

FINANCE & AUDIT COMMITTEE (F&AC)

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

August 23, 2018
3 p.m.
Cholla Room

Minutes (Approved)

MEMBER ATTENDANCE:

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

P - Denis Fitzgibbons, Chair

P - Anna Thomasson, Vice Chair

A - Dave Byers

T - Tyler Carrell

T - Jason Cobb

T - Jim Penny (Client Protection Fund Board Liaison/Non-voting F&AC member)

OTHER ATTENDEES:

State Bar Staff:

John Phelps

Maret Vessella

Rick DeBruhl

Kathy Gerhart

Gayle Jackson

Lori Maxwell

Lisa Panahi

Ann Leslie

Martin Gaxiola

Octavius Garrett

Aron Carrico

Guests:

Gina Cizek – 401k Advisors

Minutes taken by: Aron Carrico & Octavius Garrett

I. CALL TO ORDER:

Called to Order by: Denis Fitzgibbons
Time: 3:03pm

II. CALL TO THE PUBLIC:

Individuals addressing the Committee: None

Discussion: None

III. Economic update:

Individuals addressing the Committee: Gina Cizek

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. HR Subcommittee Report:

Individuals addressing the Committee: Anna Thomasson

Discussion: Anna T. reviewed highlights from the last Human Resources (HR) subcommittee meeting, including the salary and benefit analysis between comparative groups. The HR Subcommittee will continue to review and recommend any necessary salary range changes for the future.

V. F&AC Orientation:

Individuals addressing the Committee: Kathy Gerhart

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. The F&AC reviewed the suggested 2018-2019 action items and made no additional changes. Kathy G. spoke on the convention in regards to evaluating the current structure and financial data to develop a clearer image of how the convention impacts the SBA. Denis F. recommended to implement a task force to take on the evaluation prior to the F&AC review and approval of the 2021 convention location contract.

The F&AC agreed to reach out to Lisa Deane to obtain deadlines for the convention location for 2021 and regroup to begin forming the subcommittee.

VI. Approval of minute – May 7th meeting minutes:

Individuals addressing the Committee: Denis Fitzgibbons

Discussion: None

Motion/ moved by: Anna T. motioned to approve the May 17th meeting minutes.

Seconded by: Tyler C.

Motion: Passed unanimously

VII. 2019 Budget Guidelines Memorandum:

Individuals addressing the Committee: Kathy Gerhart/John Phelps

Discussion: Kathy G. reviewed the 2019 Budget Guidelines Memorandum that was presented at the HR Subcommittee meeting last week. This fulfills the FPM requirement of HR Subcommittee review and recommendations of the Budget Guidelines Memorandum prior to F&AC approval. The Memorandum moved from the HR Subcommittee with no changes or additional recommendations. Kathy G. spoke of the two phase approach to the 2019 budget process. Phase 1 will be a base budget (“business as usual”) with estimated annual revenues based on analysis of dues and non-dues income trends. Total budgeted expenses for this phase are not to increase more than 2.5%. Phase 2 will incorporate proposed initiatives and their financial impact to the Phase 1 budget. Both phases will be presented to the F&AC and the Board of Governors (BOG) for final approval. Initiatives approved within Phase 2 will be paid out of the Dues Reserve Fund.

Motion/ moved by: Anna T. motioned to approve the draft 2019 Budget Guidelines and to send to the Board of Governors for a final vote.

Seconded by: Tyler C.

Motion: Passed unanimously

VIII. Contribution Request Procedures & Guidelines (proposed revisions):

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. reviewed the proposed change to the contribution request procedures and guidelines. In order to reduce the paperwork and provide support within a quicker time frame, the proposed changes are being requested:

- BOG sets a budget based on history
- CEO would accept all contribution requests and reviews for compliance
- CEO would approve items up to \$2,500. before going to F&AC
- Any request denied by the CEO will be reviewed by the F&AC

Motion/ moved by: Anna T. motioned to approve the policy changes and submit to the BOG for approval.

Seconded by: Tyler C.

Motion: Passed unanimously

Subsequent Discussion: After the F&AC vote, John P. and the F&AC agreed to present a final draft of the Contribution Request Procedures & Guidelines for ratification at the September 20th F&AC meeting before forwarding to the BOG for approval.

IX. Sponsorship – National Conference for Bar Presidents (NCBP) – (Lisa Loo):

Individuals addressing the Committee: John Phelps

Discussion: Lisa Loo (who was appointed to a NCBP Council position) is requesting that the SBA assists with NCBP Travel & Expenses (T&E) for the fall and winter of both 2018 and 2019 (\$1,200 each year.). Due to the timing of the request in July 2018, which was two weeks before the NCBP conference, Jeff Willis, President approved the \$1,200 assistance for 2018. Discussions included what the precedent was for this type of expenditure assistance, what value the SBA would derive in supporting the 2019 expenses, and how it reflects the good stewardship of SBA member money.

Motion/moved by: Jason C. motioned to ratify the 2018 \$1,200 T&E expenditure approved for Lisa Loo and to -approve the \$1,200. T&E for the 2019 NCBP for inclusion in the 2019 budget.

Seconded by: Tyler C.

Motion: Passed unanimously

X. Building Lighting Upgrade – Capital Project:

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. reviewed the decision paper regarding the lights in the 24th Place building. Originally budgeted as a 2020 capital project, the SBA is currently doing maintenance repairs on lighting that could be alleviated if we were to move forward with the upgrade earlier than anticipated. In order to fund the upgrade, the SBA would reallocate \$127K in Tenant Improvements (TI) to fund the project in 2018 as it was highly unlikely that a new tenant would be obtained by year-end. The total project is estimated to be \$155K with the difference made up in savings from other capital projects, reduced electricity and maintenance costs. The timeframe to complete is said to be around 30 days.

Motion/moved by: Tyler C. motioned to approve this capital project and reallocate the TI capital budget of \$127K to fund the project.

Seconded by: Anna T.

Motion: Passed unanimously

XI. Audit & Tax Return Request for Proposal (RFP):

Individuals addressing the Committee: Kathy Gerhart/Denis Fitzgibbons

Discussion: Kathy G. reviewed the FPM requirement to go out every five years to obtain an RFP for audit and tax return services, and that any current auditor can only provide services for up to 10 consecutive years. Kathy G. reviewed the RFP solicitation noting that 2018 will be a single-year audit, and the requirement for audit partner rotation every three 3 years. Kathy G. is asking the F&AC to seek and obtain final auditor selection approval from the BOG to maintain our current budget timeline.

The FAC reviewed the proposed RFP distribution list of CPA firms. Denis F. asked that Beach Fleischman be added to the RFP distribution list.

Motion/moved by: Anna T. motioned to send out the RFP to the candidate firms as provided and amended, and to obtain the BOG’s approval to delegate the final selection of the auditor to the F&AC.

Seconded by: Tyler C.

Motion: Passed unanimously

XII. Tucson Building Update:

Individuals addressing the Committee: John Phelps

Discussion: The Tucson building has been undeveloped, leaving over 2,000 sq. ft. unoccupied and unsuitable for use. It was noted that the property may be a desirable sales option with the recent building developments around the location (including the Tucson Court that is currently across the street). Previous F&AC discussions about the redevelopment of the second floor did not seem feasible at that time, however it would be worth reevaluating given the current market. John P. affirmed that he will start evaluating options, taking into consideration all variables.

XIII. Alcohol Policy Update:

Individuals addressing the Committee: John Phelps

Discussion: John P. noted that the national trend is to come up with a balanced solution for an Alcohol Policy in the workplace. Further analysis and updates to the SBA alcohol policy would be postponed in order to bring in the new board and receive their input on the matter.

XIV. Investment Policy review:

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. followed up on the previous discussions from F&AC and BOG on handling the investment policy for the SBA Dues and Capital Reserves. Kathy G. reviewed the current investment objectives of safeguarding principal and maximizing profits while understanding our short-term and long-term financial goals. The current plan is to maintain depository accounts with Wells Fargo and continue saving on bank fees (over \$36K saved in 2017), and to move \$1M of the \$4.4M in the combined reserves from money market to an “active/passive” investment account. Kathy G. discussed the Wells Fargo active/passive investment account analysis over a 1-5 year time-frame, and the overall value of keeping that \$1M in the active/passive account for a longer period. Denis F. noted that this same financial presentation may be beneficial to bring to the BOG for their review and better understanding of the overall investment strategy. The F&AC asked to vote at the September 20th committee meeting regarding the formation of an investment subcommittee.

XV. Financial Accounting Standards Board (FASB) – Overview financial statement presentation changes:

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. reviewed Accounting Standards Update (ASU) 2016-14 and how it will impact the SBA. ASU 2016-14 requires a functional expense reporting format in the Statement of Activities (i.e. the income statement) and extra disclosures regarding liquidity. Kathy G. noted that

the changes to the new standard will give proper allocation of expenses and create better overall transparency.

XVI. June 2018 Client Protection Fund (CPF) Financial Statements:

Individuals addressing the Committee: James Penny

Discussion: Jim reviewed the 2018 Q2 CPF financial statements which showed \$233K cash on hand and \$2.4M in CDARs (all covered under FDIC insurance due to strategic investment allocations among financial institutions). Interest rates are slowly increasing to about 0.826% on certain CDARs. By the end of the second quarter, Assessment Income was reported as \$426K and Claims Paid were \$189K. This year's claims are not as high as previous years. However, there is no real underlying trend to indicate if future claims would increase or decrease. Jim P. anticipates an additional \$210K in claims by the end of the year.

XVII. 2019 Budget Timeline:

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. briefly reviewed the 2019 budget timeline that outlines key due dates for submission, review and approval by staff, management, F&AC and the BOG.

XVIII. June 2018 Quarterly Reports:

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. briefly reviewed the Bench & Bar report, quarterly capital expenditures analysis, CEO & CFO certification of financial statement & policy compliance, ranked vendor payments, and significant contracts listing. There were no questions from the committee members.

XIX. July 2018 SBA Financial Statements:

Individuals addressing the Committee: Kathy Gerhart

Discussion: The Bar's income statement generated a surplus of \$209K excluding Sections, for the seven months ended July 31, 2018. The surplus year-to-date is \$87K less than budgeted. This is due to \$20K more in revenues and \$107K more in expenses. Sections Activity reported a year-to-date surplus of \$134K compared to a budgeted surplus of \$1K. Dues Penalty revenue is \$130K less than originally budgeted. Members are paying annual fees earlier than in previous years. Court Discipline Operations expense is \$40K higher than budget due to a less-than-anticipated settle up amount received from the Court based on final 2017 actual expenditures. IT expenses are \$225K higher than budgeted. Contract labor was utilized in lieu of filling personnel vacancies. Also personnel and professional services budgeted for end of year were utilized during the first seven months to complete mission critical IT projects.

The SBA's forecast for year-end will be a \$245K deficit compared to a budgeted \$20K surplus. Anticipating IT costs for the year to be over budget by \$155K. Legal expenses are \$30K higher than budgeted due to higher than anticipated litigation. Anticipating these expenses will be \$60K over budget at year end.

Meeting adjourned by: Denis Fitzgibbons at 5:19pm