2011 INDEPENDENT AUDITORS' REPORT

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, 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, 2011, 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 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 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, 2011, and the respective changes in financial position and, where applicable, cash flows, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and General Fund budgetary comparison information on pages 3 through 10 and 31 through 33, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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.

Maxwell, Locke & Ritter, L.L.P.
October 31, 2011

STATEMENT OF NET ASSETS: MAY 31, 2011

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	**$13,374,149**	—	**13,374,149**
Investments	24,902,103	—	24,902,103
Receivables:			
Sales to members and others, net of allowance for uncollectibles of $1,176 and $29,807	22,341	566,340	588,681
Interest receivable	129,959	—	129,959
Other accounts receivable	573,355	—	573,355
Internal balances	(1,523,287)	1,523,287	—
Inventories, at cost	9,644	572,289	581,933
Prepaid expenses	615,807	—	615,807
Intangible asset:			
Digital publication, net of accumulated amortization of $100,220	—	200,439	200,439
Capital assets (net of accumulated depreciation):			
Land	154,074	—	154,074
Building	628,225	—	628,225
Furniture, equipment, and other	9,956,567	35,364	9,991,931
TOTAL ASSETS	**$48,842,937**	**2,897,719**	**51,740,656**
LIABILITIES			
Current liabilities:			
Accounts payable	$1,511,984	—	1,511,984
Accrued liabilities	349,518	45,402	394,920
Due to agency funds	501,673	—	501,673
Unearned revenue	11,449,974	—	11,449,974
Capital lease payable	62,318	—	62,318
Deferred rent liability	11,726	—	11,726
Accrued compensated absences	460,662	24,748	485,410
Noncurrent liabilities:			
Capital lease payable	103,942	—	103,942
Deferred rent liability	35,177	—	35,177
Accrued compensated absences	793,022	47,804	840,826
TOTAL LIABILITIES	**$15,279,996**	**117,954**	**15,397,950**
NET ASSETS			
Invested in capital assets, net of related debt	10,596,240	35,364	10,631,604
Unrestricted	22,966,701	2,744,401	25,711,102
TOTAL NET ASSETS	**$33,562,941**	**2,779,765**	**36,342,706**

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

2011 INDEPENDENT AUDITORS' REPORT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2011

		PROGRAM 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	$ 7,115,431	278,983	—	(6,836,448)	—	(6,836,448)
Public services	3,553,637	571,328	409,839	(2,572,470)	—	(2,572,470)
Member services	20,071,399	18,461,503	1,006,550	(603,346)	—	(603,346)
Public protection	9,474,106	308,971	—	(9,165,135)	—	(9,165,135)
TOTAL GOVERNMENTAL ACTIVITIES	**$40,214,573**	**19,620,785**	**1,416,389**	**(19,177,399)**	**—**	**(19,177,399)**
BUSINESS-TYPE ACTIVITIES						
Books	$ 2,848,010	2,187,155	—	—	(660,855)	(660,855)
TOTAL BUSINESS-TYPE ACTIVITIES	**$ 2,848,010**	**2,187,155**	**—**	**—**	**(660,855)**	**(660,855)**
TOTAL PRIMARY GOVERNMENT	**$43,062,583**	**21,807,940**	**1,416,389**	**(19,177,399)**	**(660,855)**	**(19,838,254)**
GENERAL REVENUES:						
Membership dues				$ 20,149,026	—	20,149,026
Investment income				196,563	186	196,749
Royalty revenue				289,223	729,638	1,018,861
Other income				292,680	303	292,983
Loss on disposal of capital assets				(2,556)	—	(2,556)
Total general revenues				**20,924,936**	**730,127**	**21,655,063**
Change in net assets				**1,747,537**	**69,272**	**1,816,809**
Net assets, beginning				**31,815,404**	**2,710,493**	**34,525,897**
Net assets, ending				**$33,562,941**	**2,779,765**	**36,342,706**

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

BALANCE SHEET — GOVERNMENTAL FUNDS: MAY 31, 2011

	GENERAL FUND	CLIENT SECURITY FUND	SECTIONS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalent	**$7,007,721**	**50,097**	**4,234,824**	**2,081,507**	**13,374,149**
Investments	19,356,061	3,046,221	1,539,709	960,112	24,902,103
Receivables:					
Sales to members and others, net of allowance for uncollectibles of $1,176	22,341	—	—	—	22,341
Interest receivable	105,995	13,940	6,064	3,960	129,959
Other accounts receivable	517,965	—	7,397	47,993	573,355
Due from other governmental funds	159,612	248,249	870,210	824,991	2,103,062
Inventories, at cost	9,644	—	—	—	9,644
Prepaid expenditures	399,496	—	—	216,311	615,807
TOTAL ASSETS	**$27,578,835**	**3,358,507**	**6,658,204**	**4,134,874**	**$41,730,420**
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$1,162,198	—	349,786	—	1,511,984
Accrued liabilities	348,822	—	—	696	349,518
Due to other governmental funds	1,943,450	—	—	159,612	2,103,062
Due to enterprise fund	1,523,287	—	—	—	1,523,287
Due to agency fund	501,673	—	—	—	501,673
Unearned revenue	9,089,201	—	870,210	1,490,563	11,449,974
TOTAL LIABILITIES	**$14,568,631**	**—**	**1,219,996**	**1,650,871**	**17,439,498**
Fund Balances:					
Reserved for:					
Prepaid expenditures	399,496	—	—	216,311	615,807
Inventories	9,644	—	—	—	9,644
Unrecognized gains on investments	19,375	6,909	—	2,548	28,832
Unreserved, Designated for operating expenditures	7,768,839	—	—	—	7,768,839
Unreserved, Designated for Texas Law Center repairs	190,321	—	—	—	190,321
Unreserved, Designated for Technology Fund	290,000	—	—	—	290,000
Unreserved, Designated for ATJ Student Loan Repayment Program	1,750,000	—	—	—	1,750,000
Unreserved, Designated for Training on grievance process	161,917	—	—	—	161,917
Unreserved, Designated for Corpus	—	3,000,000	—	—	3,000,000
Unreserved, Undesignated	2,420,612	351,598	5,438,208	2,265,144	10,475,562
TOTAL FUND BALANCES	**13,010,204**	3,358,507	5,438,208	2,484,003	**24,290,922**
TOTAL LIABILITIES AND FUND BALANCES	**$27,578,835**	**3,358,507**	**6,658,204**	**4,134,874**	

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.	**10,738,866**
The following liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Capital lease payable	(166,260)
Deferred rent liability	(46,903)
Accrued compensated absences	(1,253,684)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	**$33,562,941**

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, 2011

	GENERAL FUND	CLIENT SECURITY FUND	SECTIONS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Membership dues	$18,280,461	—	1,868,565	—	20,149,026
Accounting/management fees	559,381	—	—	—	559,381
Bar Journal	697,733	—	—	—	697,733
MCLE fees	2,703,711	—	—	—	2,703,711
Professional development	12,325,553	—	—	—	12,325,553
Investment income	120,713	28,677	36,121	11,052	196,563
Grant revenue	—	—	—	408,839	408,839
Other income	1,963,114	54,372	1,306,417	2,206,413	5,530,316
TOTAL REVENUES	**$36,650,666**	**83,049**	**3,211,103**	**2,626,304**	**42,571,122**
EXPENDITURES					
Executive	$ 2,078,860	—	—	—	2,078,860
Governmental relations	855,152	—	—	—	855,152
Special services	—	—	2,770,972	2,659,786	5,430,758
Professional development	8,872,613	—	—	—	8,872,613
Legal services support	1,597,667	—	—	—	1,597,667
Attorney compliance	2,915,745	—	—	—	2,915,745
Administration	1,915,435	—	—	20,699	1,936,134
Finance	1,921,222	—	—	—	1,921,222
Information technology	1,477,777	—	—	462,417	1,940,194
Communications	3,343,600	—	—	—	3,343,600
Web management	394,695	—	—	—	394,695
Public Protection Division	8,134,275	740,329	—	—	8,874,604
TOTAL EXPENDITURES	**$33,507,041**	**740,329**	**2,770,972**	**3,142,902**	**40,161,244**
Excess (deficiency) of revenues over (under) expenditures	3,143,625	(657,280)	440,131	(516,598)	2,409,878
OTHER FINANCING SOURCES (USES)					
Proceeds from capital leases	—	—	—	26,573	26,573
Transfers in	—	300,000	—	1,135,094	1,435,094
Transfers out	(1,435,094)	—	—	—	(1,435,094)
Other financing sources (uses)	(1,435,094)	300,000	—	1,161,667	26,573
Net change in fund balances	1,708,531	(357,280)	440,131	645,069	2,436,451
Fund balances — beginning	11,301,673	3,715,787	4,998,077	1,838,934	21,854,471
Fund balances — ending	$13,010,204	3,358,507	5,438,208	2,484,003	24,290,922

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

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, 2011

Net change in fund balances — total governmental funds	$2,436,451
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	40,824
Depreciation expense	(832,342)
Loss on disposal of capital assets	(2,556)
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	(26,573)
Repayment of capital leases	157,715
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	(37,708)
Change in net assets of governmental activities	$1,747,537

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