	-	349,753
$ 796,468	$ 20,812	$ -	$ 216,967	$ -	$ 4,781,496
$ -	$ -	$ -	$ -	$ -	$ 1,577
-	290	-	15,729	-	179,535
-	-	-	201,238	-	1,542,235
-	290	-	216,967	-	1,723,347
-	-	-	-	-	349,753
796,468	20,522	-	-	-	2,799,723
-	-	-	-	-	(91,327)
796,468	20,522	-	-	-	3,058,149
$ 796,468	$ 20,812	$ -	$ 216,967	$ -	$ 4,781,496

State Bar of Texas

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year Ended May 31, 2012

	Texas Board of Legal Specialization Fund	State Bar College	Annual Meeting	Legal Administrators' Division	Texas Law Center
Revenues					
Investment income	$ 1,349	$ 456	$ 524	$ -	$ 5,953
Grant revenue	-	-	-	-	-
Other income	1,281,257	246,013	562,312	300	500
Total revenues	1,282,606	246,469	562,836	300	6,453
Expenditures					
Special services	1,119,274	234,802	616,280	1,033	-
Administration	-	-	-	-	30,718
Information technology	-	-	-	-	-
Total expenditures	1,119,274	234,802	616,280	1,033	30,718
Excess (deficiency) of revenues over (under) expenditures	163,332	11,667	(53,444)	(733)	(24,265)
Other Financing Sources (Uses)					
Proceeds from capital leases	12,613	-	-	-	-
Transfers in	-	-	-	-	483,067
Total other financing sources (uses)	12,613	-	-	-	483,067
Net change in fund balances	175,945	11,667	(53,444)	(733)	458,802
Fund balances at beginning of year	291,011	110,213	244,405	23,834	979,459
Fund balances at end of year	$ 466,956	$ 121,880	$ 190,961	$ 23,101	$ 1,438,261

Technology Fund	Law Student Division Fund	Department of Public Services	Hatton W. Sumners Grants Fund	Law Focused Education	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ 355	$ -	$ 8,637
-	-	-	385,211	31,500	416,711
-	14,496	51,998	-	6,008	2,162,884
-	14,496	51,998	385,566	37,508	2,588,232
-	18,330	51,998	385,566	37,508	2,464,791
-	-	-	-	-	30,718
1,021,082	-	-	-	-	1,021,082
1,021,082	18,330	51,998	385,566	37,508	3,516,591
(1,021,082)	(3,834)	-	-	-	(928,359)
302,559	-	-	-	-	315,172
690,000	14,266	-	-	-	1,187,333
992,559	14,266	-	-	-	1,502,505
(28,523)	10,432	-	-	-	574,146
824,991	10,090	-	-	-	2,484,003
$ 796,468	$ 20,522	$ -	$ -	$ -	$ 3,058,149

State Bar of Texas

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended May 31, 2012

	General Fund	Client Security Fund	Sections	Other Governmental Funds	Total Governmental Funds
Revenues					
Membership dues	$ 18,624,636	$ -	$ 1,955,545	$ -	$ 20,580,181
Accounting and management fees	594,214	-	-	-	594,214
Bar journal	665,413	-	-	-	665,413
MCLE fees	2,746,252	-	-	-	2,746,252
Professional development	13,269,615	-	-	-	13,269,615
Investment income	74,194	9,353	36,956	8,637	129,140
Grant revenue	-	-	-	416,711	416,711
Other income	2,321,014	12,769	1,159,274	2,162,884	5,655,941
Total revenues	38,295,338	22,122	3,151,775	2,588,232	44,057,467
Expenditures					
Salaries	15,128,931	-	-	528,254	15,657,185
Benefits	4,132,368	-	-	151,479	4,283,847
Travel	1,856,679	-	324,220	240,157	2,421,056
Meetings and conferences	3,289,401	-	968,615	433,583	4,691,599
Professional services	2,294,799	-	150,942	459,805	2,905,546
Court fees	127,622	-	-	-	127,622
Publicity and advertising	757,395	-	131	32,232	789,758
Dues, subscriptions, and licenses	595,164	-	701	13,985	609,850
Education and training	168,662	-	29,019	5,608	203,289
Supplies, awards, gifts, and specialty items	586,562	-	25,072	148,734	760,368
Rentals – office, equipment, and storage	962,817	-	-	148,058	1,110,875
Maintenance and repairs	629,948	-	-	245,272	875,220
Utilities	201,011	-	-	18,809	219,820
Postage and freight	864,365	-	5,212	34,842	904,419
Telephone	363,648	-	1,447	15,214	380,309
Insurance	368,765	-	-	-	368,765
Claims and judgments	-	576,450	-	-	576,450
Administrative	1,135,548	-	563,799	116,345	1,815,692
Printing and copying	1,600,969	-	432,143	104,723	2,137,835
Capital outlay	33,924	-	-	677,396	711,320
Debt service:					
Principal	-	-	-	135,562	135,562
Interest	-	-	-	6,533	6,533
Total expenditures	35,098,578	576,450	2,501,301	3,516,591	41,692,920
Excess (deficiency) of revenues over (under) expenditures	3,196,760	(554,328)	650,474	(928,359)	2,364,547

State Bar of Texas

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

May 31, 2012

(Continued)

	General Fund	Client Security Fund	Sections	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Proceeds from capital leases	$ -	$ -	$ -	$ 315,172	$ 315,172
Transfers in	-	300,000	-	1,187,333	1,487,333
Transfers out	(1,487,333)	-	-	-	(1,487,333)
Other financing sources (uses)	(1,487,333)	300,000	-	1,502,505	315,172
Net change in fund balances	1,709,427	(254,328)	650,474	574,146	2,679,719
Fund balance at beginning of year	13,010,204	3,358,507	5,438,208	2,484,003	24,290,922
Fund balance at end of year	$ 14,719,631	$ 3,104,179	$ 6,088,682	$ 3,058,149	$ 26,970,641

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