

FINANCE & AUDIT COMMITTEE (F&AC)

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

April 19, 2018
3pm
Cholla Room

Minutes (Approved)

MEMBER ATTENDANCE:

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

P - Brian Furuya, Chair

P - Anna Thomasson (on phone until 3:45pm then present)

T - Lori Higuera, Vice Chair

T - Dave Byers

T - Tyler Carrell

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

OTHER ATTENDEES:

State Bar Staff:

John Phelps

Maret Vessella

Kathy Gerhart

Lisa Deane

Rick DeBruhl

Lori Maxwell

Lisa Panahi

Carrie Sherman

Ann Leslie

Martin Gaxiola

Octavius Garrett

Lisa Chamberland

Patricia Seguin

LeAnn Rudolph, Partner – Eide Bailly

Michelle Roesch, Audit Associate – Eide Bailly

Andy A. Forsell – Lockton Companies

Minutes taken by: Lisa Chamberland & Octavius Garrett

I. CALL TO ORDER

Called to Order by: Brian F.

Time: 3:02 pm

II. CALL TO THE PUBLIC

Individuals addressing the Committee: None

Discussion: None

III. Approval of minutes – March 29th meeting minutes:

Individuals addressing the Committee: Brian F.

Discussion: None

Motion/moved by: Dave B. motioned to approve March 29th meeting minutes.

Seconded by: Tyler C.

Motion: Passed unanimously

IV. Presentation: Eide Bailly

Individuals addressing the Committee: LeAnn Rudolph, Michelle Roesch

Discussion: LeAnn R. reviewed the SBA 2017 AU 260 Letter to the Board of Governors (BoG) and CPF Board of Trustees which cites what Eide Bailly is responsible for in performing the consolidated financial statement audit; the planned scope and timing of the audit; compliance with all ethics requirements regarding independence; the qualitative aspects of the SBA's significant accounting practices; and other significant matters, findings or issues with the audit.

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

- Deferred rent presentation (similar to last year)
- Uncertain tax position related to unrelated business income and potential tax liability (\$109K) that could be due.

There were no further questions from committee members about the 2017 AU 260 Letter.

LeAnn R. reviewed the Independent Auditor's Report – Management Responsibility for the Consolidated Financial Statements, Auditor's Responsibility, Opinion & Report on Supplementary Information.

LeAnn also reviewed the Consolidated SBA & Client Protection Fund (CPF) 2017 & 2016 Audited Financial Statements with the committee. LeAnn noted that the Independent Auditor's Report is the only part of the audited financial statement that is prepared solely by Eide Bailly, whereas, the

financial statements and footnotes are prepared using information from the State Bar. Eide Bailly noted that the financial audit did not test nor determine any opinion on the SBA's internal controls.

Recent Accounting Pronouncements that will have a possible financial reporting impact on the SBA: updated revenue recognition standards; lease reporting standards; non-profit financial statement presentation (mostly related to functional and natural income/expenses classifications and liquidity reporting).

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

V. Presentation: Lockton Companies

Individuals addressing the Committee: Andy A. Forsell

Discussion: Kathy G. and Andy F.

Kathy G. noted that it is a Financial Policies Manual requirement to annually present to the F&AC the insurance risks within the organization and the related coverage for those risks. The SBA went out to Request For Proposal (RFP) to consolidate all policies under one insurance broker. Lockton was selected from the RFP process.

Andy F. reviewed coverages in the areas of Key Coverages and Key Exposures/Risks and the changes made in these areas over the past year. It was noted that SBA is in-line with other Bars in terms of the scope of insurance coverages.

There were no further questions from committee members.

Dave B. and Tyler C. dropped off of the telephone, but Brian, Anna & Lori H. remained.

VI. Office of Presiding Disciplinary Judge – 2017 Cost Settle Up:

Individuals addressing the Committee: Kathy G.

Discussion:

Kathy G. reviewed a comparison of the 2017 and 2016 Office of the Presiding Disciplinary Judge Cost settle-up. The SBA received a \$61k refund in 2016, but only a \$5K refund for 2017. Costs increased 11.1% from 2016 to 2017.

VII. Sections – Use of Funds:

Individuals addressing the Committee: Brian F.

Discussion: The Board of Governors and SBA has an alcohol expenditure policy but there is not a formal alcohol expenditure policy related to Sections activities. The SBA will be working on a full alcohol expenditure policy in cooperation with senior leadership, legal counsel and our insurance brokers.

VIII. 2019 Dues Increase Review (Court Administrative Order):

Individuals addressing the Committee: Brian F. and Kathy G.

Discussion: Brian F. and Kathy G. informed F&AC committee members about an informal request from the AZ Supreme Court to re-evaluate the need for the scheduled 2019 Dues increase.

IX. 5 Year Projection Models:

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the 5-year projection models broken out between regulatory, voluntary and dues reserves offsets within the following 4 scenarios of no dues increases starting in 2018:

- Option 1: No changes to the current SBA organizational structure
- Option 2: Effective 2020, SBA no longer underwrites Section costs; Sections CLE integrated with SBA CLE; CLE Program re-evaluation to a subscription-based model; CLE revenue increased 5% annually
- Option 3: Effective 2021, SBA no longer underwrites Section costs; Sections CLE integrated with SBA CLE; CLE Program re-evaluation to a subscription-based model; CLE revenue increased 5% annually
- Option 4: Effective 2022, SBA no longer underwrites Section costs; Sections CLE integrated with SBA CLE; CLE Program re-evaluation to a subscription-based model; CLE revenue increased 5% annually

X. March 2018 Client Protection Fund (CPF) Financial Statements:

Individuals addressing the Committee: Jim Penny.

Discussion: Jim reviewed the 2018 Q1 CPF financial statements which showed \$2.4M in CDARs, \$65K owed to the SBA for normal operating expense reimbursements (2017 Q4 & 2018 Q1). By the end of the first quarter, Assessment Income was reported as \$412K and Claims Paid were \$134K. The next CPF Board of Trustees meeting is forthcoming in Q2.

XI. February 2018 SBA Final Financial Statements:

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the February Financial Statement Report and for the two months ended February 28, 2018, the Bar's income statement generated a loss of \$121K excluding Sections. The loss year-to-date is \$187K more than budgeted. This is due to \$114K less in revenues and \$73K more in expenses. Sections Activity reported a year-to-date surplus of \$101K compared to a budgeted surplus of \$83K.

XII. March 2018 SBA Financial Statements:

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the March Financial Statement Report and for the three months ended March 31, 2018, the Bar's income statement generated a loss of \$162K excluding Sections. The loss year-to-date is \$129K more than budgeted. This is due to \$113K less in revenues and \$16K

more in expenses. Sections Activity reported a year-to-date surplus of \$118K compared to a budgeted surplus of \$68K.

XIII. March 2018 Quarterly Financial Reports:

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the Quarterly Bench & Bar Income/Expenses Summary; the Quarterly Capital Expenditure Recap; Quarterly Ranked Vendor Payments. The Quarterly Significant Contracts report will be provided at the May F&AC meeting

XIV. CEO/ED & CFO Certification – Q1 2018:

Individuals addressing the Committee: Kathy G.

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: Brian F. at 4:53 pm.