

**FINANCE & AUDIT COMMITTEE (F&AC)**

State Bar of Arizona  
4201 N. 24<sup>th</sup> Street, Suite 100  
Phoenix, Arizona 85016

April 18, 2019  
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**

**T - 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:**

**Joel England**

**Rick DeBruhl**

**Kathy Gerhart**

**Lisa Panahi**

**Ann Leslie**

**Aron Carrico**

**Octavius Garrett**

**Martin Gaxiola**

**Guests:**

**Allen Klose - Mayer Hoffman McCann P.C. (MHM)**

**Libby Zukowski - Mayer Hoffman McCann P.C. (MHM)**

**Minutes taken by: Aron Carrico & Octavius Garrett**

**I. CALL TO ORDER:**

**Called to Order by:** Denis Fitzgibbons

**Time:** 3:00pm

**II. CALL TO THE PUBLIC:**

**Individuals addressing the Committee:** None

**Discussion:** None

**III. Consolidated SBA & CPF 2018 Audited Financial Statements Draft**

**Individuals addressing the Committee:** Allen Klose & Libby Zukowski (MHM)

**Discussion:** Allen K. & Libby Z. reviewed a PowerPoint presentation regarding the 2018 consolidated SBA & CPF audited financial statements draft. Allen K. stated that the auditor's opinion on the 2018 SBA & CPF financials were fairly stated and considered to be a "clean" or "unmodified" report with no instances of fraud, noted material uncertainties, or significant changes to the planned scope or approach required during the fieldwork. The new not-for-profit financial statement standards were adopted in 2018, which had no impact on the operating results, but did impact the classification of the net assets.

Three adjustments were presented for information purposes only. These items are considered uncorrected misstatements that were not material and do not require formal corrective action.

- Prior period adjustment for deferred rent income (\$92k), SBA reconciled this adjustment in the 2018 consolidated statement of activities
- Uncertain tax position related to unrelated business income and potential tax liability (\$89K) that could be due.
- Accrual of legal fees on invoices received subsequent to year-end (\$56K)

There were no further questions from committee members.

Libby Z. went on to discuss how MHM selected the audit procedures and data sets that they would utilize to perform the audit. This included a recalculation of the dues and pro hac vice revenue based on effective rates and membership listings, and performing tests of internal controls for CLE, advertising, and publication revenues. Libby Z. then explained how MHM used Benford's Law Analysis to audit the cash disbursements for 2018.

The auditors noted that updated revenue recognition standards, lease reporting standards, and accounting for contributions will have a possible financial reporting impact on the SBA.

Kathy G. reviewed the 2018 revised presentation of functional expense categories. Committee members recommended that the program service groupings be reviewed to ensure they were properly titled and documented so that there is no room for misunderstanding for external users.

The final issued report will be provided at the May FAC meeting.

There were no further questions from committee members about the audited financial statements.

**IV. Approval of Minutes – February 21, 2019 meeting minutes**

**Individuals addressing the Committee:** Dennis Fitzgibbons

**Discussion:** None

**Motion/moved by:** Jason C.

**Seconded by:** Tyler C.

**Motion:** Passed unanimously

**V. 2019 Contribution Request – Pan-American Charter School – We the People National Invitation support**

**Individuals addressing the Committee:** Kathy Gerhart & Lisa Panahi

**Discussion:** Kathy G. noted that a contribution request denied by the CEO would have to go before the F&AC committee for review per revised procedures and guidelines noted in the September 20, 2018 minutes. The Pan American Charter School sponsorship request totaled \$9,000 to support students participating in a mock congressional hearing in Washington, DC. Lisa P. stated that there could be some concern given the agenda of the event may not be considered Keller-complaint.

**Motion/moved by:** Dave B. moved to support the staff's decision to deny the sponsorship request.

**Seconded by:** Tyler C.

**Motion:** Passed unanimously

**VI. 2018 Annual Surplus – Reserve Account Allocation**

**Individuals addressing the Committee:** Kathy Gerhart

**Discussion:** Kathy G. reviewed the current balance of the Capital reserve (\$1,216,198) and the Dues reserve (\$2,625,294). The staff recommended to deposit \$100,747 into the Dues Reserve, which is the 2018 annual surplus adjusted for the change in revenue recognition for rent. Also, a recommendation was made to deposit \$619,610 into the Capital reserve, which is the difference between the 2018 depreciation less the 2018 capital expenditures not funded from the capital reserve.

**Motion/moved by:** Dave B. moved to approve the request made by the SBA staff to deposit \$100,747 into the Dues reserve, and \$619,610 into the Capital reserve.

**Seconded by:** Tyler C.

**Motion:** Passed unanimously

## **VII. Investment Sub-committee – Investment Review Update**

**Individuals addressing the Committee:** Kathy Gerhart

**Discussion:** Kathy G. reminded the F&AC that Wells Fargo is mandating the relocation of the capital and membership fee reserves by May 31<sup>st</sup>. Kathy G. has reached out to MHM and the Arizona Society of CPA's for long-term and short-term investment recommendation for the reserve funds.

## **VIII. 24<sup>th</sup> Street – Suite 220 Spec buildout**

**Individuals addressing the Committee:** Kathy Gerhart & Joel England

**Discussion:** Joel E. reviewed the status of the 24<sup>th</sup> St suite 220. The 2019 budgeted revenue for suite 220 is \$40,992, with \$142,880 budgeted for tenant improvements (TI) in the 2019 Capital budget to be incurred with execution of lease. The broker recommendation is to use \$76K of the \$143K TI to build-out the suite, which will make it walk-in ready for a prospective tenant. The build-out will bring higher rental rates between \$25-\$27 per square foot (psf) compared to the current \$22.95 psf. The broker stated that the current market behavior is that prospective tenants are looking for walk in ready spaces with a shortened lead time for occupancy. Joel E. noted that the space has been on the market since February 2018 with little to no interest, and that the staff recommends that we move forward with the \$77K buildout to bring in more potential interest. Dave B. expressed that the buildout would be something the tenant would want to be a part of so that they can make changes that fit their needs. There is a concern that making the changes beforehand will limit our options as to who is interested in the property. Joel E. recommended that we invite the broker to speak at a future F&AC meeting to better address questions, concerns, and potential alternative options. The F&AC agreed with the CEO recommendation.

## **IX. March 2019 CPF Financial Statements**

**Individuals addressing the Committee:** Kathy Gerhart

**Discussion:** Jim P. reviewed the 2019 Q1 CPF financial statements which showed \$2.2M in CDARs, \$71K owed to the SBA for normal operating expense reimbursements (2018 Q4 & 2019 Q1). By the end of the first quarter, Assessment Income was reported as \$418K and Claims Paid were \$37K. Jim P. noted that there was a large difference in the salaries budgeted for 2019 \$83K compared to the 2018 actual of \$102K due the elimination of a part-time position. The next CPF Board of Trustees meeting is forthcoming in Q2.

## **X. February 2019 SBA Financial Statements**

**Individuals addressing the Committee:** Kathy Gerhart

**Discussion:** See handout material. There were no further questions from the committee members.

### **XI. March 2019 SBA Financial Statements**

**Individuals addressing the Committee:** Kathy Gerhart

**Discussion:** For the three months ended March 31, 2019, the Bar's income statement generated a loss of \$136K excluding sections. The loss year-to-date is \$401K less than budgeted. This is due to \$134K more in revenues and \$267K less in expenses. Current revenue and expense variances relate to timing differences in actual vs. budgeted amounts. Sections Activity reported a surplus of \$117K compared to a budgeted surplus of \$71K. There were no further questions from the committee members.

### **XII. March 2019 SBA Quarterly Reports**

**Individuals addressing the Committee:** Kathy Gerhart

**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. Kathy G. also reviewed the significant contract schedule, which includes the signed 2021 convention contract with Sheraton Wild Horse Pass. The contract contains an impossibility clause stating that the performance of the agreement is subject to termination without liability upon the occurrence of any circumstance beyond the control of either party/ The contract was updated and approved to include mandated deunification of the State Bar of Arizona as an occurrence beyond the control of either party. There were no further questions from the committee members.

### **XIII. CEO/ED & CFO Certification – Q1 2019**

**Individuals addressing the Committee:** Kathy Gerhart

**Discussion:** Kathy G. presented the signed 2018 Q1 CEO/ED & CFO Certification and confirmed that the SBA is in compliance with the Financial Policies Manual.

**Meeting adjourned by:** Denis Fitzgibbons at 4:35pm