2012 INDEPENDENT AUDITORS' REPORT

Padgett, Stratemann & Co., L.L.P.
811 Barton Springs Road, Suite 550
Austin, TX 78704

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, 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 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.
November 20, 2012

STATEMENT OF NET ASSETS: MAY 31, 2012

	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**
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**

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2012

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES						
General government	$7,950,310	304,036	—	(7,646,274)	—	(7,646,274)
Public services	3,578,782	515,917	429,961	(2,632,904)	—	(2,632,904)
Member services	20,219,437	19,579,755	937,906	298,224	—	298,224
Public protection	9,758,241	456,699	—	(9,301,542)	—	(9,301,542)
TOTAL GOVERNMENTAL ACTIVITIES	**$41,506,770**	**20,856,407**	**1,367,867**	**(19,282,496)**	**—**	**(19,282,496)**
BUSINESS-TYPE ACTIVITIES						
Books	$3,076,379	1,920,608	—	—	(1,155,771)	(1,155,771)
TOTAL BUSINESS-TYPE ACTIVITIES	**$3,076,379**	**1,920,608**	**—**	**—**	**(1,155,771)**	**(1,155,771)**
TOTAL PRIMARY GOVERNMENTAL ACTIVITIES	**$44,583,149**	**22,777,015**	**1,367,867**	**(19,282,496)**	**(1,155,771)**	**(20,438,267)**
GENERAL REVENUES:						
Membership dues				$20,580,181	—	20,580,181
Investment income				129,140	1,019	130,159
Royalty revenue				326,795	680,513	1,007,308
Other income				158,151	94	158,245
Gain on disposal of capital assets				4,426	—	4,426
Total general revenues				**21,198,693**	**681,626**	**21,880,319**
Change in net assets				**1,916,197**	**(474,145)**	**1,442,052**
Net assets at beginning of year				**33,562,941**	**2,779,765**	**36,342,706**
Net assets at end of year				**$35,479,138**	**2,305,620**	**37,784,758**

The accompanying notes are an integral part of this statement.

BALANCE SHEET—GOVERNMENTAL FUNDS: MAY 31, 2012

	GENERAL FUND	CLIENT SECURITY FUND	SECTIONS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and cash equivalent	$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 BALANCES					
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**

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.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE–GOVERNMENTAL FUNDS FOR THE 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.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MAY 31, 2012

Net change in fund balances–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 non-capitalized 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.