

FINANCE & AUDIT COMMITTEE (F&AC)

State Bar of Arizona
4201 N. 24th Street, Suite 100
Phoenix, Arizona 85016

August 22, 2019
3:30 p.m.
Cholla Room

Minutes (Approved (TBD))

MEMBER ATTENDANCE:

P = present in person; T = present telephonically; A= absent.

P – Benjamin Taylor, Chair

P – Jessica Sanchez, Vice Chair

A – Dave Byers

T – Lori Higuera

A – David Rosenbaum

T – Doreen McPaul

T – Sandra Etherton (Client Protection Fund Board Liaison/Non-voting F&AC member)

OTHER ATTENDEES:

State Bar Staff:

Joel England

Maret Vessella

Kathy Gerhart

Joe Hengemuehler

Ann Leslie

Lori Maxwell

Candice French

Lisa Panahi

Martin Gaxiola

Brett Martin

Gina Cizek, 401K Advisors

Minutes taken by: Martin Gaxiola

I. CALL TO ORDER:

Called to Order by: Benjamin Taylor

Time: 3:02pm

II. CALL TO THE PUBLIC:

Individuals addressing the Committee: None

Discussion: None

III. Presentation – Economic Update

Individuals addressing the Committee: Gina C.

Discussion: Gina C. reviewed the one-page report provided to the F&AC that outlined key trends in economic growth, job outlook, corporate profits, inflation, interest rates, potential economic risks, and general investment themes. There were no questions from the committee members.

IV. Approval of minutes – June 18th & July 24th meeting minutes

Individuals addressing the Committee: Benjamin T.

Discussion: None.

Motion/moved by: Jessica S. motioned to approve the June 18th and July 24th meeting minutes as previously distributed.

Seconded by: Lori H.

Motion: Passed unanimously.

V. 2020 Budget Guidelines Memorandum

Individuals addressing the Committee: Kathy G. and Joel E.

Discussion: Kathy G. reviewed the 2020 Budget Guidelines Memorandum. The memorandum is consistent with five-year financial projections presented at the July Board of Governor’s retreat and includes implementation of Senior Lawyer Task Force recommendations. This memorandum will also be submitted to HR Subcommittee for review & input in September, and then presented to the Board in September with recommendation of approval.

Motion/moved by: Benjamin T. motioned to approve the 2020 Budget Guidelines memorandum with modification replacing the word “dues” with “fees”, contingent upon approval by the HR subcommittee in September.

Seconded by: Jessica S.

Motion: Passed unanimously.

VI. Investment Policy Review (Current Investments and Investment Vehicles Available)

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. followed up on the previous discussions from F&AC and BOG on handling the investment policy for the SBA Membership Fees and Capital Reserves. Kathy G. reviewed the current investment objectives of safeguarding principal, maintaining liquidity and maximizing investment returns. Kathy reviewed a presentation that explained short-term and long-term fund guidance, the current treasury management within the SBA and Client Protection Fund (CPF). The current SBA Investment Guidelines Policy and Cash Reserve Policy were included in the F&AC materials previously distributed.

VII. Investment Sub-committee – Member Appointments

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. noted that the Investment Sub-committee (ISC) needed up to two additional members with investment expertise to join the CEO/ED and CFO to move forward with providing updated investment guidance. The CPF met Tuesday to discuss participation in reviewing/recommending investment strategies to obtain buying power collectively with the SBA. CPF Trustees Sandra Etherton & Matthew Gerst (Financial Advisor – Wells) were selected to participate in the ISC to represent the CPF.

Motion/moved by: Benjamin T. motioned to nominate Sandra Etherton and Matthew Gerst to the ISC.

Seconded by: Doreen M.

Motion: Passed unanimously.

Motion/moved by: Benjamin T. motioned to nominate Dave Byers to the ISC.

Seconded by: Doreen M.

Motion: Passed unanimously.

VIII. 24th Street – Suite 220 lease negotiations/signature

Individuals addressing the Committee: Joel E. and Kathy G.

Discussion: Joel E. addressed the committee regarding a prospective tenant for suite 220 (3,572 approx. sq. ft.). The SBA has not received the prospect tenant's financial statements that were promised from the letter of intent (LOI). Other items can be negotiated to mitigate any financial risk (i.e. a higher security deposit) and cover the additional tenant improvement (TI) allowances that are being requested. Per the Financial Policies Manual, the current lease term (63 months with 3 months free) could require Board approval before full lease execution. In the past, the F&AC sometimes took the stance that for a leasing agreement with a term of over 5 years (in which the

excess months over the 60-month term was a result of rent abatements) did not exceed five years and required only F&A committee approval. Also, the F&AC historically has voted to authorize the CEO/ED to complete the lease negotiations and sign the lease due to time sensitivity.

Motion/moved by: Jessica S. motioned to authorize CEO to negotiate a 60 month lease with a higher security deposit.

Seconded by: Lori H.

Motion: Passed unanimously.

IX. Finance & Audit Committee Orientation

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the key financial roles and responsibilities of the F&AC, F&AC Agenda Structure, and meeting schedule. She also noted that the Financial Policies and Processes Manual (FPM) was included in the F&AC materials for review and future reference.

X. 2019-20 FAC Action Items

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the full listing of proposed action items for the year (e.g. goals to accomplish) which included recurring requirements in compliance with the Financial Policies Manual. There were no further changes requested by committee members.

XI. Tucson Building Update

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. displayed before-and-after pictures of the Tucson building's most recent exterior renovations including the facade/stucco repair of the south & east walls and parking lot reseal/restripe.

XII. 24th Street Building Update

Individuals addressing the Committee: Kathy G.

Discussion: Aside from the Suite 220 current lease negotiation referenced previously, preliminary negotiations have begun for Suite 140 (approx. 1,073 sq. ft). The landlord letter of intent has been given to tenant for review and will be contingent upon further financial review. Kathy G. also noted that the Energy Management System capital project is in its final phase with completion expected within next few weeks.

XIII. June 2019 Client Protection Fund Financial Statements

Individuals addressing the Committee: Kathy G.

Discussion: Kathy reviewed the 2019 Q2 CPF financial statements which showed \$196K cash on hand and \$2.3M in CDARs (all covered under FDIC insurance due to strategic investment allocations among financial institutions). Interest rates are slowly increasing to about 1.803% on certain CDARs. By the end of the second quarter, Assessment Income was reported as \$428K and Claims Paid were \$114K. CPF met Tuesday and approved an additional \$127K in claims bringing the 2019 YTD total to \$241K. The CPF budgeted \$400K in claims for 2019 and paid out \$548K in claims in 2018. The CPF meets again in November to review/award additional claims as needed.

XIV. 2020 Budget Timeline

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the 2020 budget timeline that outlines key due dates for submission, review and approval by staff, management, F&AC and the BOG.

XV. June 2019 Quarterly Reports

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the 2019 Capital Budget expenditure analysis, Quarterly Bench & Bar Income/Expenses Summary, the Quarterly Capital Expenditure Recap, Quarterly Ranked Vendor Payments over \$10K, the CEO/ED and CFO Certification of Compliance and the SBA-CPF investment recap. There were no additional questions from committee members.

XVI. July 2019 SBA Financial Statements

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. noted that for the seven months ended July 31, 2019, the Bar's income statement generated a surplus (including sections) of \$889K. The surplus year-to-date is \$657K more than budgeted – a 6% total budget variance. This is due to \$122K more in revenues and \$535K less in expenses. Significant YTD revenue and expense variances were reviewed as noted in the CFO's Financial Report (distributed previously with the F&AC meeting materials). The SBA is projecting an annual surplus of \$535K vs a budgeted \$50K loss. There were no additional questions from committee members.

Meeting adjourned by: Benjamin T. at 4:02pm.