

SBOT February 2019 Financial Statements

**State Bar of Texas General Fund
Financial Highlights
For the Nine Months Ended February 28, 2019**

Total General Fund YTD results – As of February 28, 2019, the General Fund had a net excess of revenues over expenditures and transfers of \$3,583,249 compared to a budgeted net excess of \$1,196,177. This resulted in a positive overall variance of \$2,387,072.

| | Actual | Budget | Variance | % Variance |
|----------------------------------|--------------------|--------------------|--------------------|-------------------|
| Total Revenues | \$34,506,749 | \$32,602,777 | \$1,903,972 | 6% |
| Total Expenditures and Transfers | 30,923,500 | 31,406,600 | 483,100 | 2% |
| Net Excess | \$3,583,249 | \$1,196,177 | \$2,387,072 | |

Revenues

For the period ending February 28, 2019, total revenues exceeded the budget by \$1,903,972 or 6%, thereby producing a positive actual to budget variance. An analysis of the revenues shows that the following departments had a positive revenue variance in excess of \$10,000 and 10% for the period ending February 28, 2019.

- MCLE Department – Total Positive Revenue Variance: \$580,853 or 25% - This positive variance results primarily from higher than anticipated collection of sponsor accreditation fees for continuing legal education courses.
- Investment Income – Total Positive Revenue Variance: \$349,914 or 189% - This positive revenue variance is due to a higher than anticipated yield on the State Bar's investment portfolio for the current fiscal year.
- CDC Disciplinary Fees – Total Positive Revenue Variance: \$55,262 or 13% - This positive variance results primarily from several large checks received this month for attorney's fees.
- Minority Affairs – Total Positive Revenue Variance: \$81,071 or 25% - This positive revenue variance results from a higher than expected number of sponsorships and attendees for the Texas Minority Council Program.
- Web Management - Total Positive Revenue Variance: \$68,340 or 19% - This positive revenue variance results from higher than expected revenue generated in connection with law firm employment advertising.
- Texas Young Lawyers Association – Total Positive Revenue Variance: \$22,075 or 27% - This positive revenue variance results from higher than anticipated revenue from National Trial Competition.

- Credit Card Processing Fees – Total Positive Revenue Variance: \$41,375 or 14% - This positive variance results from the convenience fee charged for membership dues credit card transactions. The convenience fee revenue is completely offset by credit card fees charged by the State Bar's merchant service provider.

Expenditures

For the period ending February 28, 2019, total expenditures were under the allocated budget by \$483,100 or 2%, which resulted in a positive actual to budget variance.

An analysis of the expenditures shows that five departments, Deputy Executive Director, Member & Public Services Director, Local Bars, Texas Lawyers Assistance Program, and Printing had large positive expenditure variances in excess of \$10,000 and 10% in salaries and benefits for the primarily resulting from open positions.

An analysis of the expenditures shows that two departments, MCLE and Special Financial Advisor, had large negative expenditure variances in excess of (\$10,000) and (10%) in salaries and benefits. The MCLE department variance is primarily the result of additional labor costs to implement a new information system. The Special Financial Advisor is a new position.

An analysis of the expenditures shows that the following department had negative expenditure variances in excess of (\$10,000) and (10%) for the period ending February 28, 2019:

- Minority Affairs – Total Negative Expenditure Variance: (\$83,334) or (21%) - This negative variance results from an increase in sponsorships and contributions which were used towards additional conference expenses.

TexasBarCLE (TBCLE)

For the period ending February 28, 2019, TexasBarCLE's net revenues over expenditures amount was over its budget target by \$757,269 or 21%, thereby producing a positive actual to budget variance.

| | Actual | Budget | Variance | % Variance |
|-------------------------|--------------------|--------------------|------------------|-------------------|
| TBCLE Revenues | \$11,757,483 | \$11,383,971 | \$373,512 | 3% |
| TBCLE Expenditures | 7,410,297 | 7,794,054 | 383,757 | 5% |
| Net TBCLE Income | \$4,347,186 | \$3,589,917 | \$757,269 | 21% |

In comparing TBCLE's performance to previous years, it is appropriate to make two comparisons: (1) compare the current fiscal year 18-19 to the previous fiscal year 17-18; and (2) compare the current fiscal year 18-19 to fiscal year 16-17. Fiscal years ending in odd numbers are considered to be "non-legislative years", in other words, they do not follow a legislative session. Fiscal years ending in even numbers are considered to be "legislative years" because they do follow a legislative session and TBCLE generally sees a surge in revenues following a legislative year. The surge in revenue generally results from legal issues arising during the legislative process; thereby creating a need for new or revised CLE programs.

In comparing actual revenues and expenditure amounts for the period ending February 28, 2019 to the prior period ending February 28, 2018, we see an increase in revenues of \$235,881 or 2%, and an increase in expenditures of \$23,269 or 0% for an overall increase in net revenues of \$212,612 or 5%. This is showing the difference between financial performances based on a comparison of a "legislative year" to a "non-legislative year".

In comparing actual revenues and expenditure amounts for the current period ending February 28, 2019, to the period ending February 28, 2017, we see an increase in revenue of \$524,399 or 5% and a decrease in expenditures of (\$96,918) or (1%) for an overall increase in net revenues of \$621,317 or 17%. This is showing the difference between financial performances based on a comparison of two "non-legislative years."

Salaries and Benefits

For FY 2019-2019, the salaries and benefits budget totals \$23,988,383 or 55% of the overall \$43,331,890 General Fund budget after budgeted board commitments. The \$23,988,383 includes a 4% vacancy rate. The actual vacancy factor for the period ending February 28, 2019 was 5.9%. The actual salary and benefit expenditures had a (\$149,179) negative variance to budget at the end of February 2019. Additional information on salary and benefit variances is reported in the expenditures section above.

| | |
|----------|---------------------|
| Budget | \$ 17,916,726 |
| Actual | 18,065,905 |
| Variance | <u>\$ (149,179)</u> |

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Nine Months Ending February 28, 2019

| | Annual Budget | YTD Budget | YTD Actual | YTD Variance \$ Fav/(Unfav) | YTD Variance % Fav/(Unfav) | YTD Budget Prior Year | YTD Actual Prior Year | YTD Prior Year Variance \$ Fav/(Unfav) | YTD Prior Year Variance % Fav/(Unfav) |
|--|--------------------------|-----------------------|-----------------------|--|---|--------------------------------------|--------------------------------------|---|--|
| REVENUES: | | | | | | | | | |
| Membership Dues | \$20,372,039 | \$14,915,907 | \$15,301,384 | \$385,477 | 3% | \$15,069,818 | \$15,062,087 | (\$7,731) | (0%) |
| Accounting/Management Fees | 650,351 | 488,014 | 488,013 | (1) | (0%) | 488,013 | 488,013 | | |
| Texas Bar Journal | 580,600 | 454,940 | 472,208 | 17,268 | 4% | 436,040 | 462,906 | 26,866 | 6% |
| Leadership SBOT | 10,000 | 7,497 | 3,000 | (4,497) | (60%) | 3,332 | | (3,332) | (100%) |
| MCLE Fees | 3,115,250 | 2,278,557 | 2,859,410 | 580,853 | 25% | 2,250,256 | 2,357,270 | 107,014 | 5% |
| TexasBar CLE | 13,777,842 | 11,383,971 | 11,757,483 | 373,512 | 3% | 11,277,678 | 11,521,601 | 243,923 | 2% |
| Investment Income | 185,000 | 185,000 | 534,914 | 349,914 | 189% | 92,000 | 214,634 | 122,634 | 133% |
| Lawyer Referral | 190,000 | 124,500 | 119,925 | (4,575) | (4%) | 150,000 | 138,130 | (11,870) | (8%) |
| Member Benefits | 915,766 | 738,619 | 675,475 | (63,144) | (9%) | 640,982 | 594,260 | (46,722) | (7%) |
| CDC Disciplinary Fees | 535,000 | 409,604 | 464,866 | 55,262 | 13% | 337,103 | 418,172 | 81,069 | 24% |
| Membership | 13,000 | 9,765 | 11,555 | 1,790 | 18% | 9,185 | 12,901 | 3,716 | 40% |
| Local Bars | 12,500 | 12,500 | 17,550 | 5,050 | 40% | 11,500 | 13,300 | 1,800 | 16% |
| Minority Affairs | 335,000 | 327,000 | 408,071 | 81,071 | 25% | 338,000 | 401,195 | 63,195 | 19% |
| Computer Services Dept. | 1,200 | 900 | 900 | | | 900 | 900 | | |
| Website | 365,000 | 365,000 | 433,340 | 68,340 | 19% | 286,000 | 309,861 | 23,861 | 8% |
| Legal Access Division | 11,000 | 11,000 | 16,800 | 5,800 | 53% | 15,000 | 8,100 | (6,900) | (46%) |
| Law Related Education | 15,500 | 14,500 | 13,350 | (1,150) | (8%) | 15,500 | 11,781 | (3,719) | (24%) |
| TYLA | 60,000 | 81,000 | 103,075 | 22,075 | 27% | 71,000 | 83,600 | 12,600 | 18% |
| Law Student Division | 6,000 | 5,100 | 6,905 | 1,805 | 35% | 5,100 | 5,700 | 600 | 12% |
| Purchasing & Facilities | 49,403 | 36,423 | 33,921 | (2,502) | (7%) | 36,423 | 33,718 | (2,705) | (7%) |
| Advertising Review | 370,000 | 273,653 | 260,595 | (13,058) | (5%) | 278,648 | 302,875 | 24,227 | 9% |
| Miscellaneous, Sales Tax Discounts, Etc. | 72,000 | 54,747 | 63,129 | 8,382 | 15% | 46,747 | 62,240 | 15,493 | 33% |
| Credit Card Processing Fees | 290,000 | 290,000 | 331,375 | 41,375 | 14% | 270,000 | 315,665 | 45,665 | 17% |
| Rent | 179,440 | 134,580 | 129,505 | (5,075) | (4%) | 134,580 | 129,505 | (5,075) | (4%) |
| TOTAL REVENUES | \$42,111,891 | \$32,602,777 | \$34,506,749 | \$1,903,972 | 6% | \$32,263,805 | \$32,948,414 | \$684,609 | 2% |
| EXPENDITURES | | | | | | | | | |
| Executive Division | | | | | | | | | |
| Executive Director | 627,410 | 466,941 | 469,879 | (2,938) | (1%) | 477,117 | 443,172 | 33,945 | 7% |
| Deputy Executive Director | | | | | | 190,525 | 83,496 | 107,029 | 56% |
| Associate Executive Director/Legal Counsel | 518,566 | 386,675 | 416,933 | (30,258) | (8%) | 281,968 | 300,644 | (18,676) | (7%) |
| Deputy Executive Director - Cantu | 222,945 | 167,694 | 154,900 | 12,794 | 8% | 160,662 | 154,408 | 6,254 | 4% |
| Deputy Executive Director - Laney | 274,165 | 205,549 | 184,308 | 21,241 | 10% | 235,371 | 179,646 | 55,725 | 24% |
| Special Financial Advisor | 75,000 | 56,250 | 121,098 | (64,848) | (115%) | | | | |
| Officers & Directors | 836,836 | 562,783 | 529,263 | 33,520 | 6% | 544,816 | 576,931 | (32,115) | (6%) |
| Human Resources | 280,789 | 211,092 | 223,019 | (11,927) | (6%) | 235,688 | 222,589 | 13,099 | 6% |
| Training/Tuition | 71,133 | 32,500 | 22,926 | 9,574 | 29% | 15,575 | 14,926 | 649 | 4% |
| Total Executive Division | 2,906,844 | 2,089,484 | 2,122,326 | (32,842) | (2%) | 2,141,722 | 1,975,812 | 165,910 | 8% |

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Nine Months Ending February 28, 2019

| | Annual Budget | YTD Budget | YTD Actual | YTD Variance \$ Fav/(Unfav) | YTD Variance % Fav/(Unfav) | YTD Budget Prior Year | YTD Actual Prior Year | YTD Prior Year Variance \$ Fav/(Unfav) | YTD Prior Year Variance % Fav/(Unfav) |
|---|--------------------------|-----------------------|-----------------------|--|---|--------------------------------------|--------------------------------------|---|--|
| Member & Public Services Division | | | | | | | | | |
| Member & Public Services Division Director | 118,324 | 89,301 | | 89,301 | 100% | 129,175 | 132,336 | (3,161) | (2%) |
| Center for Legal History | 149,785 | 112,019 | 109,122 | 2,897 | 3% | 107,843 | 107,829 | 14 | 0% |
| Law Related Education | 508,232 | 416,087 | 377,732 | 38,355 | 9% | 409,108 | 364,858 | 44,250 | 11% |
| Governmental Relations | 156,607 | 121,671 | 117,481 | 4,190 | 3% | 188,624 | 136,319 | 52,305 | 28% |
| Texas Young Lawyers Association | 927,418 | 627,400 | 669,813 | (42,413) | (7%) | 609,046 | 623,319 | (14,273) | (2%) |
| LeadershipSBOT | 94,000 | 71,019 | 65,181 | 5,838 | 8% | 64,469 | 64,126 | 343 | 1% |
| Sections | 318,519 | 237,853 | 225,657 | 12,196 | 5% | 236,917 | 227,552 | 9,365 | 4% |
| Local Bars | 446,571 | 338,334 | 294,131 | 44,203 | 13% | 357,517 | 334,790 | 22,727 | 6% |
| Special Events | 73,604 | 68,825 | 63,623 | 5,202 | 8% | 69,825 | 60,999 | 8,826 | 13% |
| Law Student Department | 20,266 | 15,566 | 12,722 | 2,844 | 18% | 15,620 | 14,321 | 1,299 | 8% |
| SBOT Volunteer Committees | 289,467 | 223,948 | 233,843 | (9,895) | (4%) | 184,585 | 188,521 | (3,936) | (2%) |
| Total Member & Public Services Division | 3,102,793 | 2,322,023 | 2,169,305 | 152,718 | 7% | 2,372,729 | 2,254,970 | 117,759 | 5% |
| Legal & Attorney Services Division | | | | | | | | | |
| Legal & Attorney Services Division Director | 222,971 | 167,438 | 164,246 | 3,192 | 2% | 163,637 | 158,546 | 5,091 | 3% |
| Texas Lawyers Assistance Program | 455,312 | 338,838 | 301,555 | 37,283 | 11% | 303,519 | 324,847 | (21,328) | (7%) |
| Legal Access Division | 1,036,508 | 808,709 | 777,221 | 31,488 | 4% | 609,068 | 659,110 | (50,042) | (8%) |
| Total Legal & Attorney Services Division | 1,714,791 | 1,314,985 | 1,243,022 | 71,963 | 5% | 1,076,224 | 1,142,503 | (66,279) | (6%) |
| Access to Justice Commission | 827,206 | 528,899 | 484,229 | 44,670 | 8% | 561,604 | 509,208 | 52,396 | 9% |
| Member Benefits | 343,218 | 61,277 | 57,213 | 4,064 | 7% | 159,164 | 167,449 | (8,285) | (5%) |
| Research & Analysis | 167,645 | 123,556 | 128,047 | (4,491) | (4%) | 119,763 | 111,616 | 8,147 | 7% |
| Professional Development Division | | | | | | | | | |
| Texas Bar CLE | 10,174,142 | 7,794,054 | 7,410,297 | 383,757 | 5% | 7,654,337 | 7,387,032 | 267,305 | 3% |
| Minority Affairs | 460,478 | 396,164 | 479,498 | (83,334) | (21%) | 395,612 | 436,098 | (40,486) | (10%) |
| Total Professional Development | 10,634,620 | 8,190,218 | 7,889,795 | 300,423 | 4% | 8,049,949 | 7,823,130 | 226,819 | 3% |
| Attorney Compliance Division | | | | | | | | | |
| Office of Attorney Compliance Director | 176,564 | 132,933 | 126,675 | 6,258 | 5% | 129,890 | 125,514 | 4,376 | 3% |
| Advertising Review | 182,597 | 137,182 | 134,773 | 2,409 | 2% | 137,192 | 136,600 | 592 | 0% |
| Client Attorney Assistance Program | 547,352 | 409,633 | 408,462 | 1,171 | 0% | 428,715 | 395,751 | 32,964 | 8% |
| Lawyer Referral | 353,692 | 258,263 | 264,636 | (6,373) | (2%) | 251,180 | 263,417 | (12,237) | (5%) |
| MCLE | 579,699 | 437,183 | 484,550 | (47,367) | (11%) | 438,705 | 485,810 | (47,105) | (11%) |
| Total Attorney Compliance Division | 1,839,904 | 1,375,194 | 1,419,096 | (43,902) | (3%) | 1,385,682 | 1,407,092 | (21,410) | (2%) |

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Nine Months Ending February 28, 2019

| | <u>Annual Budget</u> | <u>YTD Budget</u> | <u>YTD Actual</u> | <u>YTD Variance \$ Fav/(Unfav)</u> | <u>YTD Variance % Fav/(Unfav)</u> | <u>YTD Budget Prior Year</u> | <u>YTD Actual Prior Year</u> | <u>YTD Prior Year Variance \$ Fav/(Unfav)</u> | <u>YTD Prior Year Variance % Fav/(Unfav)</u> |
|---------------------------------------|--------------------------|-----------------------|-----------------------|--|---|--------------------------------------|--------------------------------------|---|--|
| Operations/Security Division | | | | | | | | | |
| Purchasing & Facilities | 1,240,950 | 919,283 | 960,810 | (41,527) | (5%) | 936,591 | 884,922 | 51,669 | 6% |
| Total Operations/Security Division | <u>1,240,950</u> | <u>919,283</u> | <u>960,810</u> | <u>(41,527)</u> | <u>(5%)</u> | <u>936,591</u> | <u>884,922</u> | <u>51,669</u> | <u>6%</u> |
| Finance Division | | | | | | | | | |
| Accounting | 936,017 | 704,089 | 728,054 | (23,965) | (3%) | 771,091 | 793,765 | (22,674) | (3%) |
| Membership | 832,080 | 510,191 | 492,936 | 17,255 | 3% | 524,930 | 543,137 | (18,207) | (3%) |
| Other Administrative | 1,770,550 | 1,281,022 | 1,298,975 | (17,953) | (1%) | 1,230,182 | 1,289,470 | (59,288) | (5%) |
| Total Finance Division | <u>3,538,647</u> | <u>2,495,302</u> | <u>2,519,965</u> | <u>(24,663)</u> | <u>(1%)</u> | <u>2,526,203</u> | <u>2,626,372</u> | <u>(100,169)</u> | <u>(4%)</u> |
| Information Technology Division | | | | | | | | | |
| Information Technology | 1,304,534 | 980,228 | 896,441 | 83,787 | 9% | 991,432 | 924,413 | 67,019 | 7% |
| Customer Service | 370,930 | 278,385 | 290,456 | (12,071) | (4%) | 287,562 | 281,816 | 5,746 | 2% |
| Total Information Technology Division | <u>1,675,464</u> | <u>1,258,613</u> | <u>1,186,897</u> | <u>71,716</u> | <u>6%</u> | <u>1,278,994</u> | <u>1,206,229</u> | <u>72,765</u> | <u>6%</u> |
| Communications Division | | | | | | | | | |
| Office of Communications Director | 249,259 | 189,222 | 181,668 | 7,554 | 4% | 185,187 | 181,238 | 3,949 | 2% |
| Bar Journal | 1,210,030 | 903,878 | 908,390 | (4,512) | (0%) | 979,089 | 892,571 | 86,518 | 9% |
| Printing | 165,407 | 124,224 | 101,678 | 22,546 | 18% | 125,509 | 133,395 | (7,886) | (6%) |
| Graphics | 162,342 | 119,194 | 126,182 | (6,988) | (6%) | 123,942 | 123,424 | 518 | 0% |
| Public Information | 169,455 | 103,556 | 94,555 | 9,001 | 9% | 93,674 | 84,509 | 9,165 | 10% |
| Web Management | 395,862 | 243,976 | 241,602 | 2,374 | 1% | 236,095 | 216,567 | 19,528 | 8% |
| Total Communications Division | <u>2,352,355</u> | <u>1,684,050</u> | <u>1,654,075</u> | <u>29,975</u> | <u>2%</u> | <u>1,743,496</u> | <u>1,631,704</u> | <u>111,792</u> | <u>6%</u> |
| Public Protection Division | | | | | | | | | |
| Chief Disciplinary Counsel | 9,829,435 | 7,327,929 | 7,393,222 | (65,293) | (1%) | 7,259,006 | 7,185,662 | 73,344 | 1% |
| Grievance Oversight Committee | 48,800 | 36,245 | 28,393 | 7,852 | 22% | 36,245 | 29,522 | 6,723 | 19% |
| Unauthorized Practice of Law | 170,000 | 123,330 | 124,889 | (1,559) | (1%) | 122,305 | 121,574 | 731 | 1% |
| Professional Ethics Commission | 11,080 | 3,909 | 5,696 | (1,787) | (46%) | 4,020 | 4,626 | (606) | (15%) |
| Board of Disciplinary Appeals | 619,339 | 463,503 | 447,720 | 15,783 | 3% | 454,261 | 431,455 | 22,806 | 5% |
| Total Public Protection Division | <u>10,678,654</u> | <u>7,954,916</u> | <u>7,999,920</u> | <u>(45,004)</u> | <u>(1%)</u> | <u>7,875,837</u> | <u>7,772,839</u> | <u>102,998</u> | <u>1%</u> |

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Nine Months Ending February 28, 2019

| | <u>Annual Budget</u> | <u>YTD Budget</u> | <u>YTD Actual</u> | <u>YTD Variance \$ Fav/(Unfav)</u> | <u>YTD Variance % Fav/(Unfav)</u> | <u>YTD Budget Prior Year</u> | <u>YTD Actual Prior Year</u> | <u>YTD Prior Year Variance \$ Fav/(Unfav)</u> | <u>YTD Prior Year Variance % Fav/(Unfav)</u> |
|---|--------------------------|-----------------------|-----------------------|--|---|--------------------------------------|--------------------------------------|---|--|
| TOTAL EXPENDITURES | \$41,023,091 | \$30,317,800 | \$29,834,700 | \$483,100 | 2% | \$30,227,958 | \$29,513,846 | \$714,112 | 2% |
| Transfers to: | | | | | | | | | |
| Bldg & Equip Fund | 288,800 | 288,800 | 288,800 | | | 288,800 | 288,800 | | |
| Technology Fund | 500,000 | 500,000 | 500,000 | | | 500,000 | 500,000 | | |
| Client Security Fund | 300,000 | 300,000 | 300,000 | | | 300,000 | 300,000 | | |
| TOTAL TRANSFERS | 1,088,800 | 1,088,800 | 1,088,800 | | | 1,088,800 | 1,088,800 | | |
| TOTAL EXPENDITURES & TRANSFERS | 42,111,891 | 31,406,600 | 30,923,500 | 483,100 | 2% | 31,316,758 | 30,602,646 | 714,112 | 2% |
| Excess (Deficit) of Revenues Over Expenditures & Transfers | | 1,196,177 | 3,583,249 | 2,387,072 | 200% | 947,047 | 2,345,768 | 1,398,721 | 148% |
| BOARD COMMITMENTS | | | | | | | | | |
| Board Commitment - SLRAP | 350,000 | 350,000 | 350,000 | | | 350,000 | 350,000 | | |
| Board Commitment - Sheeran-Crowley Memorial Trust | | | | | | 250,000 | 250,000 | | |
| Board Commitment - Client Security Fund | 800,000 | 800,000 | 800,000 | | | | | | |
| Board Commitment - Technology Fund | | | | | | 750,000 | 750,000 | | |
| Board Commitment - Texas Opportunity & Justice Incubator Program | 755,278 | 143,670 | 143,670 | | | 180,671 | 180,671 | | |
| Board Commitment - Presidential Initiatives | 157,867 | 26,263 | 26,263 | | | 119,869 | 119,869 | | |
| Board Commitment - Statewide Pro Bono Campaign | 159,060 | 8,651 | 8,651 | | | 15,590 | 15,590 | | |
| Board Commitment - LAD 2018 Board Commitments | 556,772 | 367,768 | 367,768 | | | 296,339 | 296,339 | | |
| Board Commitment - Referendum Reserve | 100,000 | | | | | | | | |
| Board Commitment - Run-Off Election Reserve | 70,000 | | | | | | | | |
| Board Commitment - Ethics Initiatives | 12,431 | 289 | 289 | | | 4,636 | 4,636 | | |
| Board Commitment - Supreme Court Equipment Replacement | | | | | | 100,000 | 100,000 | | |
| Board Commitment - Document Preservation | 50,000 | 50,000 | 50,000 | | | | | | |
| Board Commitment - Archives Digitization Project | 100,000 | 24,500 | 24,500 | | | | | | |
| Board Commitment - Texas Law Center Renovations | | | | | | 7,749 | 7,749 | | |
| TOTAL BOARD COMMITMENTS | 3,111,408 | 1,771,141 | 1,771,141 | | | 2,074,854 | 2,074,854 | | |
| TOTAL YTD INCREASE (REDUCTION) IN FUND BALANCE | (\$3,111,408) | (\$574,964) | \$1,812,108 | \$2,387,072 | 415% | (\$1,127,807) | \$270,914 | \$1,398,721 | 124% |

**State Bar of Texas
General Fund
Balance Sheet
As of February 28, 2019**

Assets

| | | | |
|--------------------------------------|------------|-------|------------|
| Cash & Money Market Funds | | \$ | 2,147,947 |
| Investments | 21,724,071 | | |
| Adjust Investments to Market | 19,641 | | |
| | ----- | | |
| Investments at Fair Market Value | | | 21,743,712 |
| Accounts Receivable: | | | |
| Sales | 43,960 | | |
| Less Allowance for Doubtful Accounts | (2,198) | | |
| | ----- | | |
| Net Accounts Receivable - Sales | | | 41,762 |
| Accrued Interest | | | 84,098 |
| Interfund | | | 1,819,398 |
| Other | | | 192,756 |
| Inventory | | | 12,358 |
| Prepaid Expenditures | | | 595,098 |
| | | ----- | |
| Total Assets | | \$ | 26,637,129 |
| | | ===== | |

Liabilities and Fund Equity

Liabilities

| | | | |
|---------------------|--|-------|-----------|
| Accounts Payable: | | | |
| Cash - A/P | | | |
| Trade | | | 589,747 |
| Interfund | | | 2,299,524 |
| Accrued Liabilities | | | 297,818 |
| Deferred Revenue - | | | |
| Membership Dues | | | 5,437,089 |
| Other | | | 454,941 |
| Other Liabilities | | | 37,653 |
| | | ----- | |
| Total Liabilities | | \$ | 9,116,772 |
| | | ----- | |

**State Bar of Texas
General Fund
Balance Sheet
As of February 28, 2019**

Fund Balances

| | | |
|---|------------|------------------|
| Nonspendable - Prepaids at May 31, 2018 | \$ 672,040 | |
| Nonspendable - Inventory at May 31, 2018 | 9,453 | |
| Nonspendable - Investments FMV Adjustment at May 31, 2018 | (31,424) | |
| Board Committed - Minimum Reserve January 2019 | 11,059,004 | |
| Board Committed - Texas Opportunity and Justice Incubator Program | 755,278 | |
| Board Committed - Legal Access Division Programs | 556,772 | |
| Board Committed - Client Security Fund | 800,000 | |
| Board Committed - Student Loan Repayment Assistance Program | 865,000 | |
| Board Committed - Technology Fund | 150,000 | |
| Board Committed Expenditures - Texas Law Center Renovations | 100,000 | |
| Board Committed - Law Focused Education | 79,500 | |
| Board Committed - Presidential Initiatives | 157,867 | |
| Board Committed - Pro Bono Campaign | 159,060 | |
| Board Committed - Run-off Election Reserve | 70,000 | |
| Board Committed - Legal Access Fellowship Program | 43,270 | |
| Board Committed - Referendum Reserve | 100,000 | |
| Board Committed - Archives Digitization Project | 100,000 | |
| Board Committed - Ethics Initiatives | 12,431 | |
| Board Committed - Document Preservation | 50,000 | |
| | <hr/> | |
| Total Fund Balance at May 31, 2018 | | <hr/> 15,708,251 |

Current Year Operations

| | | |
|--|-----------|-----------------|
| Nonspendable - Prepaids at February 28, 2019 | (76,942) | |
| Nonspendable - Inventory at February 28, 2019 | (2,905) | |
| Nonspendable - Investments FMV Adjustment at February 28, 2019 | 51,065 | |
| Board Committed Expenditures - Client Security Fund | (800,000) | |
| Board Committed Expenditures - SLRAP | (350,000) | |
| Board Committed Expenditures - Texas Opportunity & Justice Incubator Program | (143,670) | |
| Board Committed Expenditures - Presidential Initiatives | (26,263) | |
| Board Committed Expenditures - Statewide Pro Bono Campaign | (8,651) | |
| Board Committed Expenditures - Legal Access Division Initiatives | (367,768) | |
| Board Committed Expenditures - Ethics Initiative | (289) | |
| Board Committed Expenditures - Document Preservation | (50,000) | |
| Board Committed Expenditures - Archives Digitization Project | (24,500) | |
| Board Committed Expenditures - Texas Law Center Renovations | - | |
| Amount Available for Board Commitment from Current Year Operations | 3,612,029 | |
| | <hr/> | |
| Total Current Year Increase (Reduction) in Fund Balance | | <hr/> 1,812,106 |

| | |
|--------------------|------------------|
| Total Fund Balance | <hr/> 17,520,357 |
|--------------------|------------------|

| | |
|------------------------------------|---------------------------|
| Total Liabilities and Fund Balance | <hr/> <hr/> \$ 26,637,129 |
|------------------------------------|---------------------------|

State Bar of Texas
Law Practice Resources Division
Statement of Revenues and Expenses
For the Nine Months Ending February 28, 2019

| | YTD Budget | YTD Actual | Budget to Actual % Variance | 2018-2019 Budget |
|---|---------------|---------------|--------------------------------|---------------------|
| Revenues: | | | | |
| Book Sales Net of Estimated Returns | \$1,331,918 | \$1,247,830 | -7% | \$2,075,913 |
| Online Sales | 360,989 | 254,438 | -42% | 481,318 |
| Total Sales | 1,692,907 | 1,502,268 | -13% | 2,557,231 |
| Fees | 47,319 | 50,705 | 7% | 55,000 |
| Interest | 4,500 | 6,194 | 27% | 6,000 |
| Royalty | 847,500 | 836,027 | -1% | 1,130,000 |
| Total Revenues | 2,592,226 | 2,395,194 | -8% | 3,748,231 |
| Cost of Goods Sold: | | | | |
| Finished Products | 273,043 | 104,312 | 162% | 425,562 |
| Publicity/Advertising for Specific Titles | 28,750 | 17,913 | 60% | 53,000 |
| Royalties | 76,454 | 69,948 | 9% | 101,353 |
| Other | 0 | 73,210 | -100% | 40,000 |
| Total Cost of Goods Sold | 378,247 | 265,383 | 43% | 619,915 |
| Expenses: | | | | |
| Salaries | 984,852 | 1,010,272 | -3% | 1,313,153 |
| Benefits | 330,426 | 315,791 | 5% | 440,571 |
| Travel | 46,250 | 29,037 | 59% | 48,450 |
| Meetings & Conferences | 1,350 | 1,354 | 0% | 1,800 |
| Professional Services | 63,258 | 73,626 | -14% | 90,036 |
| Publicity/Advertising | 11,250 | 2,625 | 329% | 15,000 |
| Dues/Subscriptions/Licenses | 35,308 | 37,201 | -5% | 50,014 |
| Education/Training | 9,085 | 9,038 | 1% | 13,290 |
| Supplies/Awards/Gifts/Spec. Items | 11,681 | 24,136 | -52% | 15,999 |
| Rentals - Office, Equipment, Storage | 126,891 | 120,330 | 5% | 169,188 |
| Maintenance/Repair | 18,000 | 23,799 | -24% | 24,000 |
| Postage and Freight | 134,317 | 91,266 | 47% | 209,091 |
| Telephone | 3,375 | 2,637 | 28% | 4,500 |
| Insurance | 4,500 | 4,650 | -3% | 6,000 |
| Administrative Fee | 406,911 | 406,911 | 0% | 542,548 |
| Bad Debts | 34,804 | (7,966) | -537% | 52,245 |
| Capital Lease Expense | 12,500 | 13,289 | -6% | 12,500 |
| Printing | 0 | 389 | -100% | 0 |
| Copying | 1,350 | 1,159 | 16% | 1,800 |
| Total Operating Expenses | 2,236,108 | 2,159,544 | 4% | 3,010,185 |
| Total Expenses | 2,614,355 | 2,424,927 | 8% | 3,630,100 |
| Net Income/(Loss) | (22,129) | (29,733) | -26% | 118,131 |

State Bar of Texas
Law Practice Resources Division
Statement of Net Position
As of February 28, 2019

Assets

| | | |
|--------------------------------------|----|-----------|
| Accounts Receivable : | | |
| Sales | \$ | 537,519 |
| Less Allowance for Doubtful Accounts | | (26,876) |
| Net Accounts Receivable - Sales | | 510,643 |
| Interfund Receivable - General Fund | | 453,823 |
| Inventory | | |
| Inventory - Finished Goods | | 530,195 |
| Inventory - Work in Process | | 353,185 |
| Less Inventory - Reserve | | (47,257) |
| | | ----- |
| Total Inventory Less Reserves | | 836,123 |
| Intangible Assets: | | |
| Fixed Assets: | | |
| Furniture/Equipment | | 353,637 |
| Less Accumulated Depreciation | | (318,315) |
| | | ----- |
| Net Fixed Assets | | 35,322 |
| | | ----- |
| Total Assets | \$ | 1,835,911 |
| | | ===== |

Liabilities and Net Position

Liabilities

| | | |
|-------------------|----|---------|
| Payables | \$ | 15,827 |
| Compensable Leave | | 95,363 |
| | | ----- |
| Total Liabilities | | 111,190 |
| | | ----- |

Net Position

| | | |
|---|---------|-----------|
| Net Position at May 31, 2018 - Unrestricted | 54,074 | |
| Designated - Minimum Operating Expenditures | 702,377 | |
| Designated - Projects in Process | 948,000 | |
| Designated - New Approved Projects | 50,000 | |
| | ----- | |
| | | ----- |
| Total Net Position at May 31, 2018 | | 1,754,451 |
| Current Year Operations | | (29,730) |
| | | ----- |
| | | ----- |
| Total Liabilities and Net Position | \$ | 1,835,911 |
| | | ===== |

State Bar of Texas
Client Security Fund
Statement of Revenues & Expenditures
For the Nine Months Ending February 28, 2019

Revenues:

| | |
|--------------------------|-----------|
| Interest | \$ 49,283 |
| Restitution/Other Income | 67,303 |
| | ----- |
| Total Revenues | 116,586 |
| | ----- |

Expenditures:

| | |
|--------------------|---------|
| Claims | 500,090 |
| Banking Fees | 165 |
| | ----- |
| Total Expenditures | 500,255 |
| | ----- |

| | |
|--|-----------|
| Excess (Deficit) of Revenue Over Expenditures | (383,669) |
| | ===== |

| | |
|--|-----------|
| General Fund Operating Transfer In | 300,000 |
| General Fund Committed Funds Transfer In | 800,000 |
| | ----- |
| Total Transfers In from General Fund | 1,100,000 |

| | |
|---|------------|
| Unrealized Net Gain (Loss) from Investments | (584) |
| | ----- |
| Net after Operating Transfer & Unrealized Net Gain (Loss) | \$ 715,747 |
| | ===== |

State Bar of Texas
Client Security Fund
Balance Sheet
As of February 28, 2019

Assets

| | |
|------------------------------|------------|
| Cash & Money Market Accts. | \$ 739,525 |
| Investments | 2,274,246 |
| Adjust Investments to Market | (1,641) |
| Interest Receivable | 2,492 |
| | ----- |

| | |
|--------------|--------------|
| Total Assets | \$ 3,014,622 |
| | ===== |

Liabilities:

| | |
|----------------------------|------------|
| Due To (From) General Fund | \$ 268,970 |
| | ----- |

| | |
|-------------------|---------|
| Total Liabilities | 268,970 |
|-------------------|---------|

Fund Balance

| | |
|------------------------|-----------|
| Beginning Fund Balance | 2,029,906 |
| Current Year Activity | 715,746 |
| | ----- |

| | |
|--------------------|-----------|
| Total Fund Balance | 2,745,652 |
| | ----- |

| | |
|------------------------------------|--------------|
| Total Liabilities and Fund Balance | \$ 3,014,622 |
| | ===== |

State Bar of Texas
Combining Statement of Revenue & Expenditures
And Changes in Fund Balance
All Special Revenue Funds
For the Nine Months Ending February 28, 2019

| | Law Focused Grants | TBLS | Convention Fund | Texas Law Center | Texas Bar College | Technology Fund | Misc Grant Fund | Total |
|---|--------------------------|--------------------|--------------------|------------------------|-------------------------|--------------------|-----------------------|--------------------|
| Revenues: | | | | | | | | |
| Fees | | \$391,475 | \$265,845 | | \$215,734 | | | \$873,054 |
| Sales | | | 29,720 | | 2,673 | | | 32,393 |
| Investments | 77 | 24,730 | 5,424 | 62,093 | 3,248 | | | 95,572 |
| Grants | 598,600 | | | | | | 48,900 | 647,500 |
| Contributions | | | 253,250 | | 1,450 | | 45,117 | 299,817 |
| Other Revenue | | 23,485 | | | | | | 23,485 |
| Total Revenues | 598,677 | 439,690 | 554,239 | 62,093 | 223,105 | | 94,017 | 1,971,821 |
| Expenditures: | | | | | | | | |
| Salaries | | 332,099 | | | 46,513 | | | 378,612 |
| Benefits | | 122,235 | | | 17,180 | | | 139,415 |
| Salaries & Wages - Temporary | | | | | 772 | | | 772 |
| Travel | 117,910 | 30,488 | 6,137 | | 36,092 | | | 190,627 |
| Meetings & Conferences | 37,254 | 24,028 | 434,964 | | 9,404 | | | 505,650 |
| Professional Services | 103,925 | 65,529 | 8,055 | 6,310 | 8,336 | | 33,108 | 225,263 |
| Publicity/Advertising | | 70,640 | 39,000 | | 4,886 | | | 114,526 |
| Dues/Subscriptions/Licenses | 1,602 | 21,529 | | | 1,259 | 5,920 | | 30,310 |
| Education/Training | 375 | | | | | | | 375 |
| Supplies/Awards/Gifts/Spec. Items | 39,343 | 5,796 | 12,251 | 7,900 | 13,066 | 57,262 | | 135,618 |
| Rentals - Office, Equipment, Storage | 5,040 | 87,044 | 629 | | 1,456 | | | 94,169 |
| Maintenance/Repair | | | | 9,070 | | 336,116 | | 345,186 |
| Postage and Freight | 4,372 | 3,460 | 20,143 | | 8,084 | 36 | | 36,095 |
| Telephone | | 11,465 | | | 459 | | | 11,924 |
| Administrative | 7,039 | 67,450 | 9,800 | | 24,688 | | | 108,977 |
| Fixed Assets | | 1,538 | | 51,489 | | 296,484 | | 349,511 |
| Printing and Copying | 11,610 | 3,463 | 18,269 | | 12,439 | | | 45,781 |
| Total Expenditures | 328,470 | 846,764 | 549,248 | 74,769 | 184,634 | 695,818 | 33,108 | 2,712,811 |
| Transfer (In) / Out | | | | (288,800) | | (500,000) | | (788,800) |
| Total Expenditures & Transfers | 328,470 | 846,764 | 549,248 | (214,031) | 184,634 | 195,818 | 33,108 | 1,924,011 |
| Net Increase (Decrease) in the Fair Value of Investments | | | | 9,837 | | | | 9,837 |
| Total Revenues less Expenditures | 270,207 | (407,074) | 4,991 | 285,961 | 38,471 | (195,818) | 60,909 | 57,647 |
| Beginning Fund Balance at 6/1/18 | | 1,858,938 | 337,791 | 3,676,630 | 198,619 | 1,281,166 | | 7,353,144 |
| Ending Fund Balance at 2/28/19 | \$270,207 | \$1,451,864 | \$342,782 | \$3,962,591 | \$237,090 | \$1,085,348 | \$60,909 | \$7,410,791 |

SBOT February 28, 2019 Investment Report



State Bar of Texas

Review of Investment Performance

Quarter Ended February 28, 2019

Barry Baughier
Senior Managing Consultant
baughierb@pfm.com

PFM Asset Management
LLC

750 North Saint Paul St.
Suite 540
Dallas, TX 75201

214) 247-7079
pfm.com



February 28, 2019

Below is a summary of the State Bar of Texas' investment holdings as of February 28, 2019. For additional, specific investment holding information, please refer to the attached statements for PFM Asset Management LLC, as well as the respective money market fund and checking account bank statements.

| Account Name | Month End Market Value |
|---|-------------------------------|
| Money Market Mutual Fund Investments | |
| PFM Funds Gov't Select Series - General Fund | 2,093,675.82 |
| PFM Funds Gov't Select Series - Client Security Fund | 717,176.51 |
| PFM Funds Gov't Select Series - Texas Law Center | 27,336.33 |
| PFM Funds Gov't Select Series - Board of Legal Specialization Fund | 523,267.65 |
| PFM Funds Gov't Select Series - Annual Meeting Funds | 346,545.05 |
| PFM Funds Gov't Select Series - Texas Bar College Special Revenue Funds | 193,719.91 |
| PFM Funds CD Program | 714,854.70 |
| High Yield Savings Accounts | |
| Plains Capital Bank - Hatton Sumner Grant Account | 287,300.98 |
| Plains Capital Bank - College Endowment Fund | 52,690.34 |
| <i>Total Short-Term Funds</i> | <i>4,956,567.29</i> |
| Individual Portfolios | |
| Client Security Fund | 2,275,097.58 |
| General Fund | 21,827,810.30 |
| Texas Law Center Fund | 3,908,053.99 |
| <i>Total Individual Portfolios</i> | <i>28,010,961.87</i> |
| <i>Grand Total</i> | <i>32,967,529.16</i> |
| Weighted Average Maturity | |
| Including Overnight Balances | 266 Days |
| Not Including Overnight Balances | 306 Days |

If you have any questions, do not hesitate to contact me at 214-247-7079 or baughierb@pfm.com.

Sincerely,

Barry Baughier



Portfolio Summary

| <u>Total Portfolio Value</u> | <u>February 28, 2019</u> | <u>November 30, 2018</u> | <u>February 28, 2018</u> |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| College Fund* | \$246,410.25 | \$244,729.19 | \$275,982.00 |
| Client Security Fund | \$2,992,274.09 | \$2,979,391.21 | \$2,894,513.97 |
| Board of Legal Specialization Fund | \$1,238,122.35 | \$1,520,895.21 | \$1,013,507.45 |
| Law Focused Education Fund | \$287,300.98 | \$68,311.49 | \$336,944.67 |
| Texas Law Center Fund | \$3,935,390.32 | \$3,958,029.89 | \$3,621,359.28 |
| Annual Meeting Fund** | \$346,545.05 | \$344,645.83 | \$336,944.67 |
| General Fund | \$23,921,486.12 | \$27,942,146.38 | \$22,491,024.06 |
| Totals | \$32,967,529.16 | \$37,058,149.20 | \$30,970,276.10 |

Portfolio Recap

General Fund

- The portfolios are fully invested in U.S. Treasuries, Federal Agencies, commercial paper, and AAAM-rated money market mutual funds. Overall, the portfolios maintain high credit quality and necessary liquidity.
- The portfolio complies with Texas statutes and the State Bar's investment policy.
- The General Fund portfolio generated a quarterly total return of 0.82%, outperforming the benchmark 6-month Merrill Lynch Treasury Index return of 0.63%.

Other Funds

- The portfolio for each fund is designed to match the specific cash and liquidity needs of that fund.
- We continue to hold U.S. Treasuries and / or Federal Agency securities as the primary investments for the Texas Law Center and Client Security Fund portfolios.
- We will work with the State Bar to identify funds in overnight investments that could be invested in securities, adding value to the portfolios.
- We will work with the State Bar to target known future cash flow needs to maximize the benefit of the steep yield curve as well as determine an appropriate investment strategy.

* Includes College Endowment Fund balances.

** Please note that Convention Fund name has been changed to Annual Meeting Fund



Portfolio Summary (*continued*)

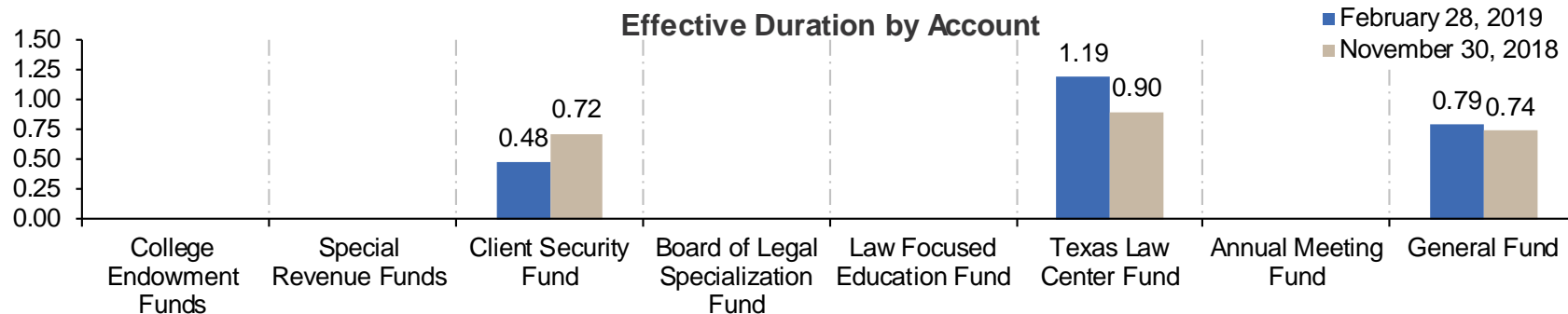
- The economic theme for the quarter was positive overall, though the U.S. experienced moderating GDP growth as the impact of the 2018 tax cuts and increased federal government spending wane. The unemployment rate hovered around 3.8% at the close of the quarter, with the market experiencing strong trailing corporate profits and decelerating business activity. Potential imbalances shape future economic conditions, including a growing budget and trade deficit, high trade tensions, and challenges over border security funding.
- During its first 2019 meeting, the Federal Open Market Committee ("FOMC") expressed it will be "patient" when determining monetary policy in light of global economic developments and muted inflation pressures. In addition, geopolitical tensions persist in North Korea with denuclearization and in Britain with an anticipated exit from the European Union.
- Piecing together strong job gains and low unemployment rates with less optimistic news, the Federal Reserve will likely need more time before considering any additional rate hikes. There were a total of four rate hikes in 2018, bringing the new target short-term rate to 2.25-2.50%.
- Although the U.S. treasury yield curve remains inverted between 2-and 5-year maturities, commercial paper, certificates of deposit, and corporate securities continue to provide a significant yield advantage over government securities.
- We sought to generally maintain portfolio durations and maturity distributions comparable to those of benchmarks to reduce potential performance mismatches given the uncertain rate environment.
- As always, we strive to maintain safety of principal and appropriate liquidity, while seeking opportunities to add value through active management. Our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.



Portfolio Performance

| Yields | Yield To Maturity - At Market | | Yield To Maturity - On Cost | |
|---|-------------------------------|-------------------|-----------------------------|-------------------|
| | February 28, 2019 | November 30, 2018 | February 28, 2019 | November 30, 2018 |
| College Endowment Funds | 0.15% | 0.15% | 0.15% | 0.15% |
| Special Revenue Funds | 2.27% | 2.06% | 2.27% | 2.06% |
| Client Security Fund ¹ | 2.49% | 2.67% | 2.33% | 2.33% |
| Board of Legal Specialization Fund ² | 2.27% | 2.06% | 2.27% | 2.06% |
| Law Focused Education Fund ² | 0.05% | 0.05% | 0.05% | 0.05% |
| Texas Law Center Fund ¹ | 2.53% | 2.65% | 2.52% | 2.38% |
| Annual Meeting Fund ² | 2.27% | 2.06% | 2.27% | 2.06% |
| General Fund ¹ | 2.53% | 2.63% | 2.63% | 2.48% |

| Duration | February 28, 2019 | November 30, 2018 |
|---|-------------------|-------------------|
| | | |
| College Endowment Funds | 0.00 | 0.00 |
| Special Revenue Funds | 0.00 | 0.00 |
| Client Security Fund ¹ | 0.48 | 0.72 |
| Board of Legal Specialization Fund ² | 0.00 | 0.00 |
| Law Focused Education Fund ² | 0.00 | 0.00 |
| Texas Law Center Fund ¹ | 1.19 | 0.90 |
| Annual Meeting Fund ² | 0.00 | 0.00 |
| General Fund ¹ | 0.79 | 0.74 |



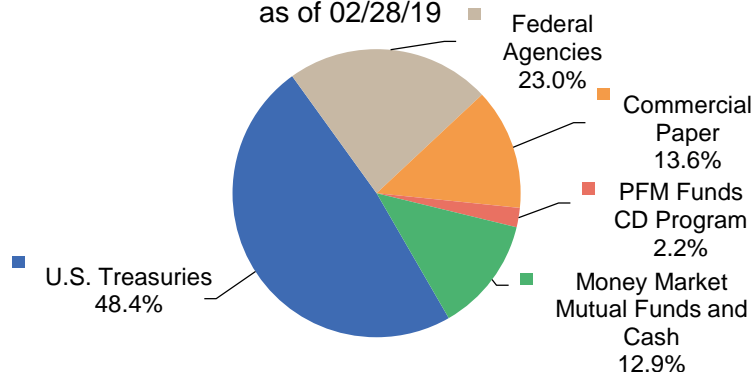
- Does not include money market funds, FDIC-insured CDs or cash equivalents in performance, duration, and yield computations.
- Yields for these funds represent the APY earned on balances held at Plains Capital Bank for the month prior to quarter end. Duration of each of the funds is equal to 1 day or approximately 0.003 years.



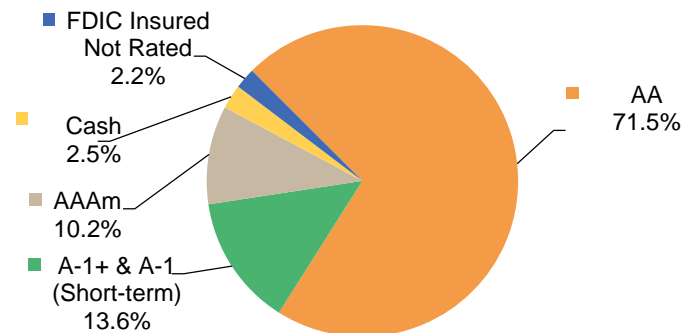
Composite Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> | <u>Permitted by Investment Policy</u> |
|------------------------------------|--------------------------|-----------------------|--------------------------|-----------------------|---------------------------------------|
| U.S. Treasuries | \$15,953,989.62 | 48.4% | \$19,108,587.27 | 51.6% | 100% |
| Federal Agencies | \$7,576,304.75 | 23.0% | \$6,709,054.54 | 18.1% | 100% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% | 30% |
| Commercial Paper | \$4,480,667.50 | 13.6% | \$7,450,368.50 | 20.1% | 30% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% | 30% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% | 15% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% | 30% |
| PFM Funds CD Program | \$714,854.70 | 2.2% | \$710,910.97 | 1.9% | 30% |
| Money Market Mutual Funds and Cash | \$4,241,712.59 | 12.9% | \$3,079,227.92 | 8.3% | 100% |
| Totals | \$32,967,529.16 | 100.0% | \$37,058,149.20 | 100.0% | |

Portfolio Composition
as of 02/28/19



Credit Quality Distribution
as of 02/28/19

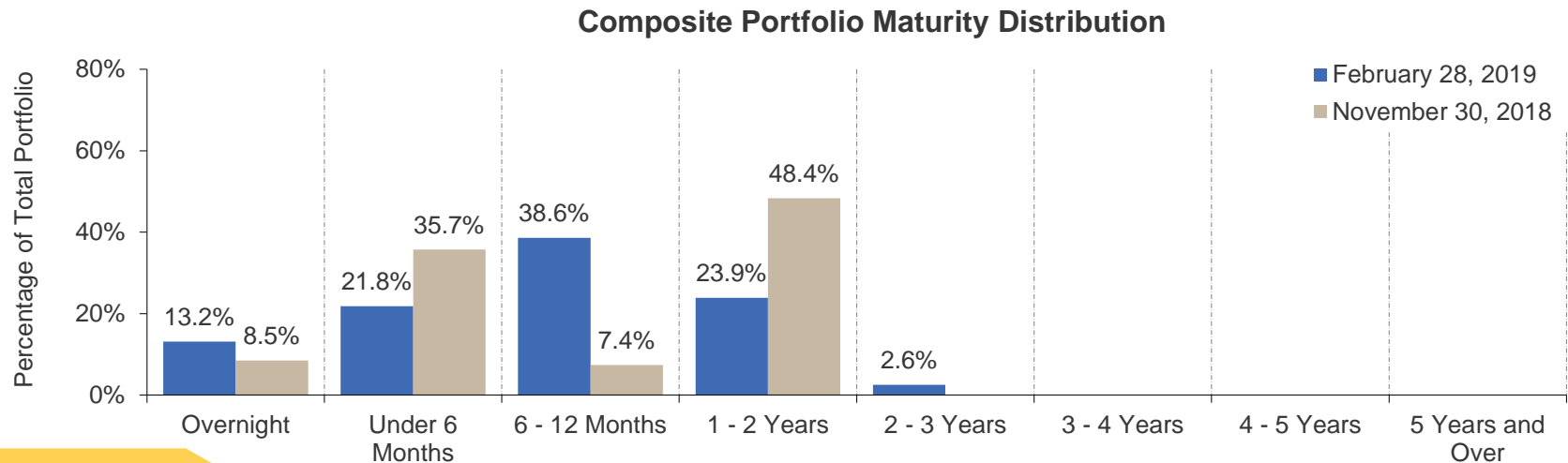


Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



Composite Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>February 28, 2019</u> | <u>November 30, 2018</u> |
|------------------------------|--------------------------|--------------------------|
| Overnight | \$4,241,712.59 | \$3,079,227.92 |
| Under 6 Months | \$7,036,910.43 | \$12,992,574.66 |
| 6 - 12 Months | \$12,449,545.10 | \$2,697,199.45 |
| 1 - 2 Years | \$7,701,226.94 | \$17,578,236.20 |
| 2 - 3 Years | \$823,279.40 | \$0.00 |
| 3 - 4 Years | \$0.00 | \$0.00 |
| 4 - 5 Years | \$0.00 | \$0.00 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$32,252,674.46 | \$36,347,238.23 |

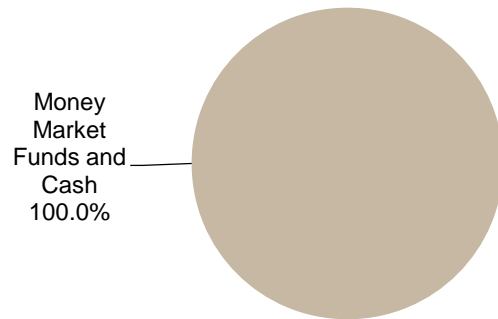




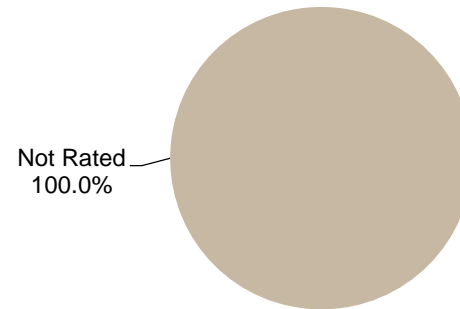
State Bar College Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$246,410.25 | 100.0% | \$244,729.19 | 100.0% |
| Totals | \$246,410.25 | 100.0% | \$244,729.19 | 100.0% |

Portfolio Composition
as of 2/28/2019



Credit Quality Distribution
as of 2/28/2019



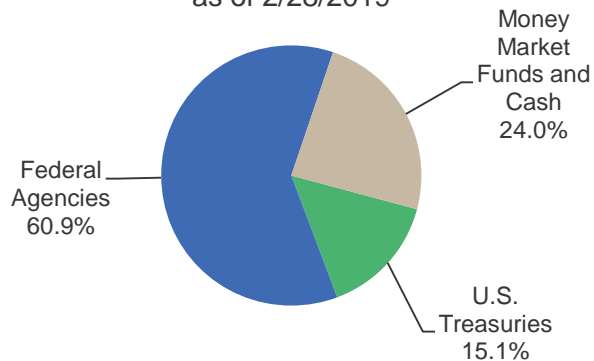
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



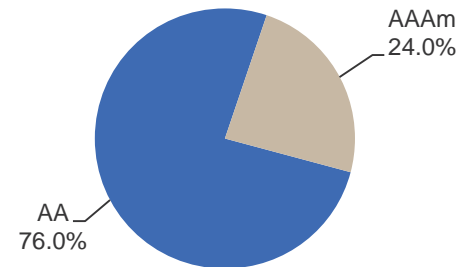
State Bar Client Security Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| U.S. Treasuries | \$451,426.97 | 15.1% | \$447,789.61 | 15.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$1,823,670.61 | 60.9% | \$1,818,355.53 | 61.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$717,176.51 | 24.0% | \$713,246.07 | 23.9% |
| Totals | \$2,992,274.09 | 100.0% | \$2,979,391.21 | 100.0% |

Portfolio Composition
as of 2/28/2019



Credit Quality Distribution
as of 2/28/2019



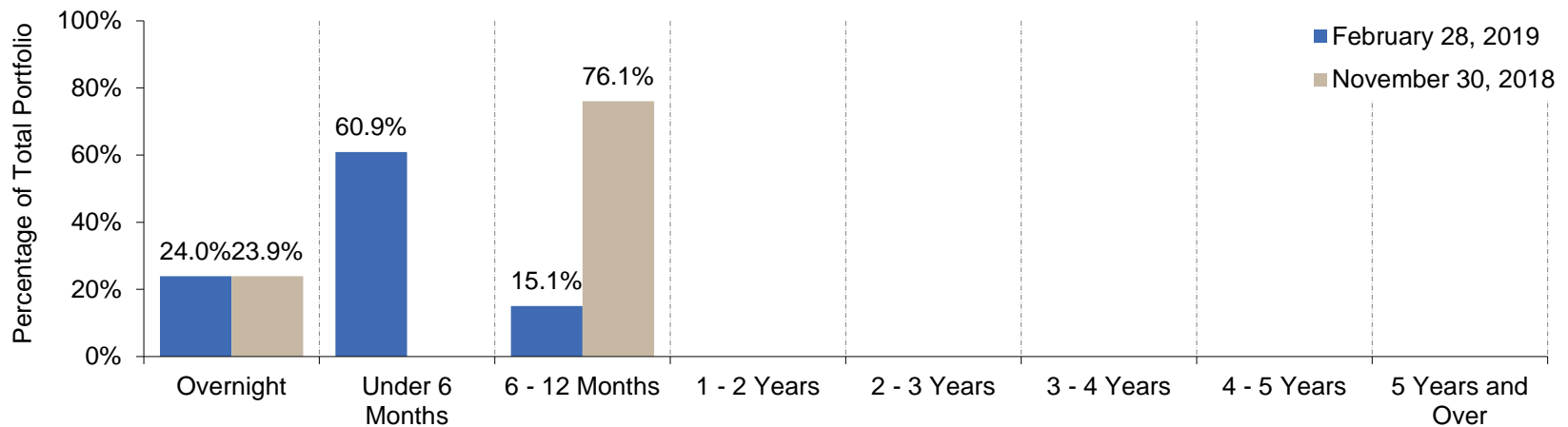
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



Client Security Fund Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>February 28, 2019</u> | <u>November 30, 2018</u> |
|------------------------------|--------------------------|--------------------------|
| Overnight | \$717,176.51 | \$713,246.07 |
| Under 6 Months | \$1,823,670.61 | \$0.00 |
| 6 - 12 Months | \$451,426.97 | \$2,266,145.14 |
| 1 - 2 Years | \$0.00 | \$0.00 |
| 2 - 3 Years | \$0.00 | \$0.00 |
| 3 - 4 Years | \$0.00 | \$0.00 |
| 4 - 5 Years | \$0.00 | \$0.00 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$2,992,274.09 | \$2,979,391.21 |

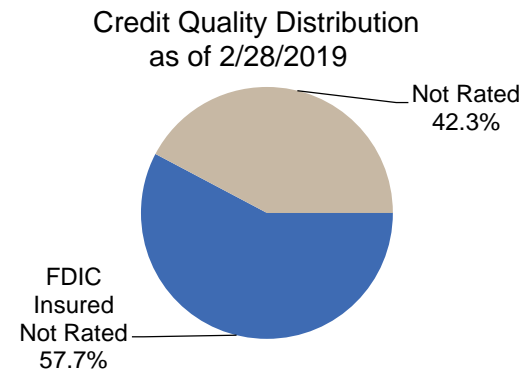
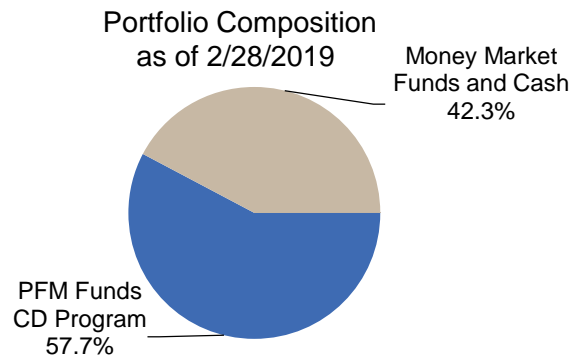
Client Security Fund Portfolio Maturity Distribution





State Bar Board of Legal Specialization Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| PFM Funds CD Program | \$714,854.70 | 57.7% | \$710,910.97 | 46.7% |
| Money Market Funds and Cash | \$523,267.65 | 42.3% | \$809,984.24 | 53.3% |
| Totals | \$1,238,122.35 | 100.0% | \$1,520,895.21 | 100.0% |



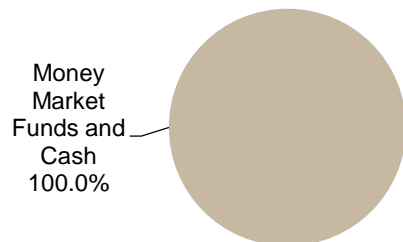
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



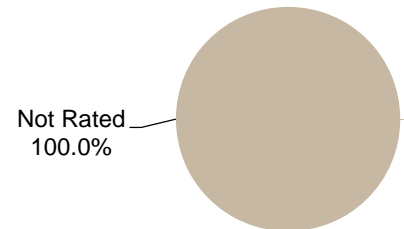
State Bar Law Focused Education Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$287,300.98 | 100.0% | \$68,311.49 | 100.0% |
| Totals | \$287,300.98 | 100.0% | \$68,311.49 | 100.0% |

Portfolio Composition
as of 2/28/2019



Credit Quality Distribution
as of 2/28/2019

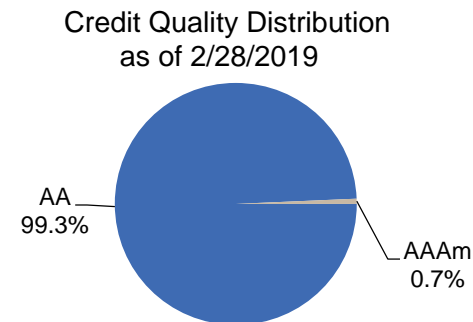
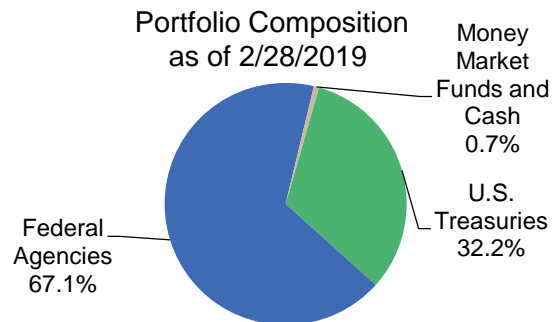


Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



State Bar Texas Law Center Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| U.S. Treasuries | \$1,268,026.18 | 32.2% | \$2,088,126.11 | 52.8% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$2,640,027.81 | 67.1% | \$1,802,926.53 | 45.6% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$27,336.33 | 0.7% | \$66,977.25 | 1.7% |
| Totals | \$3,935,390.32 | 100.0% | \$3,958,029.89 | 100.0% |

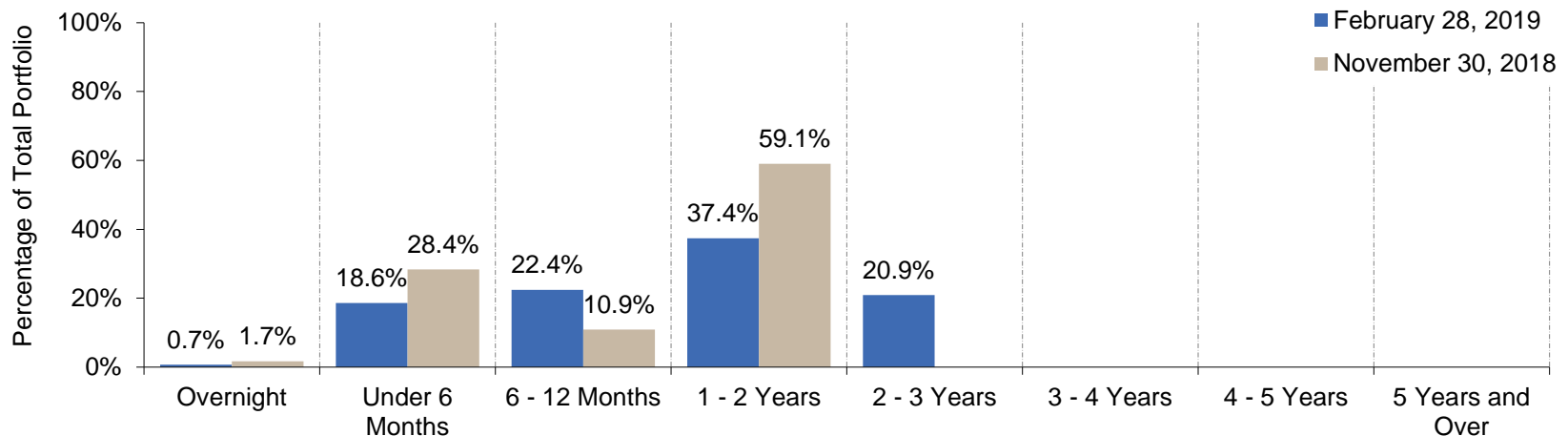




Texas Law Center Fund Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>February 28, 2019</u> | <u>November 30, 2018</u> |
|------------------------------|--------------------------|--------------------------|
| Overnight | \$27,336.33 | \$66,977.25 |
| Under 6 Months | \$732,572.32 | \$1,122,503.06 |
| 6 - 12 Months | \$880,677.10 | \$431,054.31 |
| 1 - 2 Years | \$1,471,525.17 | \$2,337,495.27 |
| 2 - 3 Years | \$823,279.40 | \$0.00 |
| 3 - 4 Years | \$0.00 | \$0.00 |
| 4 - 5 Years | \$0.00 | \$0.00 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$3,935,390.32 | \$3,958,029.89 |

Texas Law Center Fund Portfolio Maturity Distribution

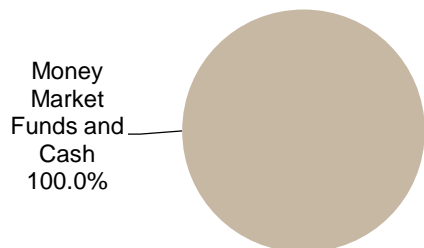




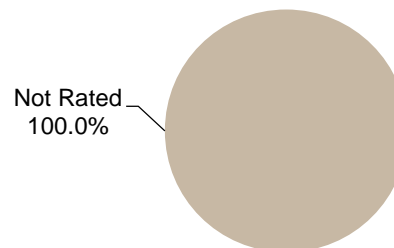
State Bar Annual Meeting Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> |
|-----------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| U.S. Treasuries | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Commercial Paper | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$346,545.05 | 100.0% | \$344,645.83 | 100.0% |
| Totals | \$346,545.05 | 100.0% | \$344,645.83 | 100.0% |

Portfolio Composition
as of 2/28/2019



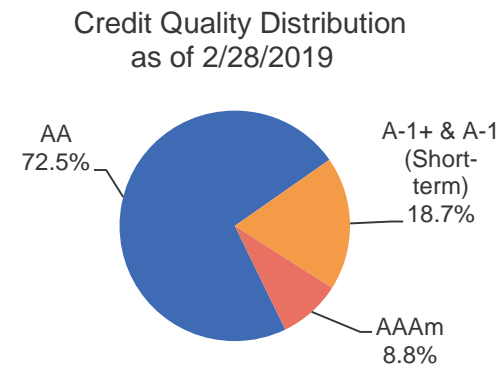
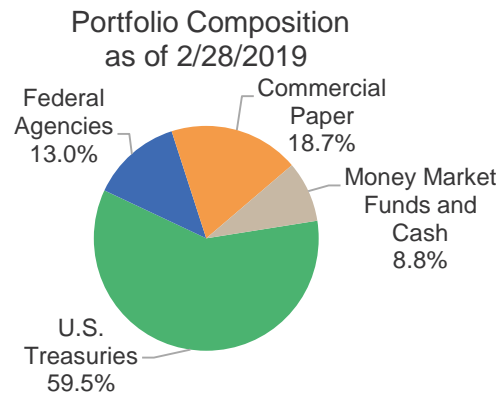
Credit Quality Distribution
as of 2/28/2019





State Bar General Fund Portfolio Composition and Credit Quality

| <u>Security Type</u> | <u>February 28, 2019</u> | <u>% of Portfolio</u> | <u>November 30, 2018</u> | <u>% of Portfolio</u> |
|------------------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| U.S. Treasuries | \$14,234,536.47 | 59.5% | \$16,572,671.55 | 59.3% |
| Mortgage-Backed Securities | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Federal Agencies | \$3,112,606.33 | 13.0% | \$3,087,772.48 | 11.1% |
| Commercial Paper | \$4,480,667.50 | 18.7% | \$7,450,368.50 | 26.7% |
| Negotiable Certificates of Deposit | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Bankers' Acceptances | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Repurchase Agreements | \$0.00 | 0.0% | \$0.00 | 0.0% |
| PFM Funds CD Program | \$0.00 | 0.0% | \$0.00 | 0.0% |
| Money Market Funds and Cash | \$2,093,675.82 | 8.8% | \$831,333.85 | 3.0% |
| Totals | \$23,921,486.12 | 100.0% | \$27,942,146.38 | 100.0% |



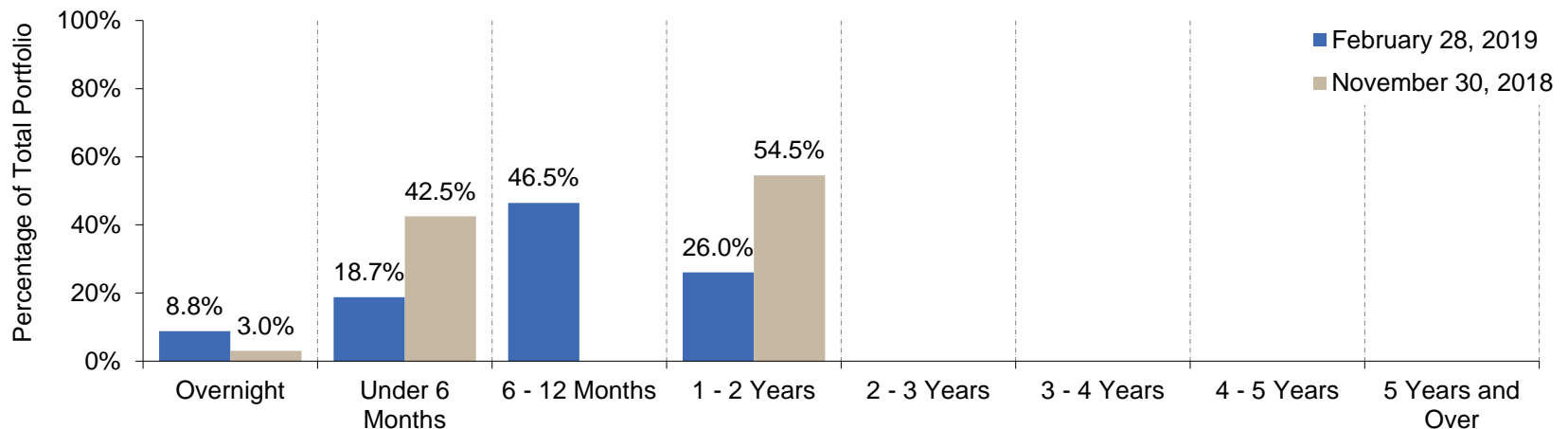
Data represents end of quarter trade-date market values of portfolio holdings, including accrued interest. Percentages may not add up to 100% due to rounding.



General Fund Portfolio Maturity Distribution

| <u>Maturity Distribution</u> | <u>February 28, 2019</u> | <u>November 30, 2018</u> |
|------------------------------|--------------------------|--------------------------|
| Overnight | \$2,093,675.82 | \$831,333.85 |
| Under 6 Months | \$4,480,667.50 | \$11,870,071.60 |
| 6 - 12 Months | \$11,117,441.03 | \$0.00 |
| 1 - 2 Years | \$6,229,701.77 | \$15,240,740.93 |
| 2 - 3 Years | \$0.00 | \$0.00 |
| 3 - 4 Years | \$0.00 | \$0.00 |
| 4 - 5 Years | \$0.00 | \$0.00 |
| 5 Years and Over | \$0.00 | \$0.00 |
| Totals | \$23,921,486.12 | \$27,942,146.38 |

General Fund Portfolio Maturity Distribution

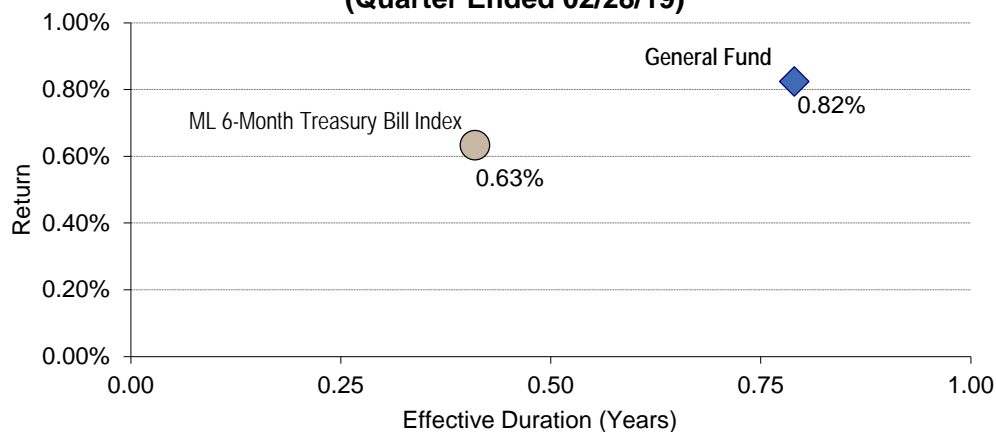




General Fund Portfolio Performance

| Total Return | February 28, 2019 | Last 6 Months | Annualized Since Inception | |
|---|-------------------|-------------------|----------------------------|-------------------|
| State Bar of Texas General Fund | 0.82% | 1.34% | 1.44% | |
| Merrill Lynch 6-Month Treasury Bill Index | 0.63% | 1.17% | 1.37% | |
| | | | | |
| Duration | February 28, 2019 | November 30, 2018 | Yields | February 28, 2019 |
| State Bar of Texas General Fund | 0.79 | 0.74 | Yield at Market | 2.53% |
| Merrill Lynch 6-Month Treasury Bill Index | 0.41 | 0.47 | Yield on Cost | 2.63% |

**Quarter Total Return Comparison
(Quarter Ended 02/28/19)**



1. Performance on trade date basis, gross-of-fees in accordance with the CFA Institute's Global Investment Performance Standards.
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. The total returns shown for periods longer than 1 year are the annualized returns for the stated period.
4. The total returns shown for periods shorter than 1 year are the periodic returns for the stated period.
5. Since inception performance is calculated from May 31, 2006 to present.
6. Does not include money market fund in performance, duration, and yield computations as we do not consider these funds to be discretionary in nature.



Consolidated Summary Statement

Account Statement

For the Month Ending February 28, 2019

STATE BAR OF TEXAS

Portfolio Summary

| Portfolio Holdings | Cash Dividends and Income | Closing Market Value |
|---------------------|---------------------------|------------------------|
| PFM Managed Account | 45,882.45 | 27,899,527.89 |
| Total | \$45,882.45 | \$27,899,527.89 |

Investment Allocation

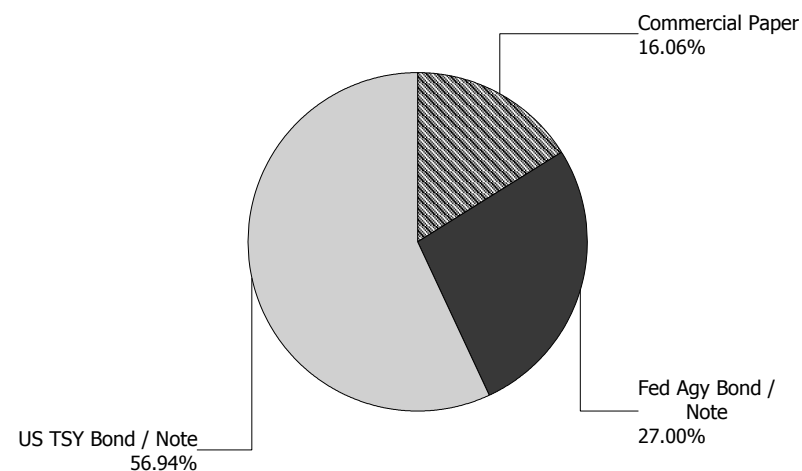
| Investment Type | Closing Market Value | Percent |
|----------------------------|------------------------|----------------|
| Commercial Paper | 4,480,667.50 | 16.06 |
| Federal Agency Bond / Note | 7,533,720.64 | 27.00 |
| U.S. Treasury Bond / Note | 15,885,139.75 | 56.94 |
| Total | \$27,899,527.89 | 100.00% |

Maturity Distribution (Fixed Income Holdings)

| Portfolio Holdings | Closing Market Value | Percent |
|--------------------|------------------------|----------------|
| Under 30 days | 1,498,837.50 | 5.37 |
| 31 to 60 days | 1,994,167.00 | 7.15 |
| 61 to 90 days | 299,192.40 | 1.07 |
| 91 to 180 days | 3,242,213.38 | 11.62 |
| 181 days to 1 year | 12,404,800.13 | 44.46 |
| 1 to 2 years | 7,646,362.66 | 27.41 |
| 2 to 3 years | 813,954.82 | 2.92 |
| 3 to 4 years | 0.00 | 0.00 |
| 4 to 5 years | 0.00 | 0.00 |
| Over 5 years | 0.00 | 0.00 |
| Total | \$27,899,527.89 | 100.00% |

Weighted Average Days to Maturity **306**

Sector Allocation



**Account Statement**For the Month Ending **February 28, 2019****Consolidated Summary Statement****STATE BAR OF TEXAS**

| Account Number | Account Name | Opening Market Value | Purchases / Deposits | Redemptions / Sales / Maturities | Unsettled Trades | Change in Value | Closing Market Value | Cash Dividends and Income |
|-----------------------|---|-----------------------------|-----------------------------|---|-------------------------|------------------------|-----------------------------|----------------------------------|
| 81125010 | STATE BAR OF TEXAS GENERAL FUND | 21,742,888.82 | 1,981,093.75 | (2,000,000.00) | 0.00 | 19,729.28 | 21,743,711.85 | 31,150.68 |
| 81125011 | STATE BAR OF TEXAS CLIENT SECURITY FUND | 2,269,428.15 | 0.00 | 0.00 | 0.00 | 3,177.49 | 2,272,605.64 | 8,028.13 |
| 81125014 | STATE BAR OF TEXAS TEXAS LAW CENTER | 3,891,985.39 | 814,724.40 | (825,000.00) | 0.00 | 1,500.61 | 3,883,210.40 | 6,703.64 |
| Total | | \$27,904,302.36 | \$2,795,818.15 | (\$2,825,000.00) | \$0.00 | \$24,407.38 | \$27,899,527.89 | \$45,882.45 |



Managed Account Summary Statement

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

Transaction Summary - Managed Account

| | |
|-----------------------------|------------------------|
| Opening Market Value | \$21,742,888.82 |
| Maturities/Calls | (2,000,000.00) |
| Principal Dispositions | 0.00 |
| Principal Acquisitions | 1,981,093.75 |
| Unsettled Trades | 0.00 |
| Change in Current Value | 19,729.28 |
| Closing Market Value | \$21,743,711.85 |

Cash Transactions Summary - Managed Account

| | |
|---------------------------------|----------------|
| Maturities/Calls | 2,000,000.00 |
| Sale Proceeds | 0.00 |
| Coupon/Interest/Dividend Income | 10,571.88 |
| Principal Payments | 0.00 |
| Security Purchases | (1,995,727.73) |
| Net Cash Contribution | (14,844.15) |
| Reconciling Transactions | 0.00 |

Earnings Reconciliation (Cash Basis) - Managed Account

| | |
|---|--------------------|
| Interest/Dividends/Coupons Received | 10,571.88 |
| Less Purchased Interest Related to Interest/Coupons | (14,633.98) |
| Plus Net Realized Gains/Losses | 35,212.78 |
| Total Cash Basis Earnings | \$31,150.68 |

Cash Balance

Closing Cash Balance **\$0.00**

Earnings Reconciliation (Accrual Basis)

| | Total |
|--|--------------------|
| Ending Amortized Value of Securities | 21,724,070.61 |
| Ending Accrued Interest | 84,098.45 |
| Plus Proceeds from Sales | 0.00 |
| Plus Proceeds of Maturities/Calls/Principal Payments | 2,000,000.00 |
| Plus Coupons/Dividends Received | 10,571.88 |
| Less Cost of New Purchases | (1,995,727.73) |
| Less Beginning Amortized Value of Securities | (21,721,251.00) |
| Less Beginning Accrued Interest | (57,745.41) |
| Total Accrual Basis Earnings | \$44,016.80 |



Portfolio Summary and Statistics

For the Month Ending **February 28, 2019**

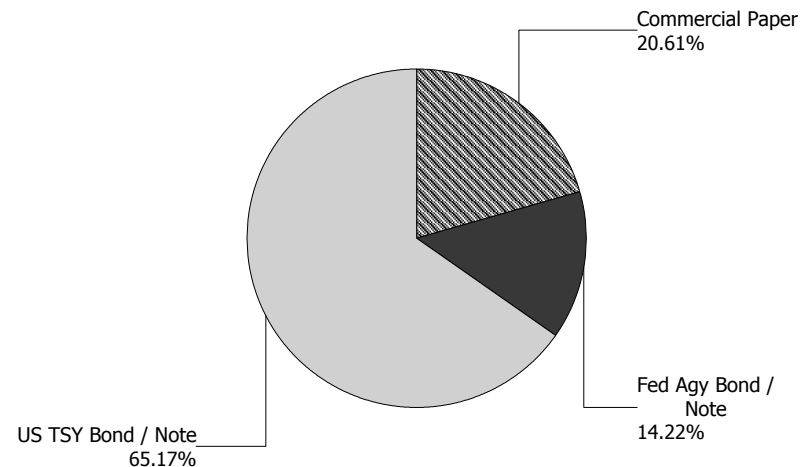
STATE BAR OF TEXAS GENERAL FUND - 81125010

Account Summary

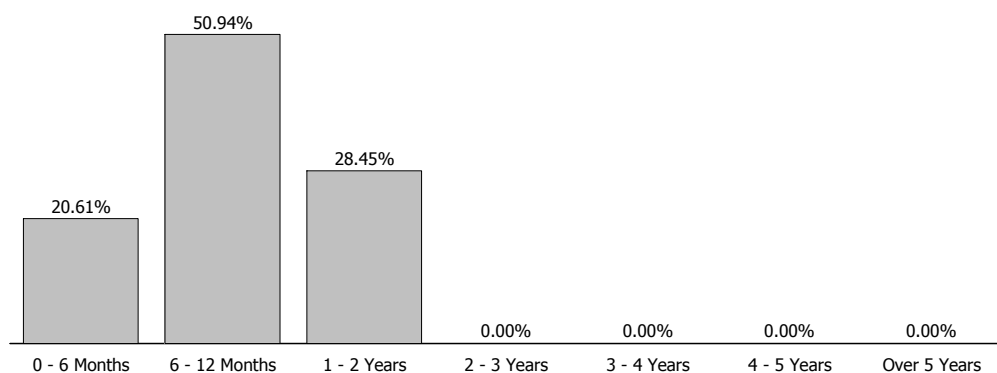
| Description | Par Value | Market Value | Percent |
|----------------------------------|----------------------|----------------------|----------------|
| U.S. Treasury Bond / Note | 14,290,000.00 | 14,171,641.84 | 65.17 |
| Federal Agency Bond / Note | 3,085,000.00 | 3,091,402.51 | 14.22 |
| Commercial Paper | 4,500,000.00 | 4,480,667.50 | 20.61 |
| Managed Account Sub-Total | 21,875,000.00 | 21,743,711.85 | 100.00% |
| Accrued Interest | | 84,098.45 | |
| Total Portfolio | 21,875,000.00 | 21,827,810.30 | |

| | | |
|-------------------------|-------------|-------------|
| Unsettled Trades | 0.00 | 0.00 |
|-------------------------|-------------|-------------|

Sector Allocation



Maturity Distribution



Characteristics

| | |
|-----------------------------------|-------|
| Yield to Maturity at Cost | 2.63% |
| Yield to Maturity at Market | 2.53% |
| Duration to Worst | 0.79 |
| Weighted Average Days to Maturity | 294 |



Managed Account Issuer Summary

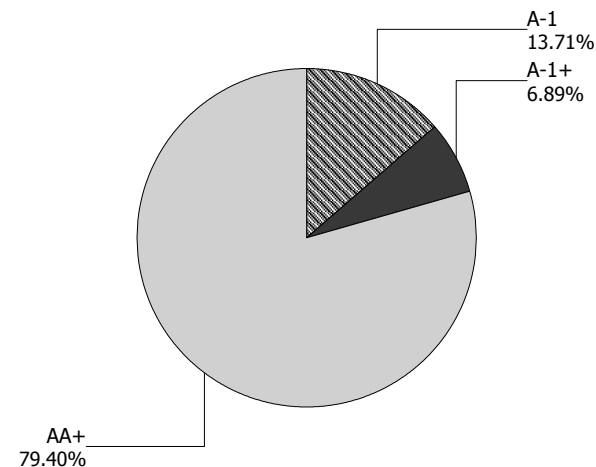
For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

Issuer Summary

| Issuer | Market Value of Holdings | Percent |
|------------------------------------|-----------------------------|----------------|
| CREDIT AGRICOLE SA | 996,455.00 | 4.58 |
| FANNIE MAE | 2,100,307.88 | 9.66 |
| FEDERAL HOME LOAN BANKS | 991,094.63 | 4.56 |
| JP MORGAN CHASE & CO | 997,712.00 | 4.59 |
| MITSUBISHI UFJ FINANCIAL GROUP INC | 987,663.00 | 4.54 |
| TOYOTA MOTOR CORP | 1,498,837.50 | 6.89 |
| UNITED STATES TREASURY | 14,171,641.84 | 65.18 |
| Total | \$21,743,711.85 | 100.00% |

Credit Quality (S&P Ratings)





Managed Account Detail of Securities Held

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|--|-----------|----------------------|---------------|-------------------|---------------|----------------|----------------------|----------------|---------------------|----------------------|----------------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 1,000,000.00 | AA+ | Aaa | 10/31/18 | 10/31/18 | 986,914.06 | 2.74 | 3,750.00 | 990,903.32 | 992,305.00 |
| US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 2,025,000.00 | AA+ | Aaa | 06/08/18 | 06/11/18 | 1,997,314.45 | 2.45 | 7,593.75 | 2,010,767.31 | 2,009,417.63 |
| US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,505,000.00 | AA+ | Aaa | 05/23/18 | 05/24/18 | 2,477,112.30 | 2.50 | 10,959.38 | 2,491,117.82 | 2,490,125.31 |
| US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,520,000.00 | AA+ | Aaa | 06/05/18 | 06/06/18 | 2,494,504.69 | 2.45 | 11,025.00 | 2,507,011.69 | 2,505,036.24 |
| US TREASURY N/B DTD 01/02/2018 1.875% 12/31/2019 | 9128283N8 | 2,100,000.00 | AA+ | Aaa | 11/27/18 | 11/27/18 | 2,080,066.41 | 2.76 | 6,526.24 | 2,084,752.43 | 2,088,433.20 |
| US TREASURY N/B DTD 03/15/2017 1.625% 03/15/2020 | 912828W63 | 2,000,000.00 | AA+ | Aaa | 02/22/19 | 02/25/19 | 1,981,093.75 | 2.54 | 14,993.09 | 1,981,292.22 | 1,981,016.00 |
| US TREASURY NOTES DTD 04/30/2013 1.125% 04/30/2020 | 912828VA5 | 2,140,000.00 | AA+ | Aaa | 11/27/18 | 11/27/18 | 2,089,843.75 | 2.81 | 8,047.17 | 2,098,858.03 | 2,105,308.46 |
| Security Type Sub-Total | | 14,290,000.00 | | | | | 14,106,849.41 | 2.59 | 62,894.63 | 14,164,702.82 | 14,171,641.84 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLB NOTES DTD 02/09/2018 2.125% 02/11/2020 | 3130ADN32 | 995,000.00 | AA+ | Aaa | 07/12/18 | 07/13/18 | 987,706.65 | 2.60 | 1,174.65 | 990,605.47 | 991,094.63 |
| FANNIE MAE NOTES DTD 11/01/2018 2.875% 10/30/2020 | 3135G0U84 | 2,090,000.00 | AA+ | Aaa | 11/27/18 | 11/27/18 | 2,088,892.30 | 2.90 | 20,029.17 | 2,089,051.62 | 2,100,307.88 |
| Security Type Sub-Total | | 3,085,000.00 | | | | | 3,076,598.95 | 2.81 | 21,203.82 | 3,079,657.09 | 3,091,402.51 |
| Commercial Paper | | | | | | | | | | | |
| TOYOTA MOTOR CREDIT CORP COMM PAPER DTD 06/15/2018 0.000% 03/12/2019 | 89233HOC1 | 1,500,000.00 | A-1+ | P-1 | 09/11/18 | 09/11/18 | 1,481,572.50 | 2.46 | 0.00 | 1,498,886.25 | 1,498,837.50 |
| JP MORGAN SECURITIES LLC COMM PAPER -- 0.000% 04/02/2019 | 46640QR29 | 1,000,000.00 | A-1 | P-1 | 10/01/18 | 10/01/18 | 986,935.83 | 2.60 | 0.00 | 997,715.56 | 997,712.00 |



Managed Account Detail of Securities Held

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|---|-----------|------------------------|---------------|-------------------|---------------|----------------|------------------------|----------------|---------------------|------------------------|------------------------|
| Commercial Paper | | | | | | | | | | | |
| CREDIT AGRICOLE CIB NY COMM PAPER DTD 08/22/2018 0.000% 04/22/2019 | 22533URN5 | 1,000,000.00 | A-1 | P-1 | 10/23/18 | 10/24/18 | 986,600.00 | 2.72 | 0.00 | 996,128.89 | 996,455.00 |
| MUFG BANK LTD/NY COMM PAPER DTD 01/18/2019 0.000% 08/16/2019 | 62479MVG5 | 1,000,000.00 | A-1 | P-1 | 01/18/19 | 01/18/19 | 983,725.00 | 2.84 | 0.00 | 986,980.00 | 987,663.00 |
| Security Type Sub-Total | | 4,500,000.00 | | | | | 4,438,833.33 | 2.63 | 0.00 | 4,479,710.70 | 4,480,667.50 |
| Managed Account Sub-Total | | 21,875,000.00 | | | | | 21,622,281.69 | 2.63 | 84,098.45 | 21,724,070.61 | 21,743,711.85 |
| Securities Sub-Total | | \$21,875,000.00 | | | | | \$21,622,281.69 | 2.63% | \$84,098.45 | \$21,724,070.61 | \$21,743,711.85 |
| Accrued Interest | | | | | | | | | | | \$84,098.45 |
| Total Investments | | | | | | | | | | | \$21,827,810.30 |



Managed Account Fair Market Value & Analytics

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst at Mkt | YTM |
|--|-----------|----------------------|----------|-------------------|-----------------|----------------------|-----------------------|--------------------------|-----------------------|-----------------------------|-------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 1,000,000.00 | BNP_PARI | | 99.23 | 992,305.00 | 5,390.94 | 1,401.68 | 0.74 | 0.74 | 2.54 |
| US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019 | 912828G61 | 2,025,000.00 | GOLDMAN | | 99.23 | 2,009,417.63 | 12,103.18 | (1,349.68) | 0.74 | 0.74 | 2.54 |
| US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,505,000.00 | BNP_PARI | | 99.41 | 2,490,125.31 | 13,013.01 | (992.51) | 0.74 | 0.74 | 2.55 |
| US TREASURY NOTES DTD 11/30/2017 1.750% 11/30/2019 | 9128283H1 | 2,520,000.00 | CITIGRP | | 99.41 | 2,505,036.24 | 10,531.55 | (1,975.45) | 0.74 | 0.74 | 2.55 |
| US TREASURY N/B DTD 01/02/2018 1.875% 12/31/2019 | 9128283N8 | 2,100,000.00 | MORGAN_S | | 99.45 | 2,088,433.20 | 8,366.79 | 3,680.77 | 0.82 | 0.82 | 2.54 |
| US TREASURY N/B DTD 03/15/2017 1.625% 03/15/2020 | 912828W63 | 2,000,000.00 | GOLDMAN | | 99.05 | 1,981,016.00 | (77.75) | (276.22) | 1.02 | 1.02 | 2.55 |
| US TREASURY NOTES DTD 04/30/2013 1.125% 04/30/2020 | 912828VA5 | 2,140,000.00 | BARCLAYS | | 98.38 | 2,105,308.46 | 15,464.71 | 6,450.43 | 1.15 | 1.15 | 2.54 |
| Security Type Sub-Total | | 14,290,000.00 | | | | 14,171,641.84 | 64,792.43 | 6,939.02 | 0.85 | 0.85 | 2.55 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLB NOTES DTD 02/09/2018 2.125% 02/11/2020 | 3130ADN32 | 995,000.00 | MORGAN_S | | 99.61 | 991,094.63 | 3,387.98 | 489.16 | 0.94 | 0.94 | 2.54 |
| FANNIE MAE NOTES DTD 11/01/2018 2.875% 10/30/2020 | 3135G0U84 | 2,090,000.00 | MORGAN_S | | 100.49 | 2,100,307.88 | 11,415.58 | 11,256.26 | 1.61 | 1.61 | 2.57 |
| Security Type Sub-Total | | 3,085,000.00 | | | | 3,091,402.51 | 14,803.56 | 11,745.42 | 1.39 | 1.39 | 2.56 |
| Commercial Paper | | | | | | | | | | | |
| TOYOTA MOTOR CREDIT CORP COMM PAPER DTD 06/15/2018 0.000% 03/12/2019 | 89233HOC1 | 1,500,000.00 | TOYOTA | | 99.92 | 1,498,837.50 | 17,265.00 | (48.75) | 0.03 | 0.03 | 2.33 |
| JP MORGAN SECURITIES LLC COMM PAPER -- 0.000% 04/02/2019 | 46640QR29 | 1,000,000.00 | JPM_CHAS | | 99.77 | 997,712.00 | 10,776.17 | (3.56) | 0.09 | 0.09 | 2.50 |
| CREDIT AGRICOLE CIB NY COMM PAPER DTD 08/22/2018 0.000% 04/22/2019 | 22533URN5 | 1,000,000.00 | CREDAG | | 99.65 | 996,455.00 | 9,855.00 | 326.11 | 0.14 | 0.14 | 2.42 |



Managed Account Fair Market Value & Analytics

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst at Mkt | YTM |
|---|-----------|------------------------|--------|-------------------|-----------------|------------------------|-----------------------|--------------------------|-----------------------|-----------------------------|--------------|
| Commercial Paper | | | | | | | | | | | |
| MUFG BANK LTD/NY COMM PAPER DTD 01/18/2019 0.000% 08/16/2019 | 62479MVG5 | 1,000,000.00 | MITSU | | 98.77 | 987,663.00 | 3,938.00 | 683.00 | 0.46 | 0.46 | 2.66 |
| Security Type Sub-Total | | 4,500,000.00 | | | | 4,480,667.50 | 41,834.17 | 956.80 | 0.16 | 0.16 | 2.46 |
| Managed Account Sub-Total | | 21,875,000.00 | | | | 21,743,711.85 | 121,430.16 | 19,641.24 | 0.79 | 0.79 | 2.53 |
| Securities Sub-Total | | \$21,875,000.00 | | | | \$21,743,711.85 | \$121,430.16 | \$19,641.24 | 0.79 | 0.79 | 2.53% |
| Accrued Interest | | | | | | \$84,098.45 | | | | | |
| Total Investments | | | | | | \$21,827,810.30 | | | | | |



Managed Account Security Transactions & Interest

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS GENERAL FUND - 81125010

| Transaction Type | | Security Description | CUSIP | Par | Principal Proceeds | Accrued Interest | Total | Realized G/L | Realized G/L | Sale Method |
|-----------------------------|----------|--|-----------|--------------|--------------------|------------------|----------------|--------------|--------------|-------------|
| Trade | Settle | | | | | | | Cost | Amort Cost | |
| BUY | | | | | | | | | | |
| 02/22/19 | 02/25/19 | US TREASURY N/B DTD 03/15/2017 1.625% 03/15/2020 | 912828W63 | 2,000,000.00 | (1,981,093.75) | (14,633.98) | (1,995,727.73) | | | |
| Transaction Type Sub-Total | | | | 2,000,000.00 | (1,981,093.75) | (14,633.98) | (1,995,727.73) | | | |
| INTEREST | | | | | | | | | | |
| 02/11/19 | 02/11/19 | FHLB NOTES DTD 02/09/2018 2.125% 02/11/2020 | 3130ADN32 | 995,000.00 | 0.00 | 10,571.88 | 10,571.88 | | | |
| Transaction Type Sub-Total | | | | 995,000.00 | 0.00 | 10,571.88 | 10,571.88 | | | |
| MATURITY | | | | | | | | | | |
| 02/22/19 | 02/22/19 | COOPERATIEVE RABOBANK U.A. COMM PAPER DTD 05/29/2018 0.000% 02/22/2019 | 21687BPN5 | 2,000,000.00 | 2,000,000.00 | 0.00 | 2,000,000.00 | 35,212.78 | 0.00 | |
| Transaction Type Sub-Total | | | | 2,000,000.00 | 2,000,000.00 | 0.00 | 2,000,000.00 | 35,212.78 | 0.00 | |
| Managed Account Sub-Total | | | | | 18,906.25 | (4,062.10) | 14,844.15 | 35,212.78 | 0.00 | |
| Total Security Transactions | | | | | 18,906.25 | (\$4,062.10) | 14,844.15 | \$35,212.78 | \$0.00 | |



Managed Account Summary Statement

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

Transaction Summary - Managed Account

| | |
|-----------------------------|-----------------------|
| Opening Market Value | \$2,269,428.15 |
| Maturities/Calls | 0.00 |
| Principal Dispositions | 0.00 |
| Principal Acquisitions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Current Value | 3,177.49 |
| Closing Market Value | \$2,272,605.64 |

Cash Transactions Summary - Managed Account

| | |
|---------------------------------|------------|
| Maturities/Calls | 0.00 |
| Sale Proceeds | 0.00 |
| Coupon/Interest/Dividend Income | 8,028.13 |
| Principal Payments | 0.00 |
| Security Purchases | 0.00 |
| Net Cash Contribution | (8,028.13) |
| Reconciling Transactions | 0.00 |

Earnings Reconciliation (Cash Basis) - Managed Account

| | |
|---|-------------------|
| Interest/Dividends/Coupons Received | 8,028.13 |
| Less Purchased Interest Related to Interest/Coupons | 0.00 |
| Plus Net Realized Gains/Losses | 0.00 |
| Total Cash Basis Earnings | \$8,028.13 |

Cash Balance

Closing Cash Balance **\$0.00**

Earnings Reconciliation (Accrual Basis)

| | Total |
|--|-------------------|
| Ending Amortized Value of Securities | 2,274,246.44 |
| Ending Accrued Interest | 2,491.94 |
| Plus Proceeds from Sales | 0.00 |
| Plus Proceeds of Maturities/Calls/Principal Payments | 0.00 |
| Plus Coupons/Dividends Received | 8,028.13 |
| Less Cost of New Purchases | 0.00 |
| Less Beginning Amortized Value of Securities | (2,271,591.20) |
| Less Beginning Accrued Interest | (8,830.11) |
| Total Accrual Basis Earnings | \$4,345.20 |



Portfolio Summary and Statistics

For the Month Ending **February 28, 2019**

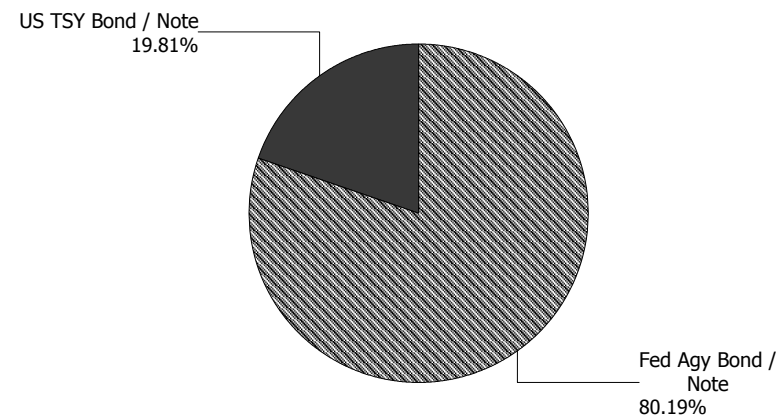
STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

Account Summary

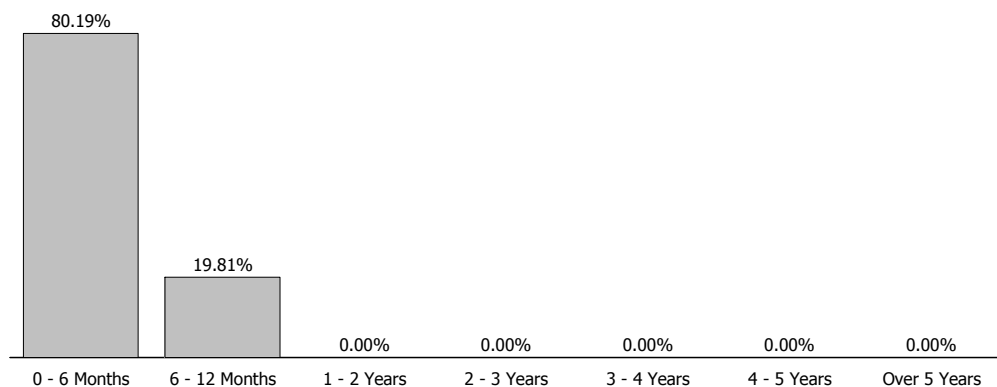
| Description | Par Value | Market Value | Percent |
|----------------------------------|---------------------|---------------------|----------------|
| U.S. Treasury Bond / Note | 455,000.00 | 450,094.65 | 19.81 |
| Federal Agency Bond / Note | 1,835,000.00 | 1,822,510.99 | 80.19 |
| Managed Account Sub-Total | 2,290,000.00 | 2,272,605.64 | 100.00% |
| Accrued Interest | | 2,491.94 | |
| Total Portfolio | 2,290,000.00 | 2,275,097.58 | |

Unsettled Trades **0.00** **0.00**

Sector Allocation



Maturity Distribution



Characteristics

| | |
|-----------------------------------|-------|
| Yield to Maturity at Cost | 2.33% |
| Yield to Maturity at Market | 2.49% |
| Duration to Worst | 0.48 |
| Weighted Average Days to Maturity | 178 |



Managed Account Issuer Summary

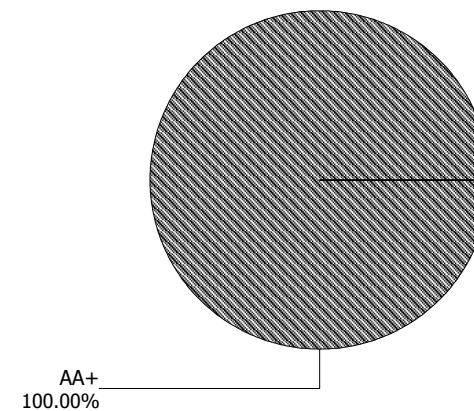
For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

Issuer Summary

| Issuer | Market Value of Holdings | Percent |
|-------------------------|-----------------------------|----------------|
| FEDERAL HOME LOAN BANKS | 1,822,510.99 | 80.19 |
| UNITED STATES TREASURY | 450,094.65 | 19.81 |
| Total | \$2,272,605.64 | 100.00% |

Credit Quality (S&P Ratings)





Managed Account Detail of Securities Held

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|---|-----------|-----------------------|---------------|-------------------|---------------|----------------|-----------------------|----------------|---------------------|-----------------------|-----------------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY N/B DTD 11/15/2016 1.000% 11/15/2019 | 912828U32 | 455,000.00 | AA+ | Aaa | 05/21/18 | 05/21/18 | 445,117.97 | 2.50 | 1,332.32 | 450,249.65 | 450,094.65 |
| Security Type Sub-Total | | 455,000.00 | | | | | 445,117.97 | 2.50 | 1,332.32 | 450,249.65 | 450,094.65 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLB GLOBAL NOTE DTD 08/04/2016 0.875% 08/05/2019 | 3130A8Y72 | 1,835,000.00 | AA+ | Aaa | 03/20/18 | 03/21/18 | 1,800,043.25 | 2.29 | 1,159.62 | 1,823,996.79 | 1,822,510.99 |
| Security Type Sub-Total | | 1,835,000.00 | | | | | 1,800,043.25 | 2.29 | 1,159.62 | 1,823,996.79 | 1,822,510.99 |
| Managed Account Sub-Total | | 2,290,000.00 | | | | | 2,245,161.22 | 2.33 | 2,491.94 | 2,274,246.44 | 2,272,605.64 |
| Securities Sub-Total | | \$2,290,000.00 | | | | | \$2,245,161.22 | 2.33% | \$2,491.94 | \$2,274,246.44 | \$2,272,605.64 |
| Accrued Interest | | | | | | | | | | | \$2,491.94 |
| Total Investments | | | | | | | | | | | \$2,275,097.58 |



Managed Account Fair Market Value & Analytics

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst at Mkt | YTM |
|---|-----------|-----------------------|----------|-------------------|-----------------|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------------|--------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY N/B DTD 11/15/2016 1.000% 11/15/2019 | 912828U32 | 455,000.00 | GOLDMAN | | 98.92 | 450,094.65 | 4,976.68 | (155.00) | 0.70 | 0.70 | 2.54 |
| Security Type Sub-Total | | 455,000.00 | | | | 450,094.65 | 4,976.68 | (155.00) | 0.70 | 0.70 | 2.54 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FHLB GLOBAL NOTE DTD 08/04/2016 0.875% 08/05/2019 | 3130A8Y72 | 1,835,000.00 | MORGAN_S | | 99.32 | 1,822,510.99 | 22,467.74 | (1,485.80) | 0.43 | 0.43 | 2.48 |
| Security Type Sub-Total | | 1,835,000.00 | | | | 1,822,510.99 | 22,467.74 | (1,485.80) | 0.43 | 0.43 | 2.48 |
| Managed Account Sub-Total | | 2,290,000.00 | | | | 2,272,605.64 | 27,444.42 | (1,640.80) | 0.48 | 0.48 | 2.49 |
| Securities Sub-Total | | \$2,290,000.00 | | | | \$2,272,605.64 | \$27,444.42 | (\$1,640.80) | 0.48 | 0.48 | 2.49% |
| Accrued Interest | | | | | | \$2,491.94 | | | | | |
| Total Investments | | | | | | \$2,275,097.58 | | | | | |



Managed Account Security Transactions & Interest

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS CLIENT SECURITY FUND - 81125011

| Transaction Type | | Security Description | CUSIP | Par | Principal Proceeds | Accrued Interest | Total | Realized G/L Cost | Realized G/L Amort Cost | Sale Method |
|-----------------------------|----------|--|-----------|--------------|-----------------------|---------------------|------------|----------------------|----------------------------|----------------|
| Trade | Settle | | | | | | | | | |
| INTEREST | | | | | | | | | | |
| 02/05/19 | 02/05/19 | FHLB GLOBAL NOTE DTD 08/04/2016 0.875% 08/05/2019 | 3130A8Y72 | 1,835,000.00 | 0.00 | 8,028.13 | 8,028.13 | | | |
| Transaction Type Sub-Total | | | | 1,835,000.00 | 0.00 | 8,028.13 | 8,028.13 | | | |
| Managed Account Sub-Total | | | | | 0.00 | 8,028.13 | 8,028.13 | | | |
| Total Security Transactions | | | | | \$0.00 | \$8,028.13 | \$8,028.13 | | | |



Managed Account Summary Statement

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

Transaction Summary - Managed Account

| | |
|-----------------------------|-----------------------|
| Opening Market Value | \$3,891,985.39 |
| Maturities/Calls | (825,000.00) |
| Principal Dispositions | 0.00 |
| Principal Acquisitions | 814,724.40 |
| Unsettled Trades | 0.00 |
| Change in Current Value | 1,500.61 |
| Closing Market Value | \$3,883,210.40 |

Cash Transactions Summary - Managed Account

| | |
|---------------------------------|--------------|
| Maturities/Calls | 825,000.00 |
| Sale Proceeds | 0.00 |
| Coupon/Interest/Dividend Income | 4,996.88 |
| Principal Payments | 0.00 |
| Security Purchases | (822,975.65) |
| Net Cash Contribution | (7,021.23) |
| Reconciling Transactions | 0.00 |

Earnings Reconciliation (Cash Basis) - Managed Account

| | |
|---|-------------------|
| Interest/Dividends/Coupons Received | 4,996.88 |
| Less Purchased Interest Related to Interest/Coupons | (8,251.25) |
| Plus Net Realized Gains/Losses | 9,958.01 |
| Total Cash Basis Earnings | \$6,703.64 |

Cash Balance

Closing Cash Balance **\$0.00**

Earnings Reconciliation (Accrual Basis)

| | Total |
|--|-------------------|
| Ending Amortized Value of Securities | 3,881,364.78 |
| Ending Accrued Interest | 24,843.59 |
| Plus Proceeds from Sales | 0.00 |
| Plus Proceeds of Maturities/Calls/Principal Payments | 825,000.00 |
| Plus Coupons/Dividends Received | 4,996.88 |
| Less Cost of New Purchases | (822,975.65) |
| Less Beginning Amortized Value of Securities | (3,889,667.30) |
| Less Beginning Accrued Interest | (15,855.10) |
| Total Accrual Basis Earnings | \$7,707.20 |



Portfolio Summary and Statistics

For the Month Ending **February 28, 2019**

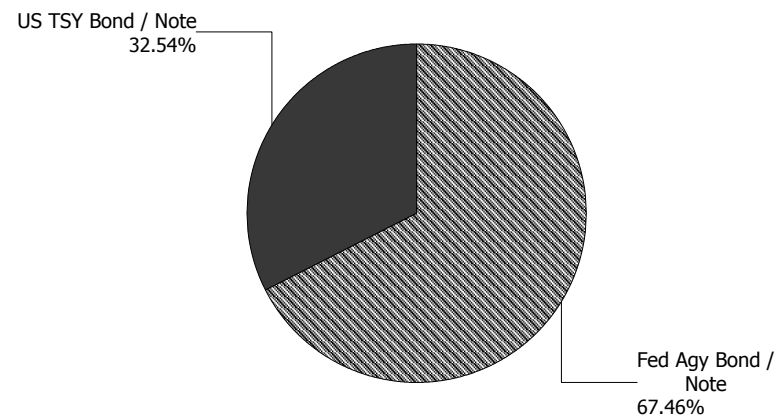
STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

Account Summary

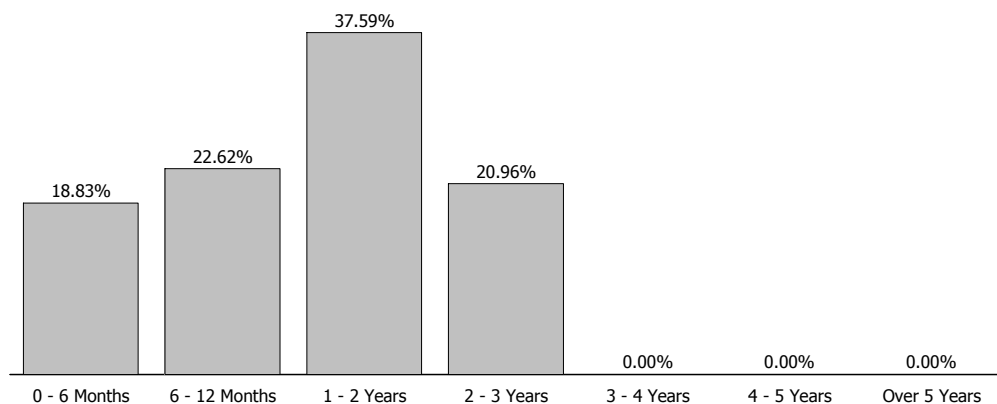
| Description | Par Value | Market Value | Percent |
|----------------------------------|---------------------|---------------------|----------------|
| U.S. Treasury Bond / Note | 1,275,000.00 | 1,263,403.26 | 32.54 |
| Federal Agency Bond / Note | 2,615,000.00 | 2,619,807.14 | 67.46 |
| Managed Account Sub-Total | 3,890,000.00 | 3,883,210.40 | 100.00% |
| Accrued Interest | | 24,843.59 | |
| Total Portfolio | 3,890,000.00 | 3,908,053.99 | |

| | | |
|-------------------------|-------------|-------------|
| Unsettled Trades | 0.00 | 0.00 |
|-------------------------|-------------|-------------|

Sector Allocation



Maturity Distribution



Characteristics

| | |
|-----------------------------------|-------|
| Yield to Maturity at Cost | 2.52% |
| Yield to Maturity at Market | 2.53% |
| Duration to Worst | 1.19 |
| Weighted Average Days to Maturity | 450 |



Managed Account Issuer Summary

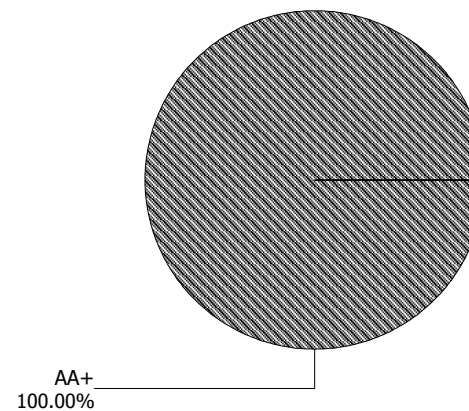
For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

Issuer Summary

| Issuer | Market Value of Holdings | Percent |
|-------------------------|-----------------------------|----------------|
| FEDERAL HOME LOAN BANKS | 1,545,186.61 | 39.79 |
| FREDDIE MAC | 1,074,620.53 | 27.67 |
| UNITED STATES TREASURY | 1,263,403.26 | 32.54 |
| Total | \$3,883,210.40 | 100.00% |

Credit Quality (S&P Ratings)





Managed Account Detail of Securities Held

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | S&P Rating | Moody's Rating | Trade Date | Settle Date | Original Cost | YTM at Cost | Accrued Interest | Amortized Cost | Market Value |
|---|-----------|-----------------------|---------------|-------------------|---------------|----------------|-----------------------|----------------|---------------------|-----------------------|-----------------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/31/2014 1.625% 12/31/2019 | 912828G95 | 885,000.00 | AA+ | Aaa | 10/01/18 | 10/01/18 | 873,211.52 | 2.72 | 2,383.63 | 877,086.52 | 878,293.47 |
| US TREASURY NOTES DTD 03/31/2015 1.375% 03/31/2020 | 912828J84 | 390,000.00 | AA+ | Aaa | 09/18/18 | 09/19/18 | 381,910.55 | 2.77 | 2,239.29 | 384,245.32 | 385,109.79 |
| Security Type Sub-Total | | 1,275,000.00 | | | | | 1,255,122.07 | 2.73 | 4,622.92 | 1,261,331.84 | 1,263,403.26 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FEDERAL HOME LOAN BANK AGENCY NOTES DTD 05/12/2017 1.375% 05/28/2019 | 3130ABF92 | 300,000.00 | AA+ | Aaa | 07/13/17 | 07/14/17 | 299,910.00 | 1.39 | 1,065.63 | 299,988.45 | 299,192.40 |
| FHLB GLOBAL NOTE DTD 08/04/2016 0.875% 08/05/2019 | 3130A8Y72 | 435,000.00 | AA+ | Aaa | 03/20/18 | 03/21/18 | 426,713.25 | 2.29 | 274.90 | 432,391.61 | 432,039.39 |
| FHLMC NOTES DTD 04/19/2018 2.500% 04/23/2020 | 3137EAEM7 | 1,075,000.00 | AA+ | Aaa | 08/03/18 | 08/07/18 | 1,072,129.75 | 2.66 | 9,555.56 | 1,073,081.66 | 1,074,620.53 |
| FEDERAL HOME LOAN BANKS NOTES DTD 10/12/2018 3.000% 10/12/2021 | 3130AF5B9 | 805,000.00 | AA+ | Aaa | 02/14/19 | 02/15/19 | 814,724.40 | 2.53 | 9,324.58 | 814,571.22 | 813,954.82 |
| Security Type Sub-Total | | 2,615,000.00 | | | | | 2,613,477.40 | 2.41 | 20,220.67 | 2,620,032.94 | 2,619,807.14 |
| Managed Account Sub-Total | | 3,890,000.00 | | | | | 3,868,599.47 | 2.52 | 24,843.59 | 3,881,364.78 | 3,883,210.40 |
| Securities Sub-Total | | \$3,890,000.00 | | | | | \$3,868,599.47 | 2.52% | \$24,843.59 | \$3,881,364.78 | \$3,883,210.40 |
| Accrued Interest | | | | | | | | | | | \$24,843.59 |
| Total Investments | | | | | | | | | | | \$3,908,053.99 |



Managed Account Fair Market Value & Analytics

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

| Security Type/Description Dated Date/Coupon/Maturity | CUSIP | Par | Broker | Next Call Date | Market Price | Market Value | Unreal G/L On Cost | Unreal G/L Amort Cost | Effective Duration | Duration to Worst at Mkt | YTM |
|--|-----------|-----------------------|----------|-------------------|-----------------|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------------|--------------|
| U.S. Treasury Bond / Note | | | | | | | | | | | |
| US TREASURY NOTES DTD 12/31/2014 1.625% 12/31/2019 | 912828G95 | 885,000.00 | CITIGRP | | 99.24 | 878,293.47 | 5,081.95 | 1,206.95 | 0.82 | 0.82 | 2.54 |
| US TREASURY NOTES DTD 03/31/2015 1.375% 03/31/2020 | 912828J84 | 390,000.00 | CITIGRP | | 98.75 | 385,109.79 | 3,199.24 | 864.47 | 1.06 | 1.06 | 2.55 |
| Security Type Sub-Total | | 1,275,000.00 | | | | 1,263,403.26 | 8,281.19 | 2,071.42 | 0.90 | 0.90 | 2.55 |
| Federal Agency Bond / Note | | | | | | | | | | | |
| FEDERAL HOME LOAN BANK AGENCY NOTES DTD 05/12/2017 1.375% 05/28/2019 | 3130ABF92 | 300,000.00 | MORGAN_S | | 99.73 | 299,192.40 | (717.60) | (796.05) | 0.24 | 0.24 | 2.51 |
| FHLB GLOBAL NOTE DTD 08/04/2016 0.875% 08/05/2019 | 3130A8Y72 | 435,000.00 | MORGAN_S | | 99.32 | 432,039.39 | 5,326.14 | (352.22) | 0.43 | 0.43 | 2.48 |
| FHLMC NOTES DTD 04/19/2018 2.500% 04/23/2020 | 3137EAEM7 | 1,075,000.00 | NOMURA | | 99.96 | 1,074,620.53 | 2,490.78 | 1,538.87 | 1.12 | 1.12 | 2.53 |
| FEDERAL HOME LOAN BANKS NOTES DTD 10/12/2018 3.000% 10/12/2021 | 3130AF5B9 | 805,000.00 | MORGAN_S | | 101.11 | 813,954.82 | (769.58) | (616.40) | 2.48 | 2.48 | 2.56 |
| Security Type Sub-Total | | 2,615,000.00 | | | | 2,619,807.14 | 6,329.74 | (225.80) | 1.33 | 1.33 | 2.53 |
| Managed Account Sub-Total | | 3,890,000.00 | | | | 3,883,210.40 | 14,610.93 | 1,845.62 | 1.19 | 1.19 | 2.53 |
| Securities Sub-Total | | \$3,890,000.00 | | | | \$3,883,210.40 | \$14,610.93 | \$1,845.62 | 1.19 | 1.19 | 2.53% |
| Accrued Interest | | | | | | \$24,843.59 | | | | | |
| Total Investments | | | | | | \$3,908,053.99 | | | | | |



Managed Account Security Transactions & Interest

For the Month Ending **February 28, 2019**

STATE BAR OF TEXAS TEXAS LAW CENTER - 81125014

| Transaction Type | | Security Description | CUSIP | Par | Principal | Accrued | Total | Realized G/L | Realized G/L | Sale |
|-----------------------------|----------|---|-----------|--------------|--------------|--------------|--------------|--------------|--------------|------|
| Trade | Settle | | | | Proceeds | Interest | | Cost | Amort Cost | |
| BUY | | | | | | | | | | |
| 02/14/19 | 02/15/19 | FEDERAL HOME LOAN BANKS NOTES DTD 10/12/2018 3.000% 10/12/2021 | 3130AF5B9 | 805,000.00 | (814,724.40) | (8,251.25) | (822,975.65) | | | |
| Transaction Type Sub-Total | | | | 805,000.00 | (814,724.40) | (8,251.25) | (822,975.65) | | | |
| INTEREST | | | | | | | | | | |
| 02/05/19 | 02/05/19 | FHLB GLOBAL NOTE DTD 08/04/2016 0.875% 08/05/2019 | 3130A8Y72 | 435,000.00 | 0.00 | 1,903.13 | 1,903.13 | | | |
| 02/15/19 | 02/15/19 | US TREASURY NOTES DTD 02/15/2016 0.750% 02/15/2019 | 912828P53 | 825,000.00 | 0.00 | 3,093.75 | 3,093.75 | | | |
| Transaction Type Sub-Total | | | | 1,260,000.00 | 0.00 | 4,996.88 | 4,996.88 | | | |
| MATURITY | | | | | | | | | | |
| 02/15/19 | 02/15/19 | US TREASURY NOTES DTD 02/15/2016 0.750% 02/15/2019 | 912828P53 | 825,000.00 | 825,000.00 | 0.00 | 825,000.00 | 9,958.01 | 0.00 | |
| Transaction Type Sub-Total | | | | 825,000.00 | 825,000.00 | 0.00 | 825,000.00 | 9,958.01 | 0.00 | |
| Managed Account Sub-Total | | | | | 10,275.60 | (3,254.37) | 7,021.23 | 9,958.01 | 0.00 | |
| Total Security Transactions | | | | | \$10,275.60 | (\$3,254.37) | \$7,021.23 | \$9,958.01 | \$0.00 | |

Consolidated Summary Statement

For the Month Ending February 28, 2019

State Bar of Texas

Portfolio Summary

| Portfolio Holdings | Cash Dividends and Income | Closing Market Value | Current Yield |
|-----------------------------------|---------------------------|-----------------------|---------------|
| PFM Funds - Govt Select, Instl Cl | 9,068.81 | 3,901,721.27 | 2.28 % |
| PFM Funds CD Program | 0.00 | 700,000.00 | * N/A |
| Total | \$9,068.81 | \$4,601,721.27 | |

* Not Applicable

Investment Allocation

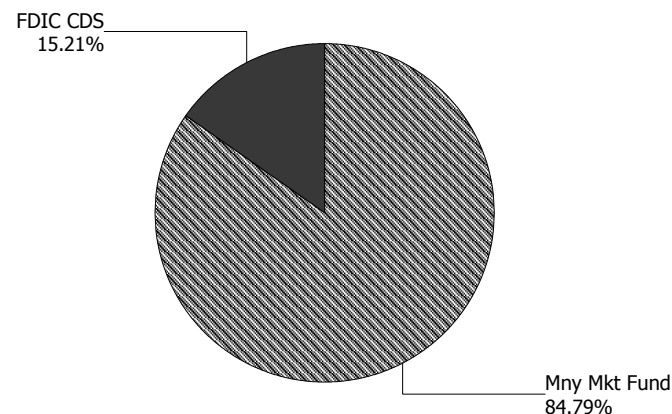
| Investment Type | Closing Market Value | Percent |
|---|-----------------------|----------------|
| Money Market Mutual Fund | 3,901,721.27 | 84.79 |
| FDIC Insured Bank Certificates of Deposit | 700,000.00 | 15.21 |
| Total | \$4,601,721.27 | 100.00% |

Maturity Distribution (Fixed Income Holdings)

| Portfolio Holdings | Closing Market Value | Percent |
|--------------------|-----------------------|----------------|
| Under 30 days | 4,601,721.27 | 100.00 |
| 31 to 60 days | 0.00 | 0.00 |
| 61 to 90 days | 0.00 | 0.00 |
| 91 to 180 days | 0.00 | 0.00 |
| 181 days to 1 year | 0.00 | 0.00 |
| 1 to 2 years | 0.00 | 0.00 |
| 2 to 3 years | 0.00 | 0.00 |
| 3 to 4 years | 0.00 | 0.00 |
| 4 to 5 years | 0.00 | 0.00 |
| Over 5 years | 0.00 | 0.00 |
| Total | \$4,601,721.27 | 100.00% |

Weighted Average Days to Maturity 4

Sector Allocation



Consolidated Summary Statement

For the Month Ending **February 28, 2019**

State Bar of Texas

| Account Number | Account Name | Opening Market Value | Purchases / Deposits | Redemptions / Sales/ Maturities | Unsettled Trades | Change in Value | Closing Market Value | Cash Dividends and Income |
|----------------|---|-----------------------|----------------------|---------------------------------|------------------|-----------------|-----------------------|---------------------------|
| 200-00 | STATE BAR OF TEXAS - MM | 3,587,937.90 | 5,737.92 | (1,500,000.00) | 0.00 | 0.00 | 2,093,675.82 | 5,737.92 |
| 995192 | CLIENT SECURITY FUND | 715,931.90 | 1,244.61 | 0.00 | 0.00 | 0.00 | 717,176.51 | 1,244.61 |
| 995235 | TEXAS LAW CENTER | 67,229.46 | 106.87 | (40,000.00) | 0.00 | 0.00 | 27,336.33 | 106.87 |
| 995426 | TBLS | 1,312,315.02 | 1,041.82 | (90,089.19) | 0.00 | 0.00 | 1,223,267.65 | 1,041.82 |
| 995463 | Annual Meeting Funds | 345,943.65 | 601.40 | 0.00 | 0.00 | 0.00 | 346,545.05 | 601.40 |
| 995464 | Texas Bar College Special Revenue Funds | 193,383.72 | 336.19 | 0.00 | 0.00 | 0.00 | 193,719.91 | 336.19 |
| Total | | \$6,222,741.65 | \$9,068.81 | (\$1,630,089.19) | \$0.00 | \$0.00 | \$4,601,721.27 | \$9,068.81 |

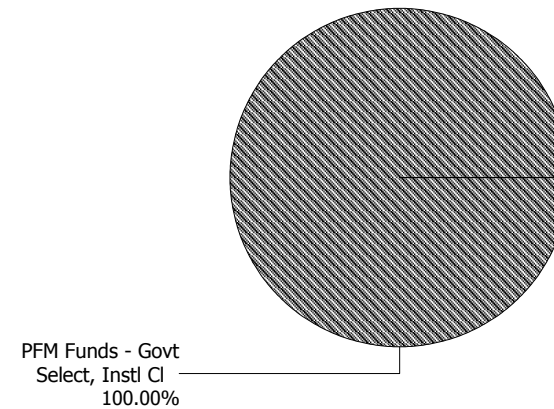
Account Statement - Transaction Summary

For the Month Ending **February 28, 2019**

State Bar of Texas - STATE BAR OF TEXAS - MM - 200-00

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|-----------------------|
| Opening Market Value | 3,587,937.90 |
| Purchases | 5,737.92 |
| Redemptions | (1,500,000.00) |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$2,093,675.82 |
| Cash Dividends and Income | 5,737.92 |

| Asset Summary | | |
|--|-----------------------|-----------------------|
| | February 28, 2019 | January 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 2,093,675.82 | 3,587,937.90 |
| Total | \$2,093,675.82 | \$3,587,937.90 |
| Asset Allocation | | |



Account Statement

For the Month Ending **February 28, 2019**

State Bar of Texas - STATE BAR OF TEXAS - MM - 200-00

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|---------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 3,587,937.90 |
| 02/15/19 | 02/15/19 | Redemption - Wire Redemption | 1.00 | (500,000.00) | 3,087,937.90 |
| 02/28/19 | 02/28/19 | Redemption - Wire Redemption | 1.00 | (1,000,000.00) | 2,087,937.90 |
| 02/28/19 | 03/01/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 5,737.92 | 2,093,675.82 |

Closing Balance **2,093,675.82**

| | Month of February | Fiscal YTD January-February | | |
|-----------------------------------|---------------------|-----------------------------|-----------------------------------|--------------|
| Opening Balance | 3,587,937.90 | 332,029.31 | Closing Balance | 2,093,675.82 |
| Purchases | 5,737.92 | 3,261,646.51 | Average Monthly Balance | 3,302,428.54 |
| Redemptions (Excl. Checks) | (1,500,000.00) | (1,500,000.00) | Monthly Distribution Yield | 2.27% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 2,093,675.82 | 2,093,675.82 | | |
| Cash Dividends and Income | 5,737.92 | 11,646.51 | | |

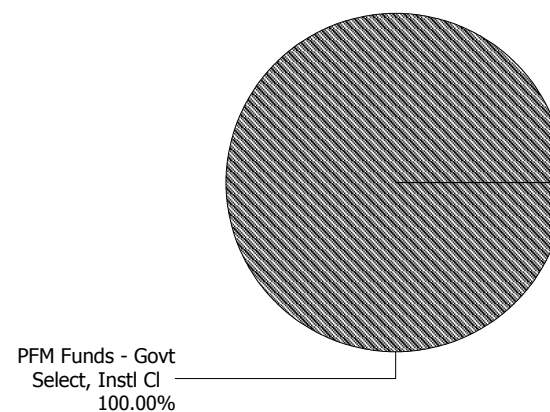
Account Statement - Transaction Summary

For the Month Ending **February 28, 2019**

State Bar of Texas - CLIENT SECURITY FUND - 995192

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|---------------------|
| Opening Market Value | 715,931.90 |
| Purchases | 1,244.61 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$717,176.51 |
| Cash Dividends and Income | 1,244.61 |

| Asset Summary | | |
|--|---------------------|---------------------|
| | February 28, 2019 | January 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 717,176.51 | 715,931.90 |
| Total | \$717,176.51 | \$715,931.90 |
| Asset Allocation | | |



Account Statement

For the Month Ending **February 28, 2019**

State Bar of Texas - CLIENT SECURITY FUND - 995192

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 715,931.90 |
| 02/28/19 | 03/01/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 1,244.61 | 717,176.51 |
| Closing Balance | | | | | 717,176.51 |

| | Month of February | Fiscal YTD January-February | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|------------|
| Opening Balance | 715,931.90 | 714,558.48 | Closing Balance | 717,176.51 |
| Purchases | 1,244.61 | 2,618.03 | Average Monthly Balance | 715,976.35 |
| Redemptions (Excl. Checks) | 0.00 | 0.00 | Monthly Distribution Yield | 2.27% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 717,176.51 | 717,176.51 | | |
| Cash Dividends and Income | 1,244.61 | 2,618.03 | | |

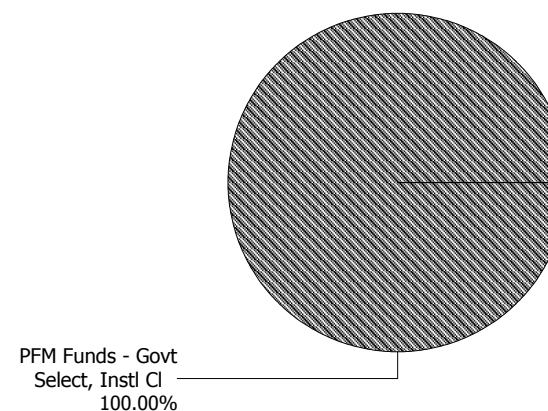
Account Statement - Transaction Summary

For the Month Ending **February 28, 2019**

State Bar of Texas - TEXAS LAW CENTER - 995235

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|--------------------|
| Opening Market Value | 67,229.46 |
| Purchases | 106.87 |
| Redemptions | (40,000.00) |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$27,336.33 |
| Cash Dividends and Income | 106.87 |

| Asset Summary | | |
|--|--------------------|--------------------|
| | February 28, 2019 | January 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 27,336.33 | 67,229.46 |
| Total | \$27,336.33 | \$67,229.46 |
| Asset Allocation | | |



Account Statement

For the Month Ending **February 28, 2019**

State Bar of Texas - TEXAS LAW CENTER - 995235

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 67,229.46 |
| 02/25/19 | 02/25/19 | Redemption - Wire Redemption | 1.00 | (40,000.00) | 27,229.46 |
| 02/28/19 | 03/01/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 106.87 | 27,336.33 |
| Closing Balance | | | | | 27,336.33 |

| | Month of February | Fiscal YTD January-February | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|-----------|
| Opening Balance | 67,229.46 | 67,100.49 | Closing Balance | 27,336.33 |
| Purchases | 106.87 | 235.84 | Average Monthly Balance | 61,518.99 |
| Redemptions (Excl. Checks) | (40,000.00) | (40,000.00) | Monthly Distribution Yield | 2.27% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 27,336.33 | 27,336.33 | | |
| Cash Dividends and Income | 106.87 | 235.84 | | |

Account Statement - Transaction Summary

For the Month Ending **February 28, 2019**

State Bar of Texas - TBLs - 995426

PFM Funds - Govt Select, Instl CI

| | |
|----------------------|-------------|
| Opening Market Value | 612,315.02 |
| Purchases | 1,041.82 |
| Redemptions | (90,089.19) |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |

Closing Market Value **\$523,267.65**

Cash Dividends and Income 1,041.82

PFM Funds CD Program

| | |
|----------------------|------------|
| Opening Market Value | 700,000.00 |
| Purchases | 0.00 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |

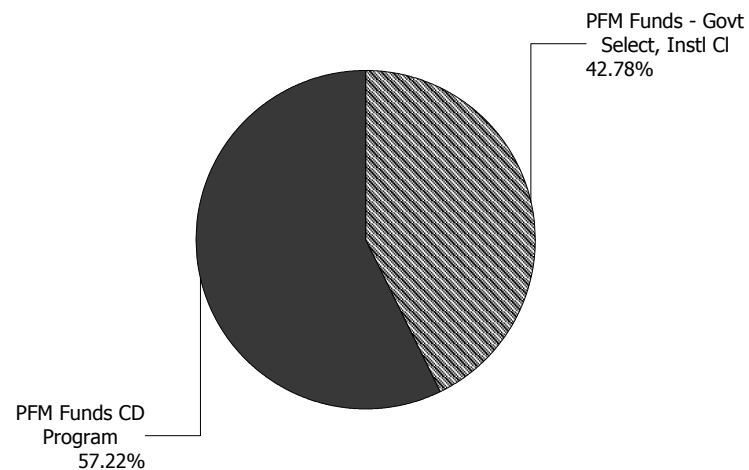
Closing Market Value **\$700,000.00**

Cash Dividends and Income 0.00

Asset Summary

| | February 28, 2019 | January 31, 2019 |
|--|-----------------------|-----------------------|
| PFM Funds - Govt Select, Instl CI | 523,267.65 | 612,315.02 |
| PFM Funds CD Program | 700,000.00 | 700,000.00 |
| Total | \$1,223,267.65 | \$1,312,315.02 |

Asset Allocation



Investment Holdings

For the Month Ending **February 28, 2019**

State Bar of Texas - TBLS - 995426

| Trade Date | Settlement Date | Security Description | Maturity Date | Rate | Investment Amount | Accrued Interest | Est. Value at Maturity |
|-----------------------------|-----------------|---|---------------|------|---------------------|--------------------|------------------------|
| PFM Funds CD Program | | | | | | | |
| 03/27/18 | 03/27/18 | CD - Bank Leumi Usa, NY | 03/27/19 | 2.30 | 244,000.00 | 5,212.24 | 249,612.00 |
| 03/27/18 | 03/27/18 | CD - CIBC (Acquired Privatebank & Trust Co), MI | 03/27/19 | 2.25 | 212,000.00 | 4,430.22 | 216,770.00 |
| 03/27/18 | 03/27/18 | CD - First Central Savings Bank, NY | 03/27/19 | 2.30 | 244,000.00 | 5,212.24 | 249,612.00 |
| Total | | | | | \$700,000.00 | \$14,854.70 | \$715,994.00 |

Account Statement

For the Month Ending **February 28, 2019**

State Bar of Texas - TBLS - 995426

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|--|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 612,315.02 |
| 02/01/19 | 02/01/19 | IA_FEE CD GROUPED FEE TRANSACTION FOR: 1-31-2019 | 1.00 | (89.19) | 612,225.83 |
| 02/25/19 | 02/25/19 | Redemption - Wire Redemption | 1.00 | (90,000.00) | 522,225.83 |
| 02/28/19 | 03/01/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 1,041.82 | 523,267.65 |

Closing Balance **523,267.65**

| | Month of February | Fiscal YTD January-February | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|------------|
| Opening Balance | 612,315.02 | 611,229.55 | Closing Balance | 523,267.65 |
| Purchases | 1,041.82 | 2,216.46 | Average Monthly Balance | 599,405.90 |
| Redemptions (Excl. Checks) | (90,089.19) | (90,178.36) | Monthly Distribution Yield | 2.27% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 523,267.65 | 523,267.65 | | |
| Cash Dividends and Income | 1,041.82 | 2,216.46 | | |

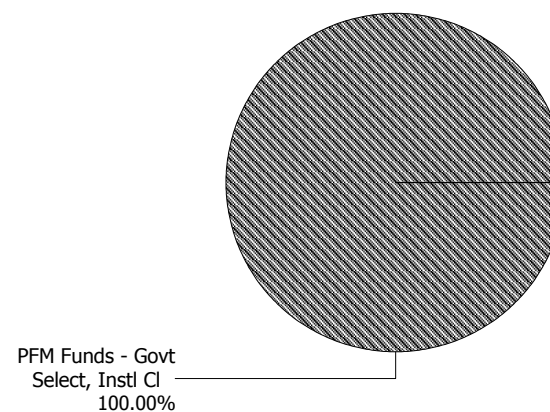
Account Statement - Transaction Summary

For the Month Ending **February 28, 2019**

State Bar of Texas - Annual Meeting Funds - 995463

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|---------------------|
| Opening Market Value | 345,943.65 |
| Purchases | 601.40 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$346,545.05 |
| Cash Dividends and Income | 601.40 |

| Asset Summary | | |
|--|---------------------|---------------------|
| | February 28, 2019 | January 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 346,545.05 | 345,943.65 |
| Total | \$346,545.05 | \$345,943.65 |
| Asset Allocation | | |



Account Statement

For the Month Ending **February 28, 2019**

State Bar of Texas - Annual Meeting Funds - 995463

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 345,943.65 |
| 02/28/19 | 03/01/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 601.40 | 346,545.05 |
| Closing Balance | | | | | 346,545.05 |

| | Month of February | Fiscal YTD January-February | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|------------|
| Opening Balance | 345,943.65 | 345,280.00 | Closing Balance | 346,545.05 |
| Purchases | 601.40 | 1,265.05 | Average Monthly Balance | 345,965.13 |
| Redemptions (Excl. Checks) | 0.00 | 0.00 | Monthly Distribution Yield | 2.27% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 346,545.05 | 346,545.05 | | |
| Cash Dividends and Income | 601.40 | 1,265.05 | | |

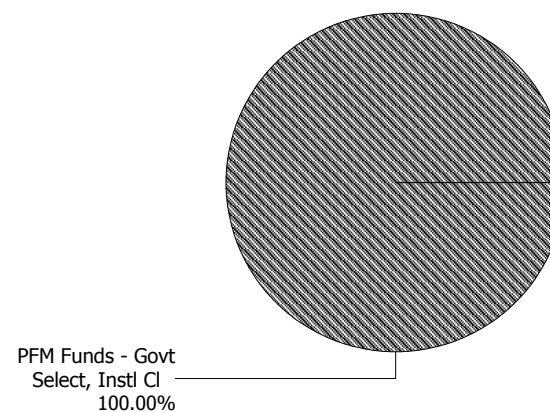
Account Statement - Transaction Summary

For the Month Ending **February 28, 2019**

State Bar of Texas - Texas Bar College Special Revenue Funds - 995464

| PFM Funds - Govt Select, Instl CI | |
|-----------------------------------|---------------------|
| Opening Market Value | 193,383.72 |
| Purchases | 336.19 |
| Redemptions | 0.00 |
| Unsettled Trades | 0.00 |
| Change in Value | 0.00 |
| Closing Market Value | \$193,719.91 |
| Cash Dividends and Income | 336.19 |

| Asset Summary | | |
|--|---------------------|---------------------|
| | February 28, 2019 | January 31, 2019 |
| PFM Funds - Govt Select, Instl CI | 193,719.91 | 193,383.72 |
| Total | \$193,719.91 | \$193,383.72 |
| Asset Allocation | | |



Account Statement

For the Month Ending **February 28, 2019**

State Bar of Texas - Texas Bar College Special Revenue Funds - 995464

| Trade Date | Settlement Date | Transaction Description | Share or Unit Price | Dollar Amount of Transaction | Total Shares Owned |
|--|-----------------|---|---------------------|------------------------------|--------------------|
| PFM Funds - Govt Select, Instl Cl | | | | | |
| Opening Balance | | | | | 193,383.72 |
| 02/28/19 | 03/01/19 | Accrual Income Div Reinvestment - Distributions | 1.00 | 336.19 | 193,719.91 |
| Closing Balance | | | | | 193,719.91 |

| | Month of February | Fiscal YTD January-February | | |
|-----------------------------------|-------------------|-----------------------------|-----------------------------------|------------|
| Opening Balance | 193,383.72 | 193,012.74 | Closing Balance | 193,719.91 |
| Purchases | 336.19 | 707.17 | Average Monthly Balance | 193,395.73 |
| Redemptions (Excl. Checks) | 0.00 | 0.00 | Monthly Distribution Yield | 2.27% |
| Check Disbursements | 0.00 | 0.00 | | |
| Closing Balance | 193,719.91 | 193,719.91 | | |
| Cash Dividends and Income | 336.19 | 707.17 | | |

Quarterly Investment Report Certification

This report fairly represents the investment standing of the State Bar of Texas as of February 28, 2019 and the investment activity for the period December 1, 2018 through February 28, 2019.

We believe the data presented for the quarter ending February 28, 2019 is accurate in all material respects, and is presented in a manner that fairly sets forth the investment standing of the State Bar of Texas. We further believe that all data necessary to represent the activity for the quarter is included in this text.

This report was prepared in compliance with the State of Texas "Public Funds Investment Act" and the State Bar of Texas' "Investment Policy".

Public Funds Investment Act Training Report: All State Bar board members and officers have received training as required by the Texas Government Code Section 2256.007 as of the date of this investment report. All new board members have received training within 6 months of taking office. The investment officer received training from a board approved training provider within the fiscal biennium.



Trey Appfel
Executive Director
State Bar of Texas



Tracy Jarratt, CPA
Finance Division Director
State Bar of Texas



Barry Baughier
Sr. Managing Consultant
PFM Asset Management LLC

Dated: 4/5/2019

SBOT 19-001 PFIA Compliance Report Final



State Bar of Texas

Internal Audit Services

An Internal Audit of:

Public Funds Investment Act Compliance Audit

Report #19-001

December 18, 2018

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Table of Contents

| Section | Page Number |
|------------------------------------|-------------|
| 1.0 Introduction..... | 2 |
| 2.0 Compliance Audit Details | 4 |



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 18, 2018

Mr. Jarrod Foerster
State Bar of Texas
Audit & Finance Committee
1414 Colorado Street
Austin, TX 78701

Dear Audit & Finance Committee Chair:

Attached is Internal Audit Report #19-001 Public Funds Investment Act Compliance Audit. This audit was performed as part of the approved Annual Internal Audit Plan.

We assessed the State Bar of Texas' (SBOT) compliance with Texas Government Code Chapter 2256 Public Funds Investment and determined that the agency was compliant with all requirements except obtaining evidence of required investment officer training for two individuals. Additionally, management's internal controls for investment processes and reporting are effective and working as designed.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358

WWW.MCCONNELLJONES.COM

1.0 INTRODUCTION

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT), performed an internal audit of SBOT's compliance with Texas Government Code Chapter 2256 Public Funds Investment, commonly referred to as the Public Funds Investment Act (PFIA).

Government Code Chapter 2256 Section 2256.005 Investment Policies, Investment Strategies; Investment Officer subsection (n) requires that at least once every two years a state agency arranges for a compliance audit of management controls on investments and adherence to the agency's established investment policies to be performed by their internal auditor or a private auditor. The resulting audit reports must be reported to the state auditor no later than January 1st of each even numbered year.

SBOT's investment policy requires an annual audit of the investment funds' records.

SBOT does invest public funds and therefore is required to comply with Texas Government Code Chapter 2256 Public Funds Investment. These funds are invested through SBOT's investment manager (PFM Asset Management LLC). SBOT's investment manager was selected through a formal bid process.

We performed this audit as part of the approved Annual Internal Audit Plan. This audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

SBOT's Investment Standard

The State Bar shall invest its funds in a manner in which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but to, in order of priority, preserve and safeguard the principal amount invested, provide liquidity to meet operating cash flow needs, and earn the highest yield possible considering the required safeguards.

SBOT's Investment Principals

- ✓ Safety of Principal
- ✓ Diversification
- ✓ Yield

May 31, 2018 Investment Account Balances

The Texas State Bar has a total of \$34.5 million in the following investment funds:

- ✓ General Fund \$25,122,664
- ✓ Texas Law Center - \$3,649,307
- ✓ Client Security Fund - \$2,963,469
- ✓ Texas Board of Legal Specialization - \$1,804,186
- ✓ Annual Meetings Fund - \$451,121
- ✓ Texas Bar College - \$302,455
- ✓ Hatton Sumners Grant - \$255,611

We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objectives and scope, our assessment based on our audit objectives and the audit approach.

Objectives and Scope

The purpose of this audit is to assess SBOT's compliance with the PFIA's specific requirements. In doing so, we also evaluated management controls in place to ensure that the agency's funds are invested according to SBOT's investment policy and that the investment reports are accurately compiled and distributed in a timely manner.

Texas Government Code Chapter 2256 Public Funds Investment sections applicable to SBOT are:

- ✓ Section 2256.005 Investment Policies, Investment Strategies; Investment Officer
- ✓ Section 2256.007 Investment Training; State Agency Board Members and Officers
- ✓ Section 2256.023 Internal Management Reports

The State Bar of Texas' applicable investment policy requirements are based upon its investment standard to preserve and safeguard the principal amount invested, provide liquidity to meet operating cash flow needs, and earn the highest yield possible considering the required safeguards. SBOT's investment policy is imbedded in the State Bar of Texas Board of Directors Policy Manual

(September 2018). The investment policy contains the following components:

- ✓ Approved investment vehicles
- ✓ Investment concentrations
- ✓ Maturity periods
- ✓ Investment rating
- ✓ Reporting
- ✓ Training
- ✓ Investment principals
- ✓ Investment settlement
- ✓ Compliance with the Public Funds Investment Act
- ✓ Annual audit

The scope period was June 1, 2017 through May 31, 2018.

Results and Conclusion

We determined that SBOT's internal controls over investments are effective and operating as intended.

The State Bar of Texas is in compliance with two out of three of the applicable requirements of Texas Government Code Chapter 2256 Public Funds Investment. SBOT was unable to provide documentation demonstrating that two of the required individuals had completed their investment training within the required timeframe. It is important to note that this non-compliance does not impact SBOT's internal controls over investment activities.

SBOT is in compliance with the State Bar of Texas Board of Directors Policy Manual Investment Policy Section 3.05.06. Additionally, management's internal controls for investment activities and reporting are effective and working as designed.

We noted that the investment reports provided by the SBOT's Investment Manager are comprehensive and provide summary

level investment balances and transactions in addition to a significant amount of detailed analysis. The investment reports provided to the SBOT Audit & Finance Committee continue to be some of the most comprehensive investment reports we see provided to boards.

Figure 1 describes the internal control rating.

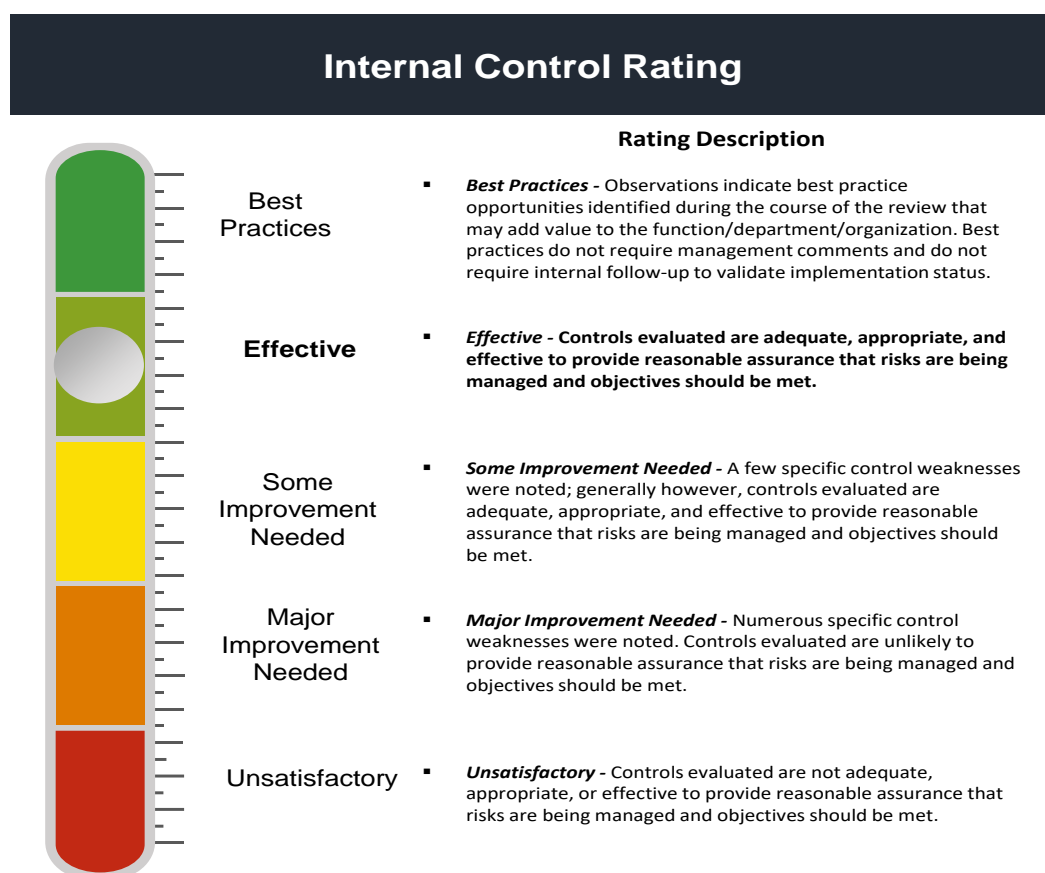


Figure 1 Internal control rating description.

2.0 COMPLIANCE AUDIT DETAILS

The State Bar of Texas maintains investments for seven funds. These funds are:

- ✓ General Fund
- ✓ Client Service Fund (CSF)
- ✓ Texas Board of Legal Specialization (TBLS)
- ✓ Texas Bar College (TBC), which includes an Endowment Fund
- ✓ Hatton Sumners Grants (HSG)

✓ Texas Law Center (TLC)

✓ Annual Meetings Fund (AM)










A. Investment Policy

The PFIA requires state organizations that invest public funds to have a written investment policy that is reviewed at least once per year by the governing body. Section 2256.005 Investment Policies, Investment Strategies; Investment Officer lists specific topics that must be included in the agency's investment policy.

Audit procedures applied to determine compliance with these requirements included:

- ✓ Reviewed SBOT's investment policy and compared it to requirements listed in Section 2256.005.

Figure IP1 compares Section 2256.005 requirements to SBOT's investment policy.

| Texas Government Code Sec. 2256.005 Section | PFIA Investment Policy Requirements | SBOT Investment Policy Meets Requirement |
|---|--|---|
| (b)(1) | The investment policies must be written. |  |
| (b)(2) | Primarily emphasize safety of principal and liquidity. |  |
| (b)(3) | Address investment diversification, yield, and maturity and the quality and capability of investment management. |  |
| (b)(4)(A) | Include a list of the types of authorized investments in which the investing entity's funds may be invested. |  |
| (b)(4)(B) | Include the maximum allowable stated maturity of any individual investment owned by the entity. |  |
| (b)(4)(C) | Include for pooled fund groups, the maximum dollar weighted average maturity allowed based on the stated maturity date for the portfolio. | N/A SBOT does not invest in pooled fund groups. |
| (b)(4)(D) | Include methods to monitor the market price of investments acquired with public funds. |  |
| (b)(4)(E) | Include a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. |  |
| (b)(4)(F) | Include procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021 . |  |
| (d) | As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance: (1) understanding of the suitability of the investment to the financial requirements of the entity; |  |




| Texas Government Code Sec. 2256.005 Section | PFIA Investment Policy Requirements | SBOT Investment Policy Meets Requirement |
|---|---|---|
| | (2) preservation and safety of principal; (3) liquidity; (4) marketability of the investment if the need arises to liquidate the investment before maturity; (5) diversification of the investment portfolio; and (6) yield. | |
| (e) | The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. |  |
| (e) | The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies. |  |
| (f) | Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. |  |

Figure IP1 Section 2256.005 requirements and SBOT's compliance.

Legend:



Internal controls are effective and SBOT is in compliance with requirement; no observations noted.



Internal controls are not in compliance with requirements; observation noted and discussed in this report.

Conclusion

SBOT is in compliance with Section 2256.005 Investment Policies, Investment Strategies; Investment Officer. Our audit procedures resulted in no exceptions noted.

Management's Response

Management response is not required as no observations were noted for this compliance requirement.

Recommendation

No recommendations are made for this compliance requirement.

B. Investment Officer, State Agency Board Member and Officer Training

The PFIA section 2256.007 lists specific training requirements for the agency

investment officers, board members and officers.

Audit procedures applied to determine compliance with these requirements included:

- ✓ Reviewed SBOT's investment training records to determine compliance with the requirements of section 2256.007.
- ✓ Reviewed quarterly investment reports and reports on Subchapter A, Chapter

2256, provided to SBOT's governing body.

Figure IT1 compares section 2256.007 training requirements to SBOT's records of investment officer training taken.





| Texas Government Code Sec. 2256.007 Section | INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. | SBOT Investment Officer and Officers Training Meet Requirements |
|---|---|---|
| (a) | Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties. |  |
| (b) | The Texas Higher Education Coordinating Board shall provide the training under this section. | N/A |
| (c) | Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter. |  |
| (d) | An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. |  |
| (d) | The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature. |  |

Figure IT1 Texas Government Code training requirements compared to SBOT's training taken.

Legend:



Internal controls are effective and SBOT is in compliance with requirement; no observations noted.



Internal controls are not in compliance with requirements; observation noted and discussed in this report.

Conclusion

SBOT was in compliance with PFIA section 2256.007 training with the exception of section 2256.007 (a). SBOT did not have training completion certificates on file for two individuals to demonstrate that training had been taken.

SBOT's investment officer has completed all training required to perform the role of an investment officer.

Recommendation

SBOT's Finance Division Director should continue tracking required board member training and ensure that all completion

certificates are provided to SBOT for retention in the appropriate files. Additionally, the Finance Division Director should report instances of non-compliance to the SBOT's Audit & Finance Committee.

Managements Response

Management agrees with this recommendation and has implemented a tracking sheet to ensure that all completion

certificates are provided to SBOT. This tracking sheet has been in place for the past 3 years; however, findings related to 2 board members who attended New Director's Orientation from fiscal year 15-16 and were serving as board members during the FY 17-18 fiscal year.

Those officers received the training, but the certification of training was not retained, and had to be requested of the officers at the time of audit.

C. Management Reports



The PFIA requires state agencies that invest public funds provide investment management reports to its governing body. Section 2256.023 Internal Management Reports lists specific information that must be included in the investment management reports.

SBOT's Finance Division Director works with SBOT's investment manager, PFM Asset Management LLC, to prepare detailed investment reports. The investment reports are signed/certified by the SBOT Executive Director, Finance Division Director and PFM. The investment reports are provided to the SBOT Audit & Finance Committee each quarter.

Audit procedures applied to determine compliance with Section 2256.023 requirements included:

- ✓ Reviewed quarterly investment reports for completion and content compliance with Section 2256.023.
- ✓ Compared quarterly investment reports to SBOT Balance Sheets and trail balance report to determine completeness and accuracy.

Figure MR1 compares the Section 2256.023 investment management report requirements to SBOT's investment reports.

| Texas Government Code Sec. 2256.023 Section | Internal Management Reports | SBOT Investment Management Reports Meet Requirements |
|---|---|---|
| (a) | Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period. |  |
| (b)(1)(2)(3) | The report must: (1) describe in detail the investment position of the entity on the date of the report; (2) be prepared jointly by all investment officers of the entity; (3) be signed by each investment officer of the entity; |  |








| Texas Government Code Sec. 2256.023 Section | Internal Management Reports | SBOT Investment Management Reports Meet Requirements |
|---|--|---|
| (b)(4) | contain a summary statement of each pooled fund group that states the: (A) beginning market value for the reporting period; (B) ending market value for the period; and (C) fully accrued interest for the reporting period; |  |
| (b)(5) | state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested; |  |
| (b)(6) | state the maturity date of each separately invested asset that has a maturity date; |  |
| (b)(7) | state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; |  |
| (b)(8) | state the compliance of the investment portfolio of the state agency or local government as it relates to: (A) the investment strategy expressed in the agency's or local government's investment policy; and (B) relevant provisions of this chapter. |  |
| (c) | The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period. |  |
| (d) | If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor. |  |

Figure MR1 Texas Government Code reporting requirements compared to SBOT's management reports.

Legend:



Internal controls are effective and SBOT is in compliance with requirement; no observations noted.



Internal controls are not in compliance with requirements; observation noted and discussed in this report.

Conclusion

SBOT's investment reports are in compliance with Section 2256.023. Additionally, the monthly investment reports were complete and accurate.

Recommendation

No recommendations are made for this compliance requirement.

Management's Response

Management response is not required as no observations were noted for this compliance requirement.

SBOT 19-003 Financial Controls Final



State Bar of Texas Internal Audit Services

An Internal Audit of:
Compliance with Statute and Policies
Report #19-002
February 14, 2019

This report provides management with information about the internal controls at a specific point in time. Future changes in and actions by personnel will impact these risks and internal this report cannot anticipate.

MJ

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



February 14, 2019

Mr. Jarrod Foerster
State Bar of Texas Audit & Finance Committee
1414 Colorado Street
Austin, TX 78701

Dear Mr. Foerster and Audit & Finance Committee Members:

Attached is internal audit report #19-002 State Bar Policy Compliance Audit. This audit was performed as part of the approved FY 2018 Annual Internal Audit Plan. We assessed the State Bar of Texas' (SBOT) compliance with Texas Government Code Chapter 81 State Bar, State Bar of Texas Rules and State Bar of Texas Board of Directors Policy Manual. The scope of our audit focused on SBOT's adherence to the procedures set forth in the State Bar Act, the State Bar Rules and the State Bar Board Policy Manual, and that controls over financial processes in the areas audited are designed properly and operating effectively.

Our audit scope was focused on the following areas:

- ✓ Finance
 - SBOT bank accounts
 - Section financial reports
- ✓ Chief Disciplinary Counsel
 - Disciplinary review process
 - Complaint file management
 - Client Security Funds
- ✓ Minimum for Continuing Legal Education (MCLE)
 - Sponsor accreditation fees
 - Non-compliance penalties
- ✓ Human Resources
 - New hire process
 - Separation process
 - Employee time reporting

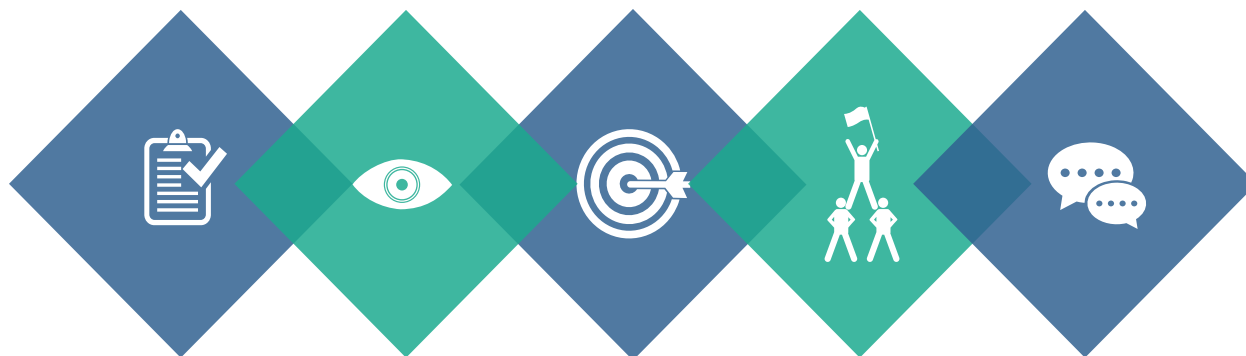
We determined that SBOT is compliant with all of the 41 requirements assessed. Additionally, management's internal controls for the reviewed processes are generally effective and working as designed. We discussed reportable opportunities to enhance internal controls and improve process efficiencies with management.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA
Partner

AUDIT AT A GLANCE



| Purpose | Scope | Focus | Internal Control Rating | Recommendations |
|--|---|---|---|--|
| <ul style="list-style-type: none"> To assess SBOT's compliance with specific sections of the Texas Government Code Chapter 81 State Bar, State Bar Rules and the State Bar of Texas Board of Directors Policy Manual. | <ul style="list-style-type: none"> June 1, 2017 – May 31, 2018 | <ul style="list-style-type: none"> Disciplinary Review Process Client Security Funds Complaint file management MCLE Sponsor Accreditation fees MCLE Non-compliance penalty assessments SBOT Bank Accounts Section financials Employee time reporting, new hire and separation processes | <ul style="list-style-type: none"> Effective | <ul style="list-style-type: none"> Create an agency wide internal operating memo/procedure template that can be utilized by all departments to establish consistency with procedures. |

Number of Finds by Risk Rating

| High | Medium | Low | Total |
|------|--------|-----|-------|
| 0 | 0 | 1 | 1 |

ACKNOWLEDGEMENT



We wish to thank all staff involved in the audit for their time and efforts. Without their assistance, we would not have been able to complete this audit.

REPORT FORMAT

This report contains the introduction section which provides a summary of the audit objectives and observations. This is followed by a detailed assessment section that provides a brief discussion of the audit procedures applied and a discussion of the compliance requirements in a table format along with our assessment of SBOT's compliance with the specific requirement.

INTRODUCTION



McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT), performed an internal audit of SBOT's compliance with Texas Government Code Chapter 81 State Bar, the State Bar Rules and the State Bar of Texas Board of Directors Policy Manual.

We performed this audit as part of the approved FY 2018 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE



The purpose of this audit was to assess SBOT's compliance with specific sections of the Texas Government Code Chapter 81 State Bar, State Bar Rules and the State Bar of Texas Board of Directors Policy Manual. In doing so, we also evaluated management controls in place to ensure that the organization's business risks are mitigated where possible and that resources are used efficiently.

This audit focused on specific sections of the Texas Government Code Chapter 81 State Bar, State Bar Rules and the State Bar of Texas Board of Directors Policy Manual related to the following functions and processes:

- ✓ Disciplinary review process
- ✓ Client Security Funds
- ✓ Complaint file management
- ✓ MCLE sponsor accreditation fees
- ✓ MCLE non-compliance penalty assessments
- ✓ SBOT bank accounts
- ✓ Section financial reporting
- ✓ Employee time reporting, new hire and separation processes

SCOPE



The audit period was June 1, 2017 through May 31, 2018. Some test procedures were performed as of the fieldwork date. This work product was at a point in time evaluation that cannot address the inherent dynamic nature of subsequent changes to the process and procedures reviewed.

CONCLUSION AND INTERNAL CONTROL RATING



*This audit identified findings that resulted in an overall internal control rating of **effective**. **Figure 2** describes the internal control rating.*

We determined that the State Bar of Texas is compliant with all of the 41 requirements assessed. Additionally, management's internal controls for reviewed processes are generally effective and working as designed.

We discussed reportable opportunities to enhance internal controls and improve process efficiencies with management. Those observations are:

- ✓ JPMorgan Chase Exhibit A signer for Executive Director had not been updated; and
- ✓ Agency-wide standardized template for memos/procedures do not exist.

During the audit there were other non-reportable matters discussed with management.

Figure 1 provides a summary of compliance requirements reviewed by SBOT function.

| Function | Gov't Code | SBOT Rules | SBOT Policy* | Total |
|--|------------|------------|--------------|-----------|
| Disciplinary Review & Complaint File Management | 14 | 8 | 4 | 26 |
| Client Security Funds | 0 | 0 | 3 | 3 |
| SBOT Bank Accounts & Section Financials | 0 | 0 | 3 | 3 |
| MCLE Sponsor Accreditation Fees & Non-Compliance Penalty | 0 | 7 | 0 | 7 |
| Human Resource Processes | 0 | 0 | 2 | 2 |
| Total | 14 | 15 | 12 | 41 |

Figure 1: Government Code, SBOT Rules and SBOT Policy Requirements Assessed

**Policy may be internal department policy and/or SBOT Board of Directors policy*

INTERNAL CONTROL RATING

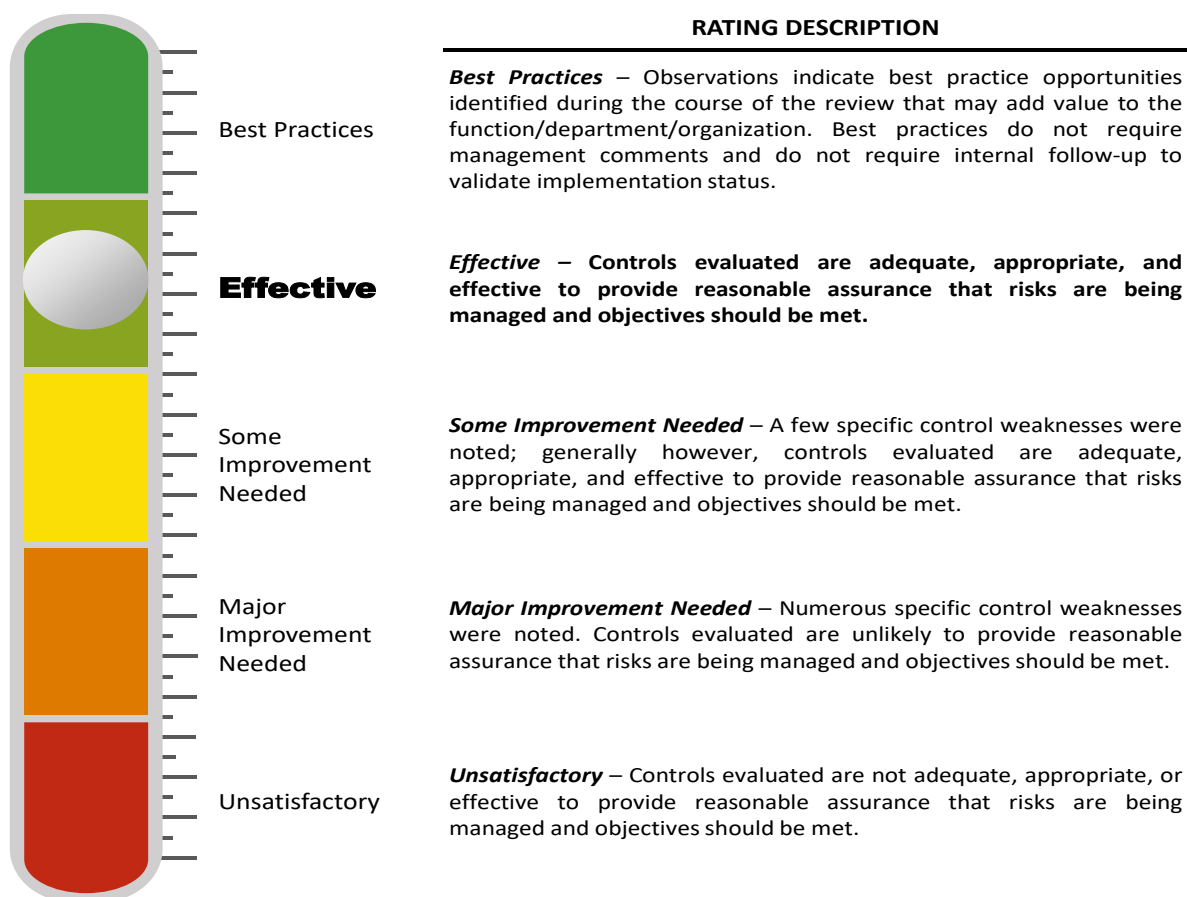


Figure 2 Internal control rating description

DETAILED OPPORTUNITIES AND RECOMMENDATIONS



This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.

1. Disciplinary Review Process and Complaint File Management

The Texas Government Code Chapter 81 State Bar (State Bar Act), the Texas Rules of Disciplinary Procedure and the State Bar of Texas Board of Directors Policy Manual describes disciplinary review requirements for the agency to follow.

14 State Bar Act requirements

8

Texas Rules of Disciplinary Procedure requirements

0 State Bar Rules requirements (Not Applicable)

4


State Bar of Texas Board of Directors Policy Manual requirements






Audit procedures applied to determine compliance with these requirements included:



- ✓ Conducted interviews and walkthroughs
- ✓ Reviewed written procedures
- ✓ Reviewed process flowcharts
- ✓ Reviewed database entries





Figure 3 compares Texas Government Code Chapter 81 State Bar Requirements; **Figure 3A** compares the Texas Rules of Disciplinary Procedure requirements; and **Figure 3B** compares the State Bar of Texas Board of Directors Policy Manual requirements to SBOT's processes and controls.

| Section | Texas Government Code Chapter 81 State Bar Requirement | SBOT Process(es) Meets Requirement |
|---|---|------------------------------------|
| 81.036 Information on Certain Complaints | <p>(a) The state bar shall maintain a file on each written complaint, other than a grievance against an attorney, filed with the state bar. The file must include:</p> <ol style="list-style-type: none"> (1) The name of the person who filed the complaint; (2) The date the complaint is received by the state bar; (3) The subject matter of the complaint; (4) The name of each person contacted in relation to the complaint; (5) A summary of the results of the review or investigation of the complaint; and (6) An explanation of the reason the file was closed, if the state bar closed the file without taking action other than to investigate the complaint. <p>(b) The state bar shall provide to the person filing the complaint and to each person who is a subject of the complaint a copy</p> | |

| Section | Texas Government Code Chapter 81 State Bar Requirement | SBOT Process(es) Meets Requirement |
|---|---|---|
| | <p>of the state bar's policies and procedures relating to complaint investigation and resolution.</p> <p>(c) The state bar, at least quarterly until final disposition of the complaint, shall notify the person filing the complaint and each person who is a subject of the complaint of the status of the investigation unless the notice would jeopardize an undercover investigation.</p> | |
| 81.072 General Disciplinary and Disability Procedures | <p>(a) In furtherance of the Supreme Court's powers to supervise the conduct of attorneys, the court shall establish powers to supervise the conduct of attorneys, the court shall establish disciplinary and disability procedures in addition to the procedures provided by this subchapter.</p> <p>(b) The Supreme Court shall establish minimum standards and procedures for the attorney disciplinary and disability system. The standards and procedures for processing grievances against attorneys must provide for:</p> <ol style="list-style-type: none"> (1) The name of the person who filed the complaint; (2) A full explanation to each complainant on dismissal of an inquiry or a complaint; (3) Periodic preparation of abstracts of inquiries and complaints filed that, even if true, do or do not constitute misconduct; (4) An information file for each grievance filed; (5) A grievance tracking system to monitor processing of grievances by category, method of resolution, and length of time required for resolution; (6) Notice by the state bar to the parties of a written grievance filed with the state bar that the state bar has the authority to resolve of the status of the grievance, at least quarterly and until final disposition, unless the notice would jeopardize an undercover investigation; (7) An option for a trial in a district court on a complaint and an administrative system for attorney disciplinary and disability findings in lieu of trials in district court, including an appeal procedure to the Board of Disciplinary Appeals and the supreme court under the substantial evidence rule; (8) An administrative system for reciprocal and compulsory discipline; (9) Interim suspension of an attorney posing a threat of immediate irreparable harm to a client; (10) Authorizing all parties to an attorney disciplinary hearing, including the complainant, to be present at all hearings at which testimony is taken and requiring notice of those hearings to be given to the complainant not later than the seventh day before the date of the hearing; (11) The commission adopting rules that govern the use of private reprimands by grievance committees and that prohibit a committee: |  |

| Section | Texas Government Code Chapter 81 State Bar Requirement | SBOT Process(es) Meets Requirement |
|---|---|---|
| | <p>(A) Giving an attorney more than one private reprimand within a five-year period for a violation of the same disciplinary rule; or</p> <p>(B) Giving a private reprimand for a violation:</p> <p>(i) That involves a failure to return an unearned fee, a theft, or a misapplication of fiduciary property; or</p> <p>(ii) Of a disciplinary rule that requires a prosecutor to disclose to the defense all evidence or information known to the prosecutor that tends to negate the guilt of the accused or mitigates the offense, including Rule 3.09(d), Texas Disciplinary Rules of Professional Conduct; and</p> <p>(12) Distribution of a voluntary survey to all complainants urging views on grievance system experiences.</p> | |
| 81.072 General Disciplinary and Disability Procedures | (d) Each attorney is subject to the Texas Rules of Disciplinary Procedure and the Texas Disciplinary Rules of Professional Conduct. |  |
| 81.072 General Disciplinary and Disability Procedures | <p>(f) Responses to the survey provided for in Subsection (b) (12) may not identify either the complaint or attorney and shall be open to the public. The topics must include:</p> <p>(1) treatment by the grievance system staff and volunteers;</p> <p>(2) the fairness of grievance procedures;</p> <p>(3) the length of time for grievance processing;</p> <p>(4) disposition of the grievance; and</p> <p>(5) suggestions for improvement of the grievance system.</p> |  |
| 81.072 General Disciplinary and Disability Procedures | <p>(i) A panel of a district grievance committee of the state bar the votes on a grievance matter shall disclose to the complainant and the respondent in the matter the number of members of the panel:</p> <p>(1) voting for a finding of just cause;</p> <p>(2) voting against a finding of just cause; and</p> <p>(3) abstaining from voting on the matter.</p> |  |
| 81.072 General Disciplinary and Disability Procedures | (j) A quorum of a panel of a district grievance committee of the state bar must include one public member for each two attorney members. |  |
| 81.073 Classification of Grievances | <p>(a) The chief disciplinary counsel's office shall classify each grievance on receipt as:</p> <p>(1) a complaint, if the grievance alleges conduct that, if true, constitutes professional misconduct or disability cognizable under the Texas Disciplinary Rules of Professional Conduct; or</p> |  |

| Section | Texas Government Code Chapter 81 State Bar Requirement | SBOT Process(es) Meets Requirement |
|--|--|---|
| | <p>(2) an inquiry, if:</p> <p>(A) the grievance alleges conduct that, even if true, does Not constitute professional misconduct or disability cognizable under the Texas Disciplinary Rules of Professional Conduct; or</p> <p>(B) the respondent attorney is deceased, has relinquished the attorney's license to practice law in the state to avoid disciplinary action, or is not licensed to practice law in the state</p> <p>(b) A complainant may appeal the classification of a grievance as an inquiry to the Board of Disciplinary Appeals, or the complainant may amend and resubmit the grievance. An attorney against whom a grievance is filed may not appeal the classification of the grievance.</p> | |
| 81.074 Disposition of Inquiries | <p>The chief disciplinary counsel shall:</p> <p>(1) dismiss a grievance classified as an inquiry; and</p> <p>(2) refer each inquiry classified under Section 81.073(a)(2)(A) and dismissed under this section to the voluntary mediation and dispute resolution procedure established under Section 81.072(e).</p> |  |
| 81.075 Disposition of Complaints | <p>(a) The chief disciplinary counsel shall review and investigate each grievance classified as a complaint to determine whether there is just cause, as defined by the Texas Rules of Disciplinary Procedure.</p> <p>(b) After the chief disciplinary counsel reviews and investigates a complaint:</p> <p>(1) if the counsel finds there is no just cause, the counsel shall place the complaint on a dismissal docket; or</p> <p>(2) if the counsel finds just cause:</p> <p>(A) the respondent attorney may request a trial in a district court on the complaint in accordance with the procedures adopted by the supreme court; or</p> <p>(B) the counsel shall place the complaint on a hearing docket if the respondent attorney does not request a trial in a district court.</p> <p>(c) A panel of a district grievance committee shall consider each complaint placed on the dismissal docket at a closed hearing without the complainant or the respondent attorney present. The panel may:</p> <p>(1) Approve the dismissal of the complaint and refer the complaint to the voluntary mediation and dispute resolution procedure established under Section 81.072 (e); or</p> <p>(2) Deny the dismissal of the complaint and place the complaint on a hearing docket.</p> <p>(d) A panel of a district grievance committee shall conduct a hearing on each complaint placed on the hearing docket. The commission and the respondent attorney are parties to the hearing, and the chief disciplinary counsel presents the complainant's case at the hearing. Each party may seek and</p> |  |

| Section | Texas Government Code Chapter 81 State Bar Requirement | SBOT Process(es) Meets Requirement |
|--|---|---|
| | <p>the panel may issue a subpoena to compel attendance and production of records before the panel. Each party may conduct limited discovery in general accordance with the Texas Rules of Civil Procedure as prescribed by rules of the supreme court.</p> <p>(e) After conducting a hearing under Subsection (d), the panel of district grievance committee may:</p> <ol style="list-style-type: none"> (1) Dismiss the complaint and refer to the voluntary mediation and dispute resolution procedure established under Section 81.072 (e); (2) Find that the respondent attorney suffers from a disability and forward that finding to the Board of Disciplinary Appeals for referral to a district disability committee; or (3) Find that professional misconduct occurred and impose sanctions. | |
| 81.0751 Appeals | <p>(a) The commission or a respondent attorney may appeal:</p> <ol style="list-style-type: none"> (1) a finding of a panel of a district grievance committee under Section 81.075 (e) only to the Board of Disciplinary Appeals; (2) a finding of the Board of Disciplinary Appeals to the supreme court; and (3) a judgement of a district court as in civil cases generally. |  |
| 81.0752 Confidentiality | <p>(a) All types of information, proceedings, hearing transcripts, and statements presented to a panel of a district grievance committee are confidential and may not be disclosed to any person other than the chief disciplinary counsel unless:</p> <ol style="list-style-type: none"> (1) disclosure is ordered by a court; or (2) the panel finds that professional misconduct occurred and a sanction other than a private reprimand is imposed against the respondent attorney. |  |
| 81.076 Commission for Lawyer Discipline | <p>(a) The Commission for Lawyer Discipline shall review the structure, function, and effectiveness of the disciplinary and disability procedures implemented pursuant to this chapter and supreme court rules.</p> <p>(b) The commission is a standing committee of the state bar. The commission is composed of 12 persons. Six members must be attorneys, and six members must not be attorneys. The president of the state bar appoints the attorney members. The supreme court appoints the public members. The public members may not have, other than as consumers, an interest, direct or indirect, in the practice of law or the professional of law. The supreme court may remove any member for good cause.</p> <p>(c) Members serve staggered three-year terms with one-third of the members' terms expiring each year.</p> |  |
| 81.078 Disciplinary Proceedings | <p>(a) Except as provided by Subsection (b), until an attorney has been convicted of the charges for disbarment pending against the attorney may be suspended from the practice of law only if the attorney concurs in an order of suspension entered by the grievance committee.</p> |  |








| Section | Texas Government Code Chapter 81 State Bar Requirement | SBOT Process(es) Meets Requirement |
|--|--|---|
| 81.079 Public Notification and Information | <p>(a) To provide information to the public relating to the attorney grievance process, the state bar shall:</p> <ol style="list-style-type: none"> (1) develop a brochure written in Spanish and English describing the bar's grievance process; (2) establish a toll-free "800" telephone number for public access to the chief disciplinary counsel's office in Austin and list the number in telephone directories statewide; (3) describe the bar's grievance process in the bar's telephone directory listings statewide; and (4) make grievance forms written in Spanish and English available in each county courthouse. |  |

Figure 3 Texas Government Code Chapter 81 State Bar Requirements Table – Disciplinary Review Process and Complaint File Management

| Section | Texas Rules of Disciplinary Procedure | SBOT Process(es) Meets Requirement |
|-----------------------------------|--|---|
| 2.10 Classification of Grievances | The Chief Disciplinary Counsel shall within thirty days examine each Grievance received to determine whether it constitutes an Inquiry, a Complaint, or a Discretionary Referral. |  |
| 2.11 Venue | <p>Venue of District Grievance Committee proceedings shall be in accordance with the following:</p> <ol style="list-style-type: none"> A. Investigatory Panel Proceedings. Proceedings of an Investigatory Panel shall be conducted by a Panel for the county where the alleged Professional Misconduct occurred, in whole or in part. If the acts or omissions complained of occurred wholly outside the State of Texas, proceedings shall be conducted by a Panel for the county of Respondent's residence and, if Respondent has no residence in Texas, by a Panel for Travis County, Texas. B. Summary Disposition Panel Proceedings. Proceedings of a Summary Disposition Panel shall be conducted by a Panel for the county where alleged Professional Misconduct occurred, in whole or in part. If the acts or omissions complained of occurred wholly outside the State of Texas, proceedings shall be conducted by a Panel for the country of Respondent's residence and, if Respondent has no residence in Texas, by a Panel for Travis County, Texas. C. Evidentiary Panel Proceedings. Proceedings of an Evidentiary Panel shall be conducted by a Panel for the county where Respondent's principal place of practice is maintained; or if the Respondent maintains neither a residence nor a place of practice within the State of Texas, then in the county where the alleged Professional Misconduct occurred, in whole or in part. In all other instances, venue is in Travis County, Texas. |  |
| 2.12 Investigation and | <ol style="list-style-type: none"> A. The Chief Disciplinary Counsel will investigate a Complaint to determine whether Just Cause exists. |  |

| Section | Texas Rules of Disciplinary Procedure | SBOT Process(es) Meets Requirement |
|-----------------------------|---|---|
| Determination of Just Cause | <ol style="list-style-type: none"> 1. General Rule: The Chief Disciplinary Counsel must make a Just Cause determination within 60 days of the date that the Respondent's response to the Complaint is due. 2. Exceptions: The Just Cause determination date is extended to 60 days after the latest of: <ol style="list-style-type: none"> a. The date of compliance specified in any investigatory subpoena issued by the Chief Disciplinary Counsel; b. The date of any enforcement order issued by a district court under (E); or c. The date that an investigatory hearing is completed. | |
| 2.15 Election | <p>A Respondent given written notice of the allegations and rule violations complained of, in accordance with Rule 2.14, shall notify the Chief Disciplinary Counsel whether the Respondent seeks to have the Complaint heard in a district court of proper venue, with or without a jury, or by an Evidentiary Panel of the Committee. The election must be in writing and served upon the Chief Disciplinary Counsel no later than twenty days after the Respondent's receipt of written notification pursuant to Rule 2.14. If the Respondent timely elects to have the Complaint heard in a district court, the matter will proceed in accordance with Part III hereof. If the Respondent timely elects to have the Complaint heard by an Evidentiary Panel, the matter will proceed in accordance with Rules 2.17 and 2.18. A Respondent's failure to timely file an election shall conclusively be deemed as an affirmative election to proceed in accordance with Rules 2.17 and 2.18.</p> |  |
| 2.17 Evidentiary Hearings | <p>Within fifteen days of the earlier of the date of Chief Disciplinary Counsel's receipt of Respondent's election or the day following the expiration of Respondent's right to elect, the chair of a Committee having proper venue shall appoint an Evidentiary Panel to hear the Complaint. The Evidentiary Panel may not include any person who served on a Summary Disposition or an Investigatory Panel that heard the Complaint and must have at least three members but no more than one-half as many members as on the Committee. Each Evidentiary Panel must have a ratio of two attorney member for every public member.</p> |  |
| 2.20 Notice of Decision | <p>The Complainant, the Respondent, and the Commission must be notified in writing of the judgement of the Evidentiary Panel. The notice sent to the Respondent and the Commission must clearly state that any appeal of the judgement must be filed with the Board of Disciplinary Appeals within thirty days of the date of the notice. If the Evidentiary Panel finds that the Respondent committed professional misconduct, a copy of the Evidentiary Petition and the judgement shall be transmitted by the Office of the Chief Disciplinary Counsel to the Clerk of the Supreme Court. The Clerk of the Supreme Court shall make an appropriate notation on the Respondent's permanent record.</p> |  |






| Section | Texas Rules of Disciplinary Procedure | SBOT Process(es) Meets Requirement |
|--|---|--|
| 2.25 Disposition on Appeal | <p>The Board of Disciplinary Appeals may, in any appeal of the judgement of an Evidentiary Panel within its jurisdiction:</p> <ul style="list-style-type: none"> A. Affirm the decision of the Evidentiary Panel, in whole or in part; B. Modify the Evidentiary Panel's judgement and affirm it as modified; C. Reverse the decision of the Evidentiary Panel, in whole or in part, and render the judgement that the Evidentiary Panel should have rendered; D. Reverse the Evidentiary Panel's judgement and remand the Disciplinary Proceeding for further proceeding by either the Evidentiary Panel or a statewide grievance committee panel composed of members selected from state bar districts other than the district from which the appeal was taken. E. Vacate the Evidentiary Panel's judgement and dismiss the case; or F. Dismiss the appeal. |  |
| 2.26 Remand to Statewide Grievance Committee Panel | <p>In determining whether a remand is heard by a statewide grievance committee panel, the Board of Disciplinary Appeals must find that good cause was shown in the record on appeal. The Board of Disciplinary Appeals shall randomly select the members of the statewide grievance committee panel from grievance committees other than the district from which the appeal was taken. Six such members shall be selected, four of whom are attorneys and two of whom are public members. The statewide grievance committee panel, once selected, shall have all duties and responsibilities of the Evidentiary Panel for purposes of the remand.</p> |  |

Figure 3A Texas Rules of Disciplinary Procedure Requirements Table - Disciplinary Review Process and Complaint File Management

| Section | SBOT Policy Requirement | SBOT Process(es) Meets Requirement |
|--|---|---|
| 6.03.02 Administration of Disciplinary System | The Office of the Chief Disciplinary Counsel shall administer the attorney discipline and disability system in accordance with the Texas Rules of Disciplinary Procedure and as directed by the Commission. |  |
| 6.03.03 Filing of Complaints | Allegations of professional misconduct against any member of the State Bar shall be filed with the Office of the Chief Disciplinary Counsel. |  |
| 6.03.04 Ethics Opinions | The Chief Disciplinary Counsel shall maintain as a service to the members of the Bar, a toll-free Attorney Ethics Helpline, operated from 8:00 a.m. to 5:00 p.m., Monday through Friday. The Ethics Helpline is designated to assist members of the State Bar who have questions about their ethical obligations to clients, courts, and public under the Texas Disciplinary Rules of Professional Conduct. The advice shall be given orally to members of the State Bar, but such advice shall not be binding on grievance committees or the State Bar. No advice may be given to a member of the State Bar if the advice relates to a matter that is pending in the |  |


| Section | SBOT Policy Requirement | SBOT Process(es) Meets Requirement |
|---|---|---|
| | disciplinary system. No options on ethical or unauthorized practice of law matters shall be given to non-members of the State Bar of Texas. | |
| 6.03.05 Grievance Committee Training | The Office of Chief Disciplinary Counsel shall conduct annual training sessions for all grievance committee members. The training shall include, among other topics, structure of the attorney discipline system, grievance procedure, and committee organization, duties and authority with appropriate references to the Texas Disciplinary Rules of Professional Conduct and the Texas Rules of Disciplinary Procedure. In addition, members shall be provided with a procedural guide on conducting evidentiary hearings. |  |

Figure 3B State Bar of Texas Board of Directors Policy Manual Requirements Table - Disciplinary Review Process and Complaint File Management

Observations

Best Practice Implemented

SBOT has established best practices in the complaint file management processes. The Chief Disciplinary Counsel (CDC) oversees the requirements of the disciplinary review process and complaint file management. The CDC utilizes a well-known grievance system/database called JustWare to track and retain data related to each grievance submitted. The CDC's discipline process progresses through JustWare and is handled by CDC staff within designated timeframes. Each step of the process is tracked and claimants are notified of the outcome/status at various points throughout the process.

Correspondence is mailed directly to the complainant to notify them that the case has progressed, been dismissed or if additional documentation is required. During FY17-18, 7,452 complaints were received by the Chief Disciplinary Council:

- 4,971 (67 percent) were dismissed
- 1,348 (18 percent of the original complaints received) resulted in appeals
- 1,224 (91 percent) of the appeals were dismissed

Chief Disciplinary Council has documented processes for each step of its disciplinary review process. The procedures are detailed and provide employees the ability to perform processes by solely utilizing the written procedures. Also, process maps offer the ability to follow along and correlate the process to the procedure to be performed.

Observations

No reportable observations were noted for the disciplinary review process and complaint file management related compliance requirements reviewed.

Recommendation

No recommendations are made for the disciplinary review process and complaint file management related compliance requirements reviewed.

Managements Response

No management response is required.

2. Client Security Funds

The State Bar of Texas Board of Directors Policy Manual describes the Client Security Fund requirements. The State Bar Act and the State Bar Rules are silent on Client Security Fund administration requirements.

0 State Bar Act requirements (Not Applicable)



3 State Bar of Texas Board of Directors Policy Manual requirements

0 State Bar Rules requirements (Not Applicable)

Audit procedures applied to determine compliance with the State Bar of Texas Board of Directors Policy Manual requirements included:

- ✓ Conducted interviews and walkthroughs
- ✓ Reviewed client security fund subcommittee summaries and voting outcomes
- ✓ Reviewed client security fund Chief Disciplinary Council's approval for disbursements
- ✓ Reviewed client security fund reconciliations

Figure 4 compares State Bar of Texas Board of Directors Policy Manual requirements to SBOT's processes and controls.

| Section | SBOT Policy Requirement | SBOT Process(es) Meets Requirement |
|--|--|---|
| 3.08.02 (B) Administration of the Fund | The Client Security Fund shall be administered through the Office of the Chief Disciplinary Counsel and the Client Security Fund Subcommittee ("the Subcommittee"). The Client Security Fund Subcommittee operates as a standing subcommittee of the Discipline and Client Attorney Assistance Committee. |  |
| 3.08.02 (D) Funding of the Client Security Fund | (1) Corpus. The Client Security Fund corpus shall be maintained at an amount of not less than \$2,000,000. Any amount exceeding 2,000,000 in the corpus may be withdrawn to fund grants. (2) Investment Portfolio. The Executive Director shall establish a separate portfolio of investments to constitute the assets of the Client Security Fund. (3) Funding for Grants. Funding sources include: (a) An appropriation of not less than \$300,000 made annually from the State Bar's general fund; (b) Interest earned on the corpus during the fiscal year; (c) Restitution and/or reimbursements to the Fund during the fiscal year; |  |


| Section | SBOT Policy Requirement | SBOT Process(es) Meets Requirement |
|--|--|---|
| | (d) Any funds deposited into the corpus through funds collected from outside sources; and (e) Any funds deposited into the corpus from unused money available for grants. | |
| 3.08.02 Rule 13 Maximum Reimbursement Limits | Regardless of the amount of the loss proven in the application for grant, no application shall be approved for a grant in excess of \$40,000 for losses to any one applicant arising out of the dishonest conduct. Multiple applicants having losses arising out of the same transaction may be considered by the Subcommittee to constitute one loss subject to the \$30,000 cap on grants. |  |

Figure 4 State Bar of Texas Board of Directors Policy Manual Requirements Table – Client Security Funds

Observation

Best Practice Implementation

The Chief Disciplinary Council staff has established structured and well documented processes for staff to follow from application receipt to presentation to the Client Security Fund Subcommittee for review and their voting decision. While the SBOT Directors Policy Manual requires \$300,000 to be appropriated to the general fund annually, over \$900,000 was paid to Client Security Fund applicants during FY18. As of May 31, 2018 SBOT's investment account balance for Client Security Fund totaled \$2,963,469.

Observations

No reportable observations were noted for the disciplinary review process and complaint file management related compliance requirements reviewed.

Recommendation

No recommendations are made for the disciplinary review process and complaint file management related compliance requirements reviewed.

Managements Response

No management response is required.

3. Bank Accounts and Section Financials

The State Bar of Texas Board of Directors Policy Manual describes requirements related to activity bank accounts and section financials for the agency to follow. The State Bar Act and the State Bar Rules are silent on bank account activity and section financial reporting.

0 State Bar Act requirements



3 State Bar of Texas Board of Directors Policy Manual requirements

0 State Bar Rules requirements

Audit procedures applied to determine compliance with these requirements included:

- ✓ Conducted interviews and walkthroughs
- ✓ Reviewed Section's budget planning documents
- ✓ Reviewed bank account listings and authorized signatories
- ✓ Reviewed bank account reconciliations

Figure 5 compares the State Bar of Texas Board of Directors Policy Manual requirements to SBOT's processes and controls.

| Section | SBOT Policy Requirement | SBOT Process(es) Meets Requirement |
|---|--|---|
| 5.01.06 (B) Depositories and Investments | Section funds must be invested consistent with State Bar investment policy as set forth in Section 3.05 of this Policy Manual. Each section shall deposit its funds into either a branch of the State Bar banking depository, or an alternative banking depository meeting the requirements of the investment policy as set forth in Section 3.05 of this Policy Manual. |  |
| 5.01.06 (C) Books, Records and Reports | Each section shall maintain accurate financial books and records and have appropriate controls on the maintenance and disbursement of section funds, all in a fashion that permits the inclusion of the sections' financial information in the State Bar's financial statements and audit. Each section also shall provide to the State Bar such financial information as may be required for compliance with the requirements for the independent financial and/or internal audits of the State Bar as required by applicable law, rules and regulations. To this end, the Audit and Finance Committee of the Board, in consultation with the State Bar's external auditors and the Council of Chairs, shall adopt, subject to approval by the Board, procedures for sections to report financial information for inclusion in the State Bar's financial statements and audit. These procedures may include requirements for delivery to the State Bar accounting department, on a basis as often as monthly, of copies of depository and investment statements and transaction histories for disbursements and deposits. Each section also |  |


| Section | SBOT Policy Requirement | SBOT Process(es) Meets Requirement |
|---|--|---|
| | shall submit to the Executive Director by July 15 of each year a section budget for the current Fiscal Year. | |
| 5.01.06 (E) State Bar Assistance to Sections | For each section supplying the required monthly financial information of the section, the accounting department of the State Bar shall prepare and provide to the treasurer of the section, a monthly and year-to-date section financial report and a monthly cash and investment account reconciliation. Upon request, the accounting department of the State Bar shall be available to work with the bank and the treasurer of the section to facilitate the submission of the financial information to the State Bar. Additionally, any section may elect to have the State Bar manage section funds, including depositing dues, managing operating expenses, issuing checks, and preparing financial reports and budgets. The State Bar will provide assistance to sections under this Subsection 5.01.06 at no charge to sections, except that expenses incurred in providing financial information in a format other than an electric format prescribed by the accounting department of the State Bar shall be borne by the section. |  |

Figure 5 State Bar of Texas Board of Directors Policy Manual Requirements Table - Finance

Observation

No reportable observations were noted for the bank accounts and sections compliance requirements reviewed.

The SBOT maintains 41 different bank accounts (checking, savings and money market) for the different funds it manages. Additionally, SBOT's Finance Department provides financial reporting and bank account reconciliations for the Sections that have a total of 57 different bank accounts.

Figure 6 summarizes the bank accounts maintained or reconciled by the SBOT Finance Department.

We noted that although the former executive director had been removed from individual bank accounts as an authorized signatory, the JPMorgan Chase Exhibit A still listed this individual as a signer. The JP Morgan Chase Exhibit A is the bank's master authorized signatory document.

| Account Type | State Bar of Texas | Sections | Total |
|----------------------------|--------------------|-----------|-----------|
| Checking | 25 | 10 | 35 |
| Savings/High Yield Savings | 2 | 0 | 2 |
| Money Market | 13 | 38 | 51 |
| CD | 1 | 9 | 10 |
| Total Accounts | 41 | 57 | 98 |

Figure 6 Summary of Bank Accounts Maintained or Reconciled by the SBOT Finance Department

Recommendation

SBOT's Finance Director took measures to remove the former executive director as an authorized signatory from JP Morgan Chase's master signatory list when we brought this to her attention. Therefore, no recommendations are made for bank account and section financials compliance requirements reviewed.

Managements Response

No management response is required as the Finance Director took corrective action as soon as this was noted.

4. MCLE Sponsor Accreditation Fees and Non-Compliance Penalties

The State Bar Rules describe compliance requirements for MCLE sponsor accreditation fees and non-compliance penalties. The State Bar Act and the State Bar of Texas Board of Directors Policy Manual are silent on these topics.

0 State Bar Act requirements (Not Applicable)


0 State Bar of Texas Board of Directors Policy Manual requirements (Not Applicable)

7 State Bar Rules requirements

Audit procedures applied to determine compliance with these requirements included:

- ✓ Conducted interviews and walkthroughs
- ✓ Reviewed member MCLE profiles
- ✓ Reviewed MCLE sponsor packets

Figure 7 lists State Bar Rule requirements for MCLE sponsor accreditation fees and non-compliance penalties

| Section | State Bar of Texas Rules Requirement | SBOT Process(es) Meets Requirement |
|--|--|---|
| Article XII Section 8. Compliance A | Two months before the end of a member's MCLE compliance year, the Director must send the member and MCLE Annual Verification Report. Members must review the report for accuracy. If the report is accurate and shows that the member has completed all MCLE requirements for the MCLE compliance year or that the member is exempt from MCLE, then no additional action is required by the member. If the report is inaccurate, the member must correct his or her MCLE compliance record by following the instructions on the report. To avoid a fine or suspension, all CLE credit hours must be completed, and all corrections to a member's MCLE compliance record must be received by the Director, before the end of the member's MCLE compliance year. |  |

| Section | State Bar of Texas Rules Requirement | SBOT Process(es) Meets Requirement |
|---|--|---|
| Article XII Section 8. Compliance B | On or about the first day of the birth month, the Director shall make available to the member, a report of amendments that have been made to the MCLE record for the compliance year that ended immediately prior to said birth month. The Director shall also notify any member who has not completed MCLE requirements for the compliance year that ended immediately prior to said birth month. A member, who has grace period through the last day of the birth month to completing and reporting CLE credits by the last day of the birth month (grace period). |  |
| Article XII Section 8. Compliance C | On or about the 12 th day of the month immediately following a member's birth month, the Director will notify in writing a member who is in non-compliance for the MCLE compliance year just ended of the member's non-compliance status. |  |
| Article XII Section 8. Compliance D | On or about the first day of the third month immediately following a member's birth month, the Director will send a final notice to any member who has not cured the member's noncompliance status. |  |
| Article XII Section 8. Compliance E | If by the last business day of the fourth month following the birth month (or reporting month if the member has been granted an extension in accordance with this article for completion of CLE requirements the member has still not cured his or her noncompliance, the member shall be automatically suspended from the practice of law in Texas as directed by Order of the Supreme Court dated December 23, 2002. |  |
| Article XII Section 8. Compliance F | Upon the execution of suspension, the Director will send a written notice to each member who is suspended from practice by the order. |  |
| Article XII Section 10 | Any member whose license to practice law has been suspended under the terms of this Article who after the date of suspension files an activity report with the MCLE Director showing compliance and who has paid all applicable fees associated with non-compliance and suspension, shall be entitled to have such suspension promptly terminated and be returned to former status. Return to former status shall be retroactive to the inception of suspension, but shall not affect any proceeding for discipline to the member for professional misconduct. The MCLE Director shall promptly notify the Clerk that a member formerly suspended under this Article has now complied with this Article. |  |

Figure 7 State Bar Rule Requirements Table – MCLE Sponsor Fees and Non-Compliance Penalties

Observation

No reportable observations were noted for the MCLE sponsor accreditation fees and non-compliance penalties compliance requirements reviewed.

Recommendation

No recommendations are made for the MCLE sponsor accreditation fees and non-compliance penalties related compliance requirements reviewed.

Managements Response

No management response is required.

5. Human Resources Processes: Employee Time Reporting, New Hires and Separations



The State Bar Act, the State Bar Rules and the State Bar of Texas Board of Directors Policy Manual are silent on human resource requirements. Internal operating policies govern the human resource functions.

| | | | |
|---|---|---|---|
| 0 | State Bar Act requirement | 0 | State Bar of Texas Board of Directors Policy Manual requirements (Not Applicable) |
| 0 | State Bar Rules requirements (Not Applicable) | 2 | State Bar of Texas Internal Process Memos |

Audit procedures applied to determine compliance with these requirements included:

- ✓ Conducted interviews and walkthroughs
- ✓ Reviewed applicable memos/procedures
- ✓ Reviewed employee profiles and benefits elections
- ✓ Reviewed onboarding and separation documentation.

Figure 8 compares internal memos/procedures for human resources related activities.

| Section | State Bar of Texas Human Resources Memos | SBOT Process(es) Meets Requirement |
|----------------------|---|---|
| Human Resources | The Human Resources Department is responsible for the overall administration of the Human Resources Program, including staff recruitment; screening and hiring; compensation and benefits administration; personnel policy development and administration; performance evaluation administration; employee relations; management training; EEO compliance; and compliance with all federal, state and local laws and regulations. Human Resources is also responsible for maintaining employee personnel records and time files. The department recruits and hires the best-qualified applicants for positions within the State Bar of Texas. This process includes developing job vacancy notices and screening several thousand applications each year. |  |
| Recording Work Hours | The State Bar complies with all applicable laws that require records to be maintained of the hours worked by employees. All non-exempt employees are required to submit a time card each week through the State Bar's online time keeping system, Business Portal. Nonexempt employees are required to record all hours worked and any hours absent each week for payroll and attendance purposes. Exempt |  |

| Section | State Bar of Texas Human Resources Memos | SBOT Process(es) Meets Requirement |
|---------|--|------------------------------------|
| | employees, who are paid on a salary basis, are required to submit any paid leave taken to accurately track attendance and leave taken. | |

Figure 8 State Bar of Texas Requirements Table – Human Resources

Observations

No reportable observations were noted for the Human Resources processes reviewed.

Recommendation

No recommendations are made for the Human Resources processes related compliance requirements reviewed.

Managements Response

No management response is required.

6. General Observation: Standard SBOT Internal Operating Procedures Template

Observation (Low Risk)

SBOT does not have a standardized template for internal operating memos/procedures listing an effective date, approval and review. Internal Audit received Human Resources Memos (internal operating procedures) which contained an overview, employee hiring process, performance evaluation, termination process, payroll information, and time reporting. However, the internal operating memos did not contain a review or update date nor did it include editor name and approval information. Therefore, it is unknown when the memo was created and who reviewed the memo.

Audit procedures applied to determine compliance with these requirements included:

- ✓ Conducted interviews and walkthroughs
- ✓ Reviewed applicable internal operating memos/procedures

Recommendations

Create an agency wide internal operating memo/procedure template that can be utilized by all departments to establish consistency with procedures which can be utilized during training and audits.

Managements Response

Management concurs with this recommendation. The State Bar is developing a procedure for standardizing the documentation of all departmental policies and key processes. Policies and key processes will be updated to include an effective date, a version number and an approval date. The procedure for standardizing documented policies and processes will include a policy template for State Bar departments.

SBOT 19-003 Financial Controls Final



State Bar of Texas
Internal Audit Services
An Internal Audit of:
Financial Controls
Report #19-003
February 27, 2019

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



February 27, 2019

Mr. Jarrod Foerster
State Bar of Texas Audit & Finance Committee
1414 Colorado Street
Austin, TX 78701

Dear Mr. Foerster and Audit & Finance Committee Members:

Attached is internal audit report #19-003 State Bar Financial Controls Audit. This audit was performed as part of the approved FY 2018 Annual Internal Audit Plan.

We assessed the State Bar of Texas' (SBOT) internal control effectiveness; compliance with internal policies and procedures; and compliance with Texas Government Code, State Bar of Texas Rules and State Bar of Texas Board of Directors Policy Manual. Our audit scope was focused on the following areas:

- | | |
|------------------------------------|------------------------------------|
| ✓ Payment processing and approvals | ✓ Bank reconciliations |
| ✓ Payment monitoring | ✓ Revenue collection and reporting |
| ✓ Vendor File Maintenance | ✓ Payroll |
| ✓ Bank accounts | ✓ Payroll deduction submissions |

We determined that the agency's internal control environment for revenues and disbursements is generally effective. We did identify some opportunities to enhance specific processes; therefore this audit resulted in a rating of some improvement needed. These improvement opportunities are described in the attached report. We discussed these reportable opportunities to enhance internal controls and improve process efficiencies with management.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358



AUDIT AT A GLANCE



| Purpose | Scope | Focus | Internal Control Rating | Recommendations |
|---|---|--|---|---|
| <ul style="list-style-type: none"> To assess SBOT's internal control effectiveness over revenue collection and disbursement processes. | <ul style="list-style-type: none"> June 1, 2017 – May 31, 2018 | <ul style="list-style-type: none"> Payment processing and approvals Payment monitoring Vendor File Maintenance Bank accounts Bank reconciliations Revenue collection and reporting Payroll Payroll deduction submissions | <ul style="list-style-type: none"> Some improvement needed | <ul style="list-style-type: none"> Ensure a closer review of the assigned user roles is conducted when performing the annual vendor master file user access reviews. Establish a Client Security Funds Subcommittee grant decision summary form. Update SBOT Board of Directors Policy Manual Rule #19 to reflect current processes. |

Number of Finds by Risk Rating

| High | Medium | Low | Total |
|------|--------|-----|-------|
| 0 | 2 | 1 | 3 |

Acknowledgement



We wish to thank all staff involved in the audit for their time and efforts. Without their assistance, we would not have been able to complete this audit.



INTRODUCTION



McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT), performed an internal audit of SBOT's internal controls and compliance with SBOT's board policy and internal policies and procedures for certain financial processes.

We performed this audit as part of the approved FY 2018 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE



The purpose of this audit was to evaluate SBOT's internal control effectiveness, assess compliance with internal policies and procedures, and identify potential process improvement opportunities. In doing so, we also evaluated management controls in place to ensure that the organization's business risks are mitigated where possible and that resources are used efficiently.

We designed audit procedures to:

1. Determine whether internal controls over disbursements exist, are effective and are in accordance with State Bar of Texas requirements. These include, but are not limited to:
 - ✓ Vendor additions/ modifications
 - ✓ Payment processing
 - ✓ Payment approval
 - ✓ Payment monitoring
 - ✓ Disbursement controls will be assessed for the following areas:
 - ✓ Chief Disciplinary Counsel Client Security Funds
 - ✓ Legal Access Division, including program compliance for key programs
 - ✓ Sections
2. To determine whether internal controls over bank account transactions and reconciliations related to the processing of attorney membership dues and legal service fees (membership and clerk's accounts) are effective and in accordance with State Bar of Texas policies.



3. To determine whether internal controls over payroll payments and deductions are effective and in accordance with IRS requirements and State Bar of Texas policies.
4. To determine whether revenue collection procedures for the Texas Bar CLE provide reasonable assurance that all revenues collected are accurately reported, recorded and reported.
5. To determine whether revenue collection procedures for the MCLE Department provide reasonable assurance that all revenues collected are accurately reported, recorded and reported.
6. To determine whether revenue collection procedures for the Texas Bar Journal provide reasonable assurance that all revenues collected are accurately reported, recorded and reported.

SCOPE



The audit period was June 1, 2017 through May 31, 2018. Some test procedures were performed as of the fieldwork date. This work product was at a point in time evaluation that cannot address the inherent dynamic nature of subsequent changes to the process and procedures reviewed.

PROCEDURES PERFORMED



We conducted interviews, business process walkthroughs, reviews of written policies and procedures and sample testing of supporting documentation.

CONCLUSION AND INTERNAL CONTROL RATING



*This audit identified findings that resulted in an overall internal control rating of **Some Improvement Needed**. **Figure 1** describes the internal control rating.*

We discussed reportable opportunities to enhance internal controls and improve process efficiencies with management. Those observations are summarized in **Figure 2**. During the audit there were other non-reportable matters that we also discussed with management.



INTERNAL CONTROL RATING

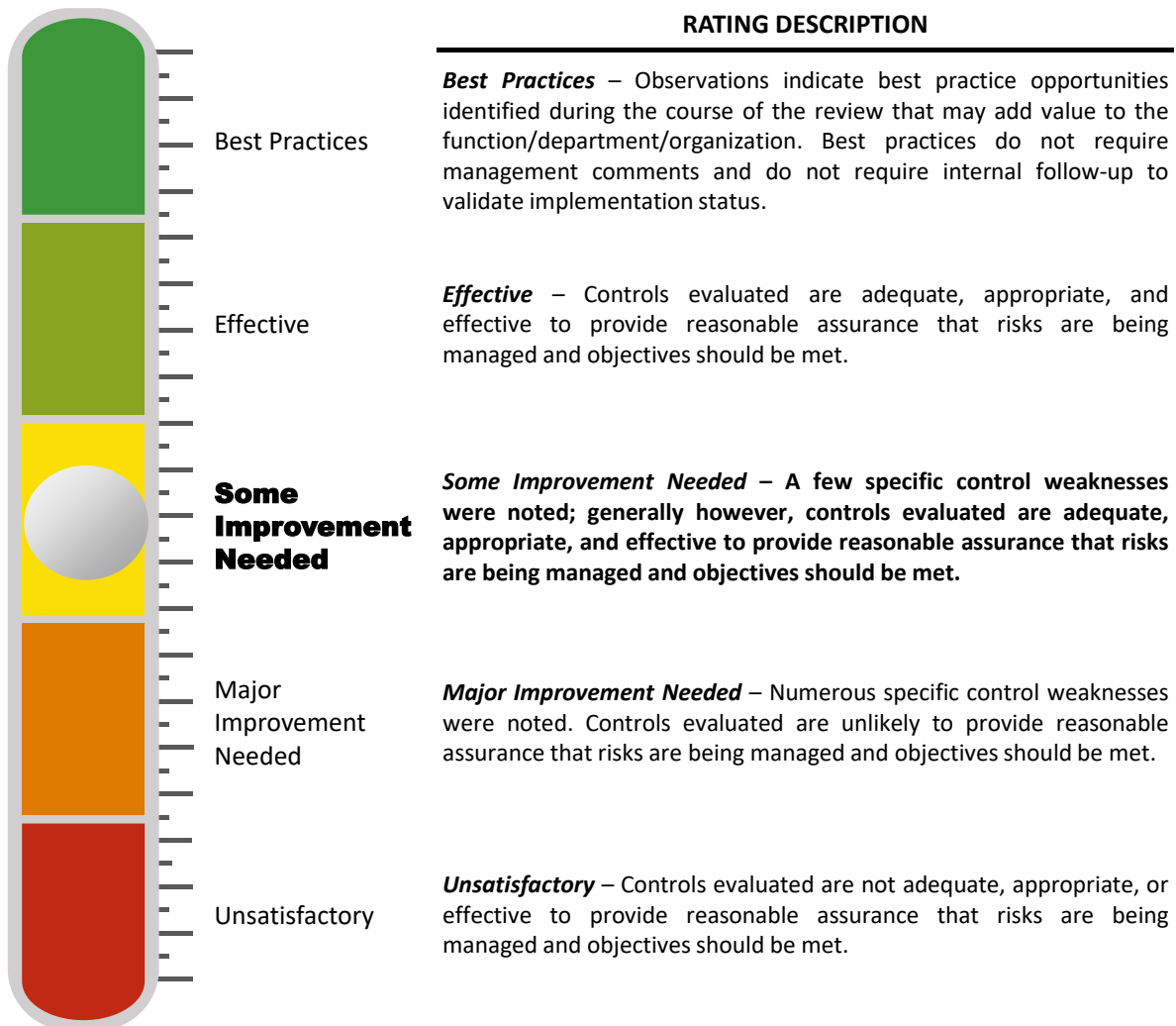


FIGURE 1 Internal control rating description



OBSERVATION AND RISK RATING SUMMARY



Figure 2 is a summary of our audit observations. See the detailed observation section of this report for a discussion of all issues identified, recommendations and management implementation plans.

| Number | Observation | Risk Rating |
|--------|---|-------------|
| 1 | <p>Although the annual vendor master file user access reviews include reviewing assigned system roles that define what the user can do, we noted one individual with access that should not have had the access privileges that were assigned.</p> <p> Recommendation: Ensure a closer review of the assigned user roles is conducted when performing the annual vendor master file user access reviews.</p> | |
| 2 | <p>The State Bar of Texas Board of Directors Policy Manual Rule #19 does not allow applicants to collect from the Client Security Fund after a six-month period. However, SBOT does allow applicants to collect grants after the six-month period.</p> <p> Recommendation: Update State Bar of Texas Board of Directors Policy Manual Rule #19 based on current processes.</p> | |
| 3 | <p>Client Security Fund subcommittee grant decisions are not captured in a summary document and signed by the subcommittee members.</p> <p> Recommendation: Create a Client Security Fund subcommittee grant application summary sheet for the subcommittee chair to sign at each subcommittee meeting where grant applications are reviewed and approved or denied.</p> | |

FIGURE 2 Observation and Recommendation Summary

Risk Rating and Suggested Corrective Action Timing Legend:

| | | | |
|-----------|------------------|---------------------|------------------|
| Priority: | Low: < 12 months | Medium: 6-12 months | High: < 6 months |
|-----------|------------------|---------------------|------------------|



FINANCIAL CONTROLS PROGRAM OVERVIEW



This section of the report provides an overview of the revenue collections and disbursements which flow through SBOT's Finance Division.

Figure 3 summarizes the revenue and expense types of each department/function included in this audit.

| | Continuing Legal Education (CLE) | Client Security Funds (CSF) | HR/Payroll | Legal Access Division | Minimum Continuing Legal Education (MCLE) | SBOT Sections | Texas Bar Journal |
|------------------------|--|---|--|--|--|--|---|
| Department Purpose | Professional Development | Client Protection Fund | SBOT Staff Services | Support and Training for Pro Bono Volunteers and Legal Service Programs | Professional Development Requirements Monitoring | Legal Specialization Associations | Scholarly Legal Journal and Association Magazine |
| Revenue Source | <ul style="list-style-type: none"> Course Registration Fees | <ul style="list-style-type: none"> SBOT General Fund | <ul style="list-style-type: none"> SBOT General Fund | <ul style="list-style-type: none"> SBOT General Fund Donations from State Bar Sections Poverty Law Conference registration fees | <ul style="list-style-type: none"> Accreditation Fees Sponsor Fees | <ul style="list-style-type: none"> Donations Section Dues | <ul style="list-style-type: none"> Advertisements Online Subscriptions Online Store Sales Advertising Royalties |
| Revenue Receipt Method | <ul style="list-style-type: none"> Web payment Check by Mail | <ul style="list-style-type: none"> Transfer | <ul style="list-style-type: none"> Transfer | <ul style="list-style-type: none"> Check by Mail | <ul style="list-style-type: none"> Web payment Check by Mail | <ul style="list-style-type: none"> Direct payment to sections | <ul style="list-style-type: none"> Web payment Check by Mail |
| Primary Expenses | <ul style="list-style-type: none"> Bar Journal Advertisements CLE Course | <ul style="list-style-type: none"> Attorney Fees CSF Grants | <ul style="list-style-type: none"> Staff Salaries Staff Benefits | <ul style="list-style-type: none"> Conferences Staff Travel | <ul style="list-style-type: none"> Credit Card Fees Postage | <ul style="list-style-type: none"> Meetings Scholarships Section Travel | <ul style="list-style-type: none"> Graphic Design Postage Printing |
| Expense Payment Method | <ul style="list-style-type: none"> Interdepartmental Transfer Payment Voucher Purchasing Card | <ul style="list-style-type: none"> Payment Voucher | <ul style="list-style-type: none"> Interdepartmental Transfer | <ul style="list-style-type: none"> Payment Voucher Purchasing Card | <ul style="list-style-type: none"> Payment Voucher Purchasing Card | <ul style="list-style-type: none"> Sections Direct Pay through their Checking Account | <ul style="list-style-type: none"> Payment Voucher Purchasing Card |
| 2017-2018 Statistics | SBOT offered 1,216 CLE activities with a total of 121,556 participants + | 222 grant applications were received of which 148 were approved for a total of \$901,719+ | 291 employees with over 99% of employees receiving direct deposit* | A total of 435 individuals attended three events+ | \$2,901,769 was collected for sponsor accreditation fees, non-accreditation fees, member penalties and late fees++ | 44,442 members+ | \$657,985 was collected for advertising, royalties, on-line advertisement, subscriptions and publications++ |

Figure 3: Summary of Departments/Functions Reviewed

Source:

+State Bar of Texas Annual Report 2017-2018

*based on sampled payroll 5/16/18-5/31/18

++ Information obtained from SBOT Trial Balance



SBOT FINANCIAL CONTROLS BUSINESS OBJECTIVES AND RISKS



This section of the report provides a summary of the financial controls business objectives, primary business risks, SBOT's internal controls in place and the respective internal control assessment. SBOT established internal controls in the form of policies, procedures/memos, management review and monitoring processes. These internal controls are effective and working as intended; however, improvement opportunities have been identified.

1

BUSINESS OBJECTIVE 1

Internal Policies and Procedures

| | |
|--|--|
| Business Objective | To ensure that SBOT's internal operating processes are documented by well-written policies and procedures. |
| Business Risk if Management Controls Are not in Place and Working | ➤ SBOT's financial processes may not be documented which could result in inconsistent processes and/or key internal control activities not being performed. |
| Management Controls In Place | ➤ Each SBOT department creates its own internal operating procedures. |
| Control Tests | <ul style="list-style-type: none"> ➤ Reviewed internal operating policies and procedures ➤ Conducted interviews and walk throughs |
| Control Assessment | <p>Internal controls are effective</p> <ul style="list-style-type: none"> ➤ SBOT does have detailed internal operating procedures. However, SBOT does not have a standard template for internal written policies and procedures that includes a version of the procedure and a date of implementation. Instead each department/function uses their own format. |
| Recommended Actions | Implement the recommendation made in the FY 2018 compliance audit to develop an agency-wide procedure template. |
| Management Action Plan | None required as this is being addressed through the FY 2018 compliance audit. |

2

BUSINESS OBJECTIVE 2

Financial Disbursements: Client Security Funds, Legal Access Division, Sections

| | |
|---------------------------|--|
| Business Objective | <p>To establish strong internal controls over disbursements and ensure that they are in accordance with State Bar of Texas requirements. These include, but are not limited to:</p> <ol style="list-style-type: none"> 1. Vendor master file additions/modification restrictions 2. Payment processing requirements 3. Payment approval requirements 4. Payment monitoring |
|---------------------------|--|



| | |
|--|--|
| Business Risk if Management Controls Are not in Place and Working | <ul style="list-style-type: none"> ➤ Unauthorized changes to the vendor master file could be made. ➤ Payments could be disbursed to incorrect individuals, vendors or sections. ➤ Disbursements could be made without department approval. |
| Management Controls In Place | <ul style="list-style-type: none"> ➤ Access to the vendor master file is restricted to authorized users. ➤ Annual reviews of users authorized to access the vendor master file is performed. ➤ Department heads review payment memos prior to finance department processing. ➤ The Client Security Fund subcommittee reviews and recommends Client Security Fund grant awards. ➤ The SBOT Board authorizes Client Security Fund grant awards. ➤ Client Security Fund grantees are required to submit proof of identity prior to receiving their grant. ➤ Client Security Fund grant award payments are distributed through certified mail. |
| Control Tests | <ul style="list-style-type: none"> ➤ Conducted interviews and process walk throughs ➤ Analyzed applicable documentation ➤ Performed audit testing ➤ Reviewed activity report of vendor maintenance for October 2017 through May 2018 |
| Control Assessment | <p>Internal controls over vendor file maintenance are generally effective</p> <ul style="list-style-type: none"> ➤ We noted that the annual review of individuals authorized to access the vendor master file does include what actions they are allowed to perform (roles). We noted that one individual had access to make changes to the vendor files who did not need access as part of their regular job duties. No inappropriate modifications were made by this user to the vendor files for the time-period reviewed by auditors. <p>Internal controls over the supporting documentation used for processing Client Security Fund Disbursement are not effective.</p> <ul style="list-style-type: none"> ➤ Documentation to support Client Security Fund subcommittee decisions on grant awards could be strengthened. <p>Client Security Funds do not follow Board Policy Section 3.08.02, Rule 19.</p> <ul style="list-style-type: none"> ➤ SBOT Board of Directors Policy Manual Rule Section 3.08.02, Rule 19 does not reflect the current processes in place for applicants that fail to collect grants within six-month grace period. During audit testing, there were two instances in which a grant was paid after the six-month grace period. Extenuating circumstances existed for those occurrences; however, the subcommittee did not formally approve these exceptions. |
| Recommended Actions | <p><u>Vendor File Maintenance</u></p> <ul style="list-style-type: none"> • Review the authorized user access roles more closely when performing the annual user access review. <p><u>Client Security Funds</u></p> <ul style="list-style-type: none"> • Prepare a Client Security Fund subcommittee grant decision summary document that is signed by the subcommittee for each meeting. • Update SBOT Board of Directors Policy Manual Section 3.08.02, Rule 19 to account for exceptional circumstances when paying claims after the six-month period has expired. |



**Management
Action Plan**

Management will perform a more comprehensive annual review of user access to the Accounting software, including reviewing user roles and necessity of access.

3

BUSINESS OBJECTIVE 3

Bank Account Transaction Controls: Attorney Membership Dues and Legal Service Fees

| | |
|--|--|
| Business Objective | To establish internal controls over bank account transactions and reconciliations related to the processing of attorney membership dues and legal service fees (membership and clerk's accounts) in accordance with State Bar of Texas policies. |
| Business Risk if Management Controls Are not in Place and Working | <ul style="list-style-type: none"> ➤ Information provided to the Supreme Court Clerk for reviews and sign off could be incomplete or inaccurate. |
| Management Controls In Place | <ul style="list-style-type: none"> ➤ SBOT's Finance department reconciles attorney membership dues and legal service fees on a monthly basis. |
| Control Tests | <ul style="list-style-type: none"> ➤ Conducted interviews ➤ Reviewed recent account reconciliations ➤ Performed audit testing |
| Control Assessment | Internal controls are effective |
| Recommended Actions | None |
| Management Action Plan | None Required |

4

BUSINESS OBJECTIVE 4

Payroll Controls

| | |
|--|---|
| Business Objective | To establish internal controls over payroll disbursements and deductions in accordance with IRS requirements and State Bar of Texas policies. |
| Business Risk if Management Controls Are not in Place and Working | <ul style="list-style-type: none"> ➤ Fictitious employees may be added to the payroll and go undetected. ➤ Unauthorized salary amount may be entered into the payroll system and go undetected. ➤ SBOT may not correctly enter an employee's deductions. ➤ SBOT may not distribute employee deductions in a timely manner. |
| Management Controls In Place | <ul style="list-style-type: none"> ➤ Payroll reports are reviewed prior to each payroll distribution. ➤ All changes to pay are reviewed by SBOT's Controller. ➤ Detailed policies exist for payroll calculation and processing. ➤ Employees enter their own elections directly into the Business Portal system during their new hire on-boarding process and the annual open-enrollment period. |



| | |
|-------------------------------|---|
| Control Tests | <ul style="list-style-type: none"> ➤ Conducted interviews and walk throughs ➤ Performed audit testing ➤ Reviewed Business Portal employee data ➤ Performed physical verification of employee payroll output |
| Control Assessment | Internal controls are effective |
| Recommended Actions | None |
| Management Action Plan | None Required |

5

BUSINESS OBJECTIVE 5

Continuing Legal Education (CLE) Revenue Collection

| | |
|--|--|
| Business Objective | To establish internal controls over CLE revenue collection procedures to provide reasonable assurance that all revenues collected are accurately reported and recorded. |
| Business Risk if Management Controls Are not in Place and Working | <ul style="list-style-type: none"> ➤ CLE revenues may be inaccurately recorded. ➤ CLE revenues could be misappropriated. |
| Management Controls In Place | <ul style="list-style-type: none"> ➤ Registrants pay for CLE courses at the time of enrollment. Most payments are received on-line. ➤ Registrants are counted on checklist prepared by Planning Specialists. ➤ CLE Finance Manager reconciles revenues prior to course date. ➤ Profit and loss statements are generated for each CLE course. |
| Control Tests | <ul style="list-style-type: none"> ➤ Conducted interviews and walk throughs ➤ Performed audit testing |
| Control Assessment | Internal controls are effective |
| Recommended Actions | None |
| Management Action Plan | None Required |



6

BUSINESS OBJECTIVE 6

Minimum Continuing Legal Education (MCLE) Revenue Collection

| | |
|--|--|
| Business Objective | To establish internal controls to ensure revenue collection procedures for the MCLE Department provide reasonable assurance that all revenues collected are accurately reported and recorded. |
| Business Risk if Management Controls Are not in Place and Working | <ul style="list-style-type: none"> ➤ MCLE non-compliance penalties may not be correctly assessed and recorded. ➤ MCLE sponsor fees may not be correctly charged and recorded. ➤ MCLE revenues could be misappropriated. |
| Management Controls In Place | <ul style="list-style-type: none"> ➤ Membership profile information is used to create attorney's Dynamics Customer Relationship Management (CRM) profile. ➤ MCLE non-compliance penalties are automatically assessed in the Dynamics CRM Database, which are driven by date of birth according to policy requirements. ➤ MCLE non-accreditation sponsors are assessed fees at the time the CLE course application is completed. ➤ MCLE accredited sponsors are assessed fees annually. |
| Control Tests | <ul style="list-style-type: none"> ➤ Conducted interviews and walk throughs ➤ Performed audit testing ➤ Performed physical verification of Dynamics CRM Database where MCLE activity is tracked |
| Control Assessment | Internal controls are effective |
| Recommended Actions | None |
| Management Action Plan | None Required |

7

BUSINESS OBJECTIVE 7

Texas Bar Journal Revenue Collections

| | |
|--|---|
| Business Objective | To establish internal controls to ensure revenue collection procedures for the Texas Bar Journal provide reasonable assurance that all revenues collected are accurately reported and recorded. |
| Business Risk if Management Controls Are not in Place and Working | <ul style="list-style-type: none"> ➤ Texas Bar Journal may not collect all revenue for classified advertisements, subscriptions, and monthly billing publications. ➤ Texas Bar Journal revenues could be misappropriated. |
| Management Controls In Place | <ul style="list-style-type: none"> ➤ Monthly reconciliation is performed to determine outstanding receivables and subscribers are notified and/or services are terminated. |



| | |
|-------------------------------|--|
| Control Tests | <ul style="list-style-type: none"> ➡ Conducted interviews and walk throughs ➡ Performed audit testing ➡ Reviewed Texas Bar Journal revenue reconciliations. |
| Control Assessment | Internal controls are effective |
| Recommended Actions | None |
| Management Action Plan | None Required |



DETAILED OPPORTUNITIES AND RECOMMENDATIONS



This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.

Business Objective #1: SBOT's internal controls over disbursements exist, are effective and are in accordance with State Bar of Texas requirements. (Risk = Low)

Does SBOT have established processes to ensure disbursements are authorized?

Does SBOT have established processes in place to ensure disbursements are for valid business purposes?

Does SBOT have internal controls over user access to vendor file maintenance?

Are all individuals who updated the vendor master file authorized to perform functions?

Audit Conclusion #1

SBOT does have processes and controls in place to provide reasonable assurance that disbursements are authorized and for valid business purposes. However, there was one instance of user access to the vendor maintenance file that was not appropriate, and the annual review of user access did not identify this access.

Inappropriate access to the vendor master file creates the following risks:

- ✓ Authorized users may have more privileges than what their job duties require. For example, most employees should only have access to read and not update the information. While employees in procurement functions should be able to add new vendors and a limited number of employees in finance should be able to change vendor addresses or bank account information, a review and approval process should occur.
- ✓ Increased levels of risk that authorized users could make changes to the vendor master file for fraudulent purposes which could go undetected.

Audit Recommendation #1

Review the authorized user access and roles more closely when performing the annual user access review.

Management Response Recommendation #1

Management concurs with the audit recommendation. Management will perform a more comprehensive annual review of user access to the Accounting software, including reviewing user roles and necessity of access.



Business Objective #2: Internal controls over Client Security Fund disbursements are in accordance with SBOT requirements (Risk = Medium)

Are Client Security Fund disbursements in processed in accordance with SBOT Board of Directors policy manual?

Does SBOT Chief Disciplinary Counsel staff that administers Client Security Funds present grant applicant's applications to Subcommittee as required by SBOT Board of Directors policy manual?

Audit Conclusion #2

Client Security Fund grant disbursement requests are presented to the Client Security Fund (CSF) Subcommittee for authorization as required by the State Bar of Texas Board of Directors Policy Manual. However, we noted two exceptions that did not comply with the State Bar of Texas Board of Directors Policy Manual Section 3.08.02, Rule 19 (Rule 19) that requires applicants to collect grants within a six-month grace period.

Prior to each CSF Subcommittee meetings the CSF Administrator creates memorandums for each applicant that provides adequate information regarding the claim being made. The memorandum states the claim and the applicants' interaction with the attorney being referenced. Based on the lead schedule that CSF provided internal audit, a reconciliation was performed and two payments were claimed after the Board Policy's Rule 19. The lead schedule stated that the Client Security Fund administrator approved the payments to be made for the two grants totaling \$6,200 that were paid after the six-month grace period; due to extenuating circumstances such as a death and active duty deployment; however, the policy rules does not allow exceptions. **Figure 2a** shows Section 3.08.02, Rule 19 of the SBOT Board of Directors Policy Manual.

RULE 19. Applicant's Failure to Claim Grant

(A) Should the applicant not claim the grant within six months of the date of the approval by the Subcommittee of the grant, the grant shall revert to the Client Security Fund.

(B) In the event the grant reverts to the Fund as set forth in paragraph (A) above, the applicant may reapply to the Office of Chief Disciplinary Counsel. The applicant must show good cause for failing to claim the award. The Subcommittee has sole and final discretion to approve the grant or reject the grant at that time.

Figure 2a Section 3.08.02, Rule 19 of SBOT Board of Directors Policy Manual

Issuing Client Security Fund grant payments after the six-month period creates the following risks:

- ✓ Non-compliance with Board of Directors policies related to the Client Security Fund.

Audit Recommendation #2

Update SBOT Board of Directors Policy Manual Section 3.08.02, Rule 19 to account for exceptional circumstances.



Management Response Recommendation #2

Management concurs with the audit recommendation. We will request the Client Security Fund Subcommittee to advise on revisions to the Board Policy Manual, as needed, to account for exceptional circumstances when paying claims after the six-month period has expired.

Business Objective #3: Internal controls over Client Security Fund disbursements exist, are effective and are in accordance with SBOT requirements. (Risk – Medium)

Are Client Security Fund Disbursements authorized?

Does Accounts Payable receive adequate supporting documentation to process Client Security Fund grants?

Does Chief Disciplinary Counsel have sufficient policies and procedures to support their functions?

Audit Conclusion #3

Processes are in place to obtain authorization for Client Security Fund grant disbursements and provide reasonable assurance that the approved grant amount is distributed to the authorized individual. However, we noted that there is no summary document that is signed by the Client Security Fund subcommittee that lists the grant decisions made; the individual's name, whether or not the grant application was approved, and approved grant amount. During FY18, the Client Security Fund subcommittee reviewed 222 eligible applications, of which 148 were approved and paid totaling \$901,718.68.

Currently the payment vouchers to be processed are accompanied by a cover letter from the Chief Disciplinary Counsel which acts as the approval for the payments to be processed by accounts payable staff. We noted the following internal controls in place:

- The Client Security Fund subcommittee reviews and recommends grant awards.
- Department heads review payment memos prior to finance department processing.
- Grantees are required to submit proof of identity prior to receiving their grant.
- Grant award payments are distributed through certified mail.

Figure 3a provides the processes performed for Client Security Fund grant disbursements.

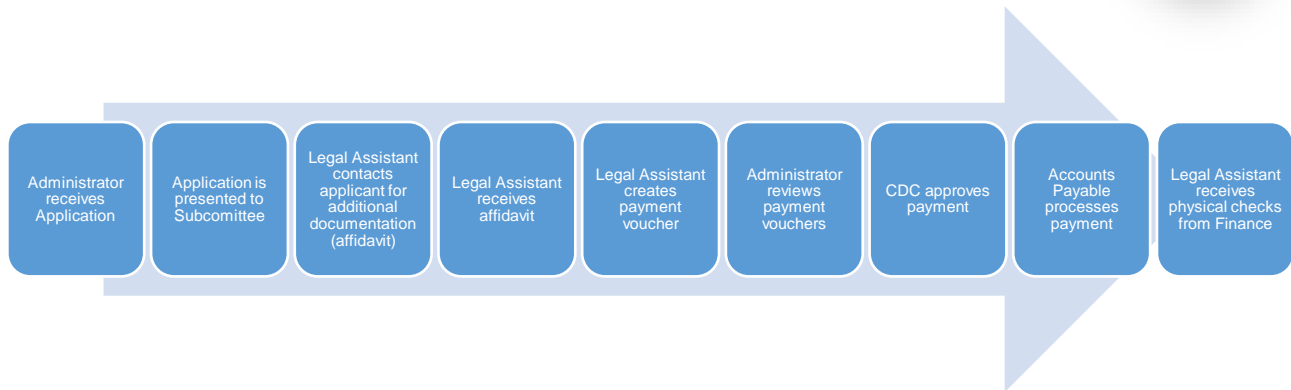


Figure 3a: Client Security Fund process from application receipt to mailing payments

Not obtaining a summary list of the Client Security Fund subcommittee grant decisions with documented approval creates the following risks:

- The name or amount on the payment voucher request that is submitted to accounts payable could be improperly changed.
- Payment voucher requests could be submitted to accounts payable although the Client Fund Subcommittee denied the applicant's request.

Audit Recommendation #3

Create a Client Security Fund subcommittee grant application summary sheet for the subcommittee chair to sign at each subcommittee meeting where grant applications are reviewed and approved or denied. This summary sheet should include the applicant name, attorney being referenced regarding claim, date application was received, date application was submitted to subcommittee, amount applicant paid to attorney and the subcommittee's decision (whether the application was approved or denied). This summary sheet should then accompany all payment voucher requests.

Management Response Recommendation #3

Management concurs with the audit recommendation. The liaison to the Client Security Fund Subcommittee will obtain the Chair of the Subcommittee, or designee's, signature on a summarized list of Client Security Fund claims for which a decision was made during the committee meeting. This signed summary sheet of approved, denied, or reduced claims will be required as supporting documentation in order to process a payment voucher request.

SBOT 19-004 SBOT Follow-Up Final



State Bar of Texas
Internal Audit Services
Follow-Up
on
Prior Audit Findings
Report #19-004
March 4, 2019

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

March 4, 2019

Mr. Jarrod Foerster
State Bar of Texas Audit & Finance Committee
1414 Colorado Street
Austin, TX 78701

Dear Mr. Foerster and Audit & Finance Committee Members:

Attached is Internal Audit Report #19-004 Follow-Up on Prior Audit Findings. This audit was performed as part of the approved FY 2018 Annual Internal Audit Plan.

We assessed the State Bar of Texas' (SBOT) implementation status of audit recommendations made to address the finding noted in last year's compliance audit report regarding the database used for advertising review processes. We concluded that SBOT management is in process of fully implementing corrective actions for this finding.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA

Partner

7600 Chevy Chase Drive

Suite 307

Austin, TX 78752

Phone: 512.430.5358



INTRODUCTION



McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT), applied audit procedures to determine the implementation status of recommendations made in prior year's audit reports.

CONCLUSION



The SBOT Advertising Review team has made progress towards implementing corrective action for the finding noted in the previous year's audit report. However, the recommendation is not yet fully implemented. Details of the open finding is included in the table below.

| #1 – Advertising Review | |
|-------------------------------------|--|
| Original Audit Objectives | To evaluate management controls in place to ensure that the agency's business risks are mitigated where possible and that resources are used efficiently. |
| Original Observation/Finding | <p>We noted that the current system used to track advertising review activity is a Microsoft Access Database with limited features. For example, the database does not accommodate electronic submission of advertising review requests and does not retain data to assign a fee to the advertising review application and a field for payment amount received. Therefore, payments are tracked on the Lawyer Advertising and Solicitation Communications Application Form.</p> <p>We noted that the Advertising Review Department staff reconciles the amount of money received for advertising reviews to the amount of money actually deposited in the bank. However, the Advertising Review Department staff do not reconcile the amount of money recorded in the database to the actual amount received. This reconciliation is important to ensure that the Advertising review database is complete and substantiates the money processed in Accounting.</p> |
| Recommendation | <p>The SBOT is in the process of obtaining a new information system for the advertising review activity. We recommend that the SBOT include the ability to submit advertising review requests electronically and then have a feature to track the review status and decision. Additionally, all information associated with fees and payments, including credit card payments should be tracked in the system. Ideally, the system would have an interface that allows for electronic updates of all electronic payments received.</p> |



| | |
|--|---|
| | Once a new system is in place, the Advertising Review Department should implement processes to reconcile the amount of money received to the advertising review database to ensure that the information in the database is complete. The reconciliation of cash received to the cash deposited should continue being performed. |
| Management Response | <p>Management agrees with the audit finding. Advertising Review is in the process of implementing a new information system which will allow members to submit payments for advertisements for review online. The new system will interface with the online portal to allow single entry of data. The fee per review will be calculated automatically.</p> <p>Prior to the implementation of the new information system, Advertising Review has worked with the Information Technology Department to develop additional reporting capabilities that allow the capture of credit card payments. All Advertising Review payments as entered in the database are reconciled with the funds collected and deposited.</p> |
| Internal Audit Follow-Up Conclusion | <p>Audit finding is considered open with the recommendation in process of being implemented.</p> <p>SBOT has contracted with a software development firm and is in the process of developing the new Advertising Review system. SBOT anticipates to go-live with the new Advertising Review system in the Fall of 2019.</p> <p>The new system will be an electronic portal where individuals who file a submission can also pay on-line.</p> <p>Currently, the Advertising Review Department, in conjunction with the SBOT Accounting and Information Technology Departments reconciles payments received on a weekly basis. This remediation action provides the controls that are needed until the new information system can be fully implemented.</p> |