### **Alabama State Bar**

# FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

September 30, 2019 and 2018



### Alabama State Bar Table of Contents September 30, 2019 and 2018

TAB: REPORT	
Independent Auditors' Report	1
TAB: FINANCIAL STATEMENTS	
Statements of Assets, Liabilities and Net Position – Modified Cash Basis	3
Statements of Assets, Elabilities and Net Fosition Modified Cash basis	3
Statements of Revenues, Expenses and Changes in Net Position	
– Modified Cash Basis	4
modified dash basis	·
Statements of Cash Flows – Modified Cash Basis	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	
Schedules of Assets, Liabilities and Net Position by Fund – Modified Cash Basis	18
Schedules of Revenues, Expenses and Changes in Net Position by Fund	
– Modified Cash Basis	20







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#### INDEPENDENT AUDITORS' REPORT

To the Board of Bar Commissioners Alabama State Bar

We have audited the accompanying financial statements of Alabama State Bar (the Bar), which comprise the statements of assets, liabilities and net position – modified cash basis as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position – modified cash basis and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bar's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bar's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net position of Alabama State Bar as of September 30, 2019 and 2018, and its revenues, expenses and changes in net position for the years then ended in accordance with the modified cash basis of accounting, as described in Note 2.

#### **Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of assets, liabilities and net position by fund — modified cash basis, and revenues, expenses and changes in net position by fund — modified cash basis are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

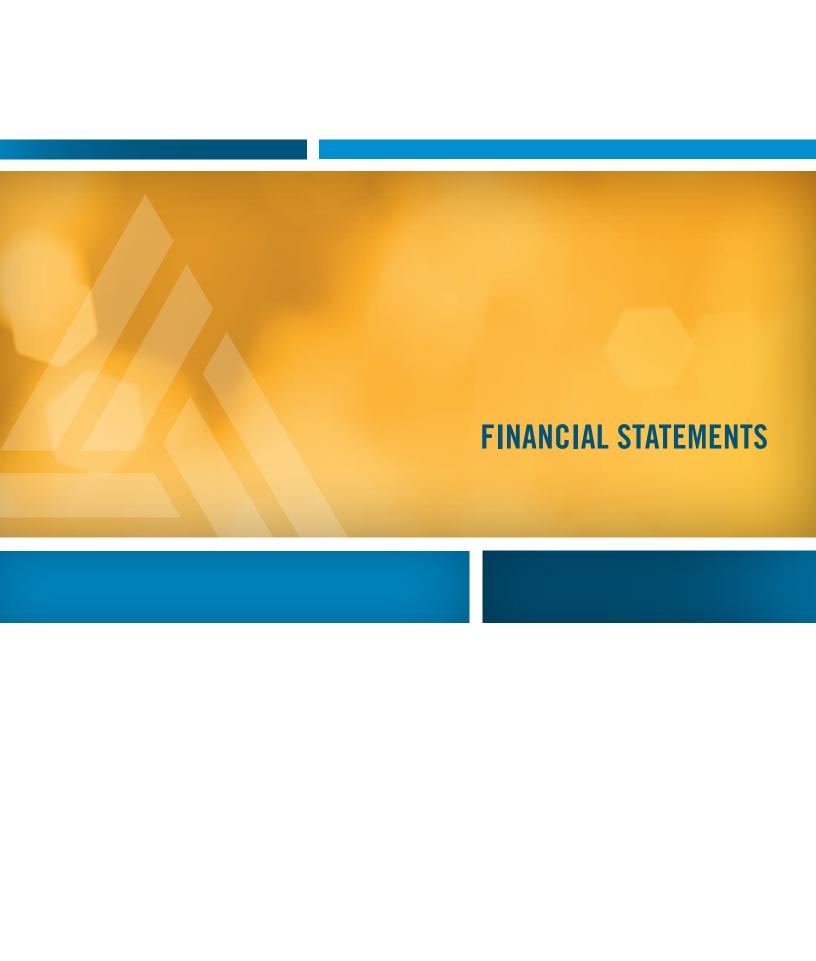
#### **Other Matter**

The Alabama State Bar has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. Our opinion is not modified with respect to this matter.

Montgomery, Alabama

Can Rigge & Ingram, L.L.C.

December 11, 2019



# Alabama State Bar Statements of Assets, Liabilities and Net Position - Modified Cash Basis

September 30,	2019	2018
Assets		
Cash and cash equivalents Certificates of deposit Accounts receivable	\$ 4,386,074 122,898 1,225	\$ 4,470,398 122,898 2,812
Total current assets	4,510,197	4,596,108
Investments	8,276,883	7,482,413
Total assets	\$ 12,787,080	\$ 12,078,521
Liabilities and net position		
Current liabilities Deferred revenues Due to affiliates Custodial accounts	\$ 2,079,106 64,125 586,536	\$ 2,444,214 77,225 556,283
Total current liabilities	2,729,767	3,077,722
Net position	10,057,313	9,000,799
Total liabilities and net position	\$ 12,787,080	\$ 12,078,521

# Alabama State Bar Statements of Revenues, Expenses and Changes in Net Position - Modified Cash Basis

For the years ended September 30,	2019		2018
Operating revenues			
License fees	\$ 4,557,308	\$	4,517,912
Member dues	721,338		715,487
CSF assessments and recoupments	493,089		489,158
Bar exam fees	601,450		589,850
Annual meeting	201,631		187,678
Grants	209,823		200,717
Pro Hac Vice fees	124,975		166,000
MCLE fees	175,374		146,150
Law student registration fees	123,750		115,400
Reciprocity fees	42,875		37,625
Advertising	69,331		79,241
Leadership forum	-		23,900
Lawyer referral service fees	31,179		29,300
Sponsorships	136,720		75,934
Disciplinary fees and costs	55,816		55,401
Authorized house counsel	19,725		15,850
Petition for reinstatement	4,500		6,750
Royalties	9,716		9,233
Bar exam review fees	1,605		1,125
Specialization fees	6,900		5,213
Convenience fees	-		60
Miscellaneous	51,197		46,641
Total operating revenues	7,638,302		7,514,625
Operating expenses			
Personnel costs	3,005,877		2,926,733
Employee benefits	822,774		804,308
Payroll taxes	216,272		208,542
Rentals and leases	912,217		912,550
Professional services	459,669		697,358
CSF claims	513,995		321,140
Printing	191,858		175,578
Grants and awards	137,825		164,825
Postage	89,788		89,315
Advertising	40,147		32,540
Travel - in state	148,481		116,442
Travel - out of state	49,763		63,044
		(0	continued)

# Alabama State Bar Statements of Revenues, Expenses and Changes in Net Position - Modified Cash Basis (Continued)

For the years ended September 30,	2019	2018
Insurance	24,687	25,369
Office expense	49,778	47,246
Training and education	15,391	12,960
Utilities and communication	26,110	28,565
Audio and video	15,522	20,158
Leadership forum	16,438	84,287
Food and beverage	148,147	153,357
Honorarium	14,753	11,495
Committee and board meetings	2,159	1,682
Staff expenses	51,365	74,246
Termination costs	73,038	21,499
Miscellaneous	60,207	56,319
Total operating expenses	7,086,261	7,049,558
Operating income	552,041	465,067
Nonoperating revenues (expenses)		
Investment return	522,430	454,058
Investment fees	(17,957)	(16,253)
		_
Total nonoperating revenues	504,473	437,805
Change in net position	1,056,514	902,872
Net position, beginning of year	9,000,799	8,097,927
Net position, end of year	\$ 10,057,313	\$ 9,000,799

### Alabama State Bar Statements of Cash Flows - Modified Cash Basis

For the years ended September 30,		2019		2018
Cash flows from operating activities				
Fees and dues collected from members	\$	6,570,551	\$	7,186,512
Grants and sponsorships collected from donors	•	346,543	т.	276,651
Cash generated from other operations		356,100		369,293
Salaries and benefits paid to personnel		(4,392,257)		(4,240,183)
Grants and awards paid to recipients		(150,925)		(163,500)
Payments to contractors and vendors		(2,010,344)		(2,285,463)
Payments made for claims		(513,995)		(321,140)
Investment and other income received		206,813		154,329
Net cash flows provided by operating activites		412,486		976,499
Cash flows from investing activities				
Proceeds from maturities of investments		1,914,677		1,633,415
Purchases of investments		(2,411,487)		(2,083,236)
T dichases of investments		(2,411,407)		(2,003,230)
Net cash used in investing activities		(496,810)		(449,821)
Net increase (decrease) in cash and cash equivalents		(84,324)		526,678
Cash and cash equivalents, beginning of year		4,470,398		3,943,720
Cash and cash equivalents, end of year	\$	4,386,074	\$	4,470,398
eash and eash equivalents, end of year	<u> </u>	4,300,074	<u> </u>	4,470,330
Reconciliation of increase in net position to net				
cash provided by operating activities:				
Change in net position	\$	1,056,514	\$	902,872
Adjustments to reconcile change in net	Ψ	1,030,314	7	302,072
position to net cash provided by				
operating activities:				
Realized and unrealized gains		(297,660)		(283,476)
Change in operating assets and liabilities:		(237,000)		(200) 170)
Accounts receivable		1,587		11,900
Deferred revenues		(365,108)		317,831
Due to affiliates		(13,100)		1,325
Custodial accounts		30,253		26,047
230004141 400041140		20,233		20,0 17
Net cash provided by operating activities	\$	412,486	\$	976,499

#### **NOTE 1: NATURE OF OPERATIONS**

In 1923, the Alabama legislature passed a bill integrating the Alabama State Bar (the Bar) with state government. The legislation established the Board of Bar Commissioners. Integration made membership in the traditionally voluntary association mandatory, thereby allowing the Alabama Supreme Court to better regulate the legal profession. The Bar is a special-purpose governmental entity.

The Bar's enabling legislation appears in §§34-3-1 through 88, Code of Alabama (1975). Under this chapter and rules of the Alabama Supreme Court, the Bar serves a dual role. First, the Bar is the licensing and regulatory agency for lawyers in Alabama. The Bar protects the public by ensuring that lawyers who are granted licenses are not only minimally competent to practice law but also abide by the profession's ethical standards. Second, the Bar serves as a professional association with responsibilities largely of a service nature including education, publications and improvement of the administration of justice. These activities benefit the legal profession as well as the general public.

The Supreme Court has duly noted that "members of the Bar of Alabama are members of a private incorporated association." Ex Parte Griffith, 278 Ala. 344, 348, 178 So.2nd 169 (1965). Bar members are officers of the court irrespective of the fact that the state bar was created under the aegis of legislation. Ex Parte Griffith at 348. Furthermore, the funds of the state bar are not state funds. Annual license fees and fees paid by applicants for admission are " ... deposited in the state treasury to the credit of the Alabama State Bar and constitute a separate fund ... " (Emphasis added.) (§34-3-4.) Bar funds are held solely for the benefit of the Bar and can be disbursed only by the Board of Bar Commissioners. (§34-3-44.) Thus, the Bar's funds come from sources other than the state and are held in a manner comparable with funds which are considered non-state funds. See Knutson v. Bronner, 721 So.2nd 678,681 (Ala. 1998).

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Bar is presented to assist in understanding the Bar's financial statements. The financial statements and notes are representations of the Bar's management, who is responsible for their integrity and objectivity. These accounting policies conform to the modified cash basis of accounting and have been consistently applied in the preparation of the financial statements.

#### **Basis of Presentation**

The accompanying financial statements have been prepared in conformity with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the underlying obligation is incurred. The cash basis has been modified to record certain accounts receivable, deferred revenues, amounts due to affiliates, custodial accounts, and to recognize investments held at fair value.

#### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Presentation (Continued)**

All activities of the Bar are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Bar is determined by its measurement focus. The transactions of the Bar are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the statements of assets, liabilities and net position – modified cash basis.

To ensure observance of limitations placed on the use of resources available to the Bar, the accounts are maintained in accordance with the principles of fund accounting. The accounts of the Bar are organized by funds and the operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, and revenues and expenses, as appropriate. All financial transactions have been recorded based on the following fund groups:

<u>State Treasury Fund</u> – These funds are subject to certain legislative controls relating to the Bar's fiscal operations. This fund accounts for member receipts that are required to be deposited with the Treasury of the State of Alabama, to the credit of the Bar and constitute a separate fund (Emphasis added.) (§34-3-4.). The Bar considers this separate fund a trust fund that holds funds solely for the benefit of the Bar. These funds include license fees, exam fees, Pro Hac Vice fees, reciprocity fees, disciplinary fees and costs, and certain other receipts. These funds can only be disbursed by the Board of Bar Commissioners.

<u>Alabama State Bar Association Fund</u> – These funds are subject to certain legislative controls relating to the Bar's fiscal operations. This fund accounts for certain member receipts that are not required to be deposited to the Treasury of the State of Alabama. These include special membership dues, MCLE fees, law student registration fees, lawyer referral fees, and certain other receipts.

<u>Clearing Account Fund</u> – This fund was established in 2014 to provide the ability for members to remit all amounts due to the Bar with a single payment option. The fund receives payments from members and then remits those payments to the proper Bar fund or affiliated organization.

<u>Client Security Fund</u> – This fund was created by the Supreme Court in 1987. The purpose of this fund is to provide for reimbursement of clients for their loss of money because of the dishonest conduct of a member attorney. The fund receives and disburses funds for this purpose.

#### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Presentation (Continued)**

<u>Meetings and Events Fund</u> – This fund accounts for receipts and disbursements associated with the Bar's annual meeting and other programmatic events.

<u>Volunteer Lawyers Fund</u> – This fund accounts for the activities of The Volunteer Lawyers Program (VLP), a program of the Bar. The program's purpose is to coordinate the provision of free legal services to low-income Alabamians in civil matters.

<u>Alabama Lawyer Fund</u> – This fund accounts for the receipts and disbursements associated with the Bar's member publication – The Alabama Lawyer.

<u>Sections Fund</u> – This fund accounts for funds received and disbursed for certain Sections of the Bar. The Bar provides for a number of specialized membership groups which are referred to as Sections. The Sections are separate, self-governing organizations. For certain Sections, in connection with its collection of dues and fees, the Bar collects the Sections dues, holds those dues, and makes disbursements at the direction of the individual Sections.

#### **Use of Estimates**

The presentation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Cash and Cash Equivalents

For the purpose of presentation in the Bar's statements of assets, liabilities and net position – modified cash basis, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates.

#### **Certificates of Deposit**

Certificates of deposit are valued at amortized cost.

#### **Accounts Receivable**

The Bar uses the allowance method for recording uncollectible accounts. The Bar considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

#### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Investments**

Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk and concentration of credit risk. This pronouncement requires additional disclosure to be presented in the notes but has no impact on the net position of the Bar.

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, investments are reported at fair value in the statements of assets, liabilities, and net position, and unrealized gains and losses are reported in the statements of revenues, expenses, and changes in net position. The Bar's investment policy allows for the following types of investments:

Equities – no-load equity index funds comprised of stock issues listed on the New York, American, and NASDAQ stock exchanges which have annual operating expenses of less than 1%.

U.S. Government or U.S. Agency Bonds – maturity not to exceed ten years.

Corporate Bonds – Standard and Poor rating of at least "A" and/or Moody's rating of at least "A", and a maturity of not more than ten years. No more than 5% of an individual issue shall be purchased by the Bar nor shall more than 5% of the assets be invested in securities of any one issuer.

Fixed Investment Funds – no-load, fixed investment funds which have annual operating expenses of less than 1%. No more than 10% of the assets shall be invested in any single fund.

Mortgage-backed securities which are backed by the U.S. Treasury or another federal agency (GNMA, FNMA or FHLMC), cash management accounts, U.S. Treasury Bills, short-term U.S. Government or Agency notes, and certificates of deposit.

#### **Deferred Revenue**

Deferred revenue consists of dues and fees received from licensees for a future budget period.

#### **Custodial Accounts**

The Bar provides for a number of specialized membership groups which are referred to as Sections. In addition to being a member of the Bar, licensees may become a member of one or more Sections as well. The Sections are separate, self-governing organizations. For certain Sections, in connection with its collection of dues and fees, the Bar collects the Sections dues, holds those dues, and makes disbursements at the direction of the individual Sections. Amounts received and not yet disbursed are reported as a liability in the accompanying statements of assets, liabilities and net position – modified cash basis.

#### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Income Taxes**

The Bar is exempt from income taxes as an organization created by the State of Alabama Legislature to perform a function of a public nature customarily performed by governmental instrumentalities and is an administrative arm of the Supreme Court of the State of Alabama.

#### **Net Position**

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net position. The Bar has only unrestricted net position.

#### **Advertising**

The Bar's policy is to expense advertising costs as the costs are incurred. Advertising costs for the years ended September 30, 2019 and 2018 amounted to \$40,147 and \$32,540, respectively.

#### **Subsequent Events**

Subsequent events have been evaluated through December 11, 2019, which represents the date the financial statements were available to be issued.

#### NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

September 30,	20	19	2018
Held in checking accounts Held in money market accounts		3,096,650 1,289,424	\$ 3,389,087 1,081,311
	\$	4,386,074	\$ 4,470,398

## NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS (CONTINUED)

The aggregate fair value, gross unrealized holding gains, gross unrealized holding losses, and cost for investments by major security type consist of the following:

September 30, 2019	Cost	ι	Jnrealized gains	U	Inrealized losses	Fair Value	% of Total
Moderal founds and the	Ć 4 7FC 024		4 525 666			ć 2 202 coo	20.700/
Mutual funds - equities	\$ 1,756,934	\$	1,535,666	\$	-	\$ 3,292,600	39.78%
Corporate bonds	1,382,780		43,251		(4,120)	1,421,911	17.18%
Mortgage backed securities and							
U.S. government agency securities	1,675,220		45,299		(4,999)	1,715,520	20.73%
U.S. government guaranteed securities	1,772,009		76,111		(1,268)	1,846,852	22.31%
Total investments	\$ 6,586,943	\$	1,700,327	\$	(10,387)	\$ 8,276,883	100.00%
			Inrealized		Inrealized	Fair	% of
September 30, 2018	Cost	ι	Jnrealized gains	U	Inrealized losses	Fair Value	% of Total
September 30, 2018	Cost	ι		U			
September 30, 2018  Mutual funds - equities	<b>Cost</b> \$ 1,539,358	\$		\$			
			gains		losses	Value	Total
Mutual funds - equities	\$ 1,539,358		gains 1,553,460		losses	<b>Value</b> \$ 3,092,818	<b>Total</b> 41.33%
Mutual funds - equities Corporate bonds	\$ 1,539,358		gains 1,553,460		losses	<b>Value</b> \$ 3,092,818	<b>Total</b> 41.33%
Mutual funds - equities Corporate bonds Mortgage backed securities and	\$ 1,539,358 1,517,148		gains 1,553,460 392		- (39,355)	<b>Value</b> \$ 3,092,818 1,478,185	Total 41.33% 19.76%
Mutual funds - equities Corporate bonds Mortgage backed securities and U.S. government agency securities	\$ 1,539,358 1,517,148 1,198,323		gains  1,553,460 392  1,354		(39,355) (43,453)	<b>Value</b> \$ 3,092,818     1,478,185  1,156,224	Total 41.33% 19.76% 15.45%

The following schedule summarizes the investment return included in the statements of revenues, expenses and changes in net position – modified cash basis for the years ended September 30, 2019 and 2018, respectively.

For the years ended September 30,		2018	
Interest and dividends, net of fees Realized gains, net Unrealized gains, net	\$	206,813 \$ 50,981 246,679	154,329 69,444 214,032
	\$	<b>504,473</b> \$	437,805

## NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS (CONTINUED)

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the investment portfolio. As of September 30, 2019, the Bar had the following investments and maturities:

	Investment maturities in Years									
		Less						Less		More
September 30, 2019	Fair Value			than 1 1-5		1-5	6-10		than 10	
Corporate bonds	\$	1,421,911	\$	193,813	\$	689,881	\$	483,765	\$	54,452
Mortgage backed securities and										
U.S. government agency securities		1,715,520		-		8,779		294,871		1,411,870
U.S. government guaranteed securities		1,846,852		192,548		595,449		1,058,855		
		4,984,283	\$	386,361	\$	1,294,109	\$	1,837,491	\$	1,466,322
Mutual funds - equities		3,292,600								
Total investments	\$	8,276,883	_							

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Bar. As of September 30, 2019, the Bar's debt securities were rated Aaa to A3 by Moody's Investor Services, Standard and Poor's Rating Services, or Fitch Ratings, meeting the criteria of the Bar's investment policy. As of September 30, 2019, the Mutual Funds, Mortgage Backed Securities and U.S. Government Agency Securities were not rated.

#### **Custodial Credit Risk**

Custodial credit risk is the risk that in the event of the failure of a custodial agent, the Bar may not be able to recover the value of investments or collateral securities that are in the possession of that outside party. All investments of the Bar are registered in the name of the Bar's designated trustee.

#### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. As of September 30, 2019, the Bar was in compliance with the investment guidelines adopted by the Board of Bar Commissioners.

#### **NOTE 4: FAIR VALUE MEASUREMENTS**

Fair value of the Bar's investments are measured using Level 1 and Level 2 inputs.

Level 1	Quoted market prices in active markets for identical assets or liabilities.
Level 2	Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3	Unobservable inputs that are not corroborated by market data.

When securities are traded in secondary markets and quoted market prices are not available, the Bar generally relies on prices obtained from independent vendors. Vendors compile prices from various sources and often apply matrix pricing for similar securities when no price is observable. Securities measured with these valuation techniques are generally classified within Level 2 of the valuation hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses using inputs observable in the market where available. Examples include Federal Home Loan Mortgage pools, corporate bonds and bond funds, and U.S. Treasuries and agencies. There have been no changes in the methodologies used at September 30, 2019 and 2018.

The following tables provide information as of September 30, 2019 and 2018, concerning fair value measurement:

		Based on:	
	Level 1	Level 2	Level 3
September 30, 2019	inputs	inputs	inputs
Mutual funds - equities	\$ 3,292,600	\$ -	\$ -
Corporate bonds	1,421,911	-	-
Mortgage backed securities and			
U.S. government agency securities	-	1,715,520	-
U.S. government guaranteed securities	1,846,852	-	
Total investments	\$ 6,561,363	\$1,715,520	\$ -

#### **NOTE 4: FAIR VALUE MEASUREMENTS (CONTINUED)**

	Based on:				
	Level 1	Level 2	Level 3		
September 30, 2018	inputs	inputs	inputs		
Mutual funds - equities	\$ 3,092,818	\$ -	\$ -		
Corporate bonds	1,478,185	-	-		
Mortgage backed securities and					
U.S. government agency securities	-	1,156,225	-		
U.S. government guaranteed securities	1,755,185	_			
Total investments	\$ 6,326,188	\$1,156,225	\$ -		

#### **NOTE 5: CUSTODIAL ACCOUNTS**

For certain Sections, in connection with its collection of dues and fees, the Bar collects dues, holds those dues, and makes disbursements at the direction of the individual Sections. Amounts received and not yet disbursed are reported as a liability in the accompanying statements of assets, liabilities and net position – modified cash basis.

A summary of the activity in these custodial accounts is as follows:

September 30,	2019	2019			
Balance - beginning of year Total receipts Total disbursements	\$ 556,283 290,814 (260,561)	\$	530,236 294,495 (268,448)		
Balance - end of year	\$ 586,536	\$	556,283		

#### **NOTE 6: RELATED PARTIES AND OPERATING LEASES**

#### Alabama State Bar Foundation (Foundation)

The Bar and the Foundation's operations are conducted in common facilities and are related through common Board members. The Foundation was created for the purpose of constructing and maintaining a building and also acquiring and maintaining certain other furniture, fixtures, and office equipment. The Bar leases the building, furniture, fixtures, and office equipment from the Foundation under annual lease agreements. Rental expense associated with these leases was \$872,040 and \$872,040 for the years ended September 30, 2019 and 2018, respectively.

#### NOTE 6: RELATED PARTIES AND OPERATING LEASES (CONTINUED)

#### Alabama Law Foundation (Law Foundation)

The Bar and the Law Foundation's operations are conducted in common facilities and are related through common Board members. The Law Foundation was created to provide grants to organizations that provide free legal aid to the poor in civil cases, for projects that improve the administration of justice and for law-related education. A portion of certain fees collected by the Bar are remitted to the Law Foundation. The Bar remitted \$92,000 and \$110,600 for the years ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, the Bar had \$53,600 and \$68,350 due to the Law Foundation, respectively. Additionally, the Bar's volunteer lawyer's fund received grant funds in the amount of \$113,000 and \$85,000 from the Law Foundation for the years ended September 30, 2019 and 2018, respectively.

#### Alabama Lawyers Assistance Foundation (Assistance Foundation)

The Bar and The Assistance Foundation's operations are conducted in common facilities and are related through common Board members. The Assistance Foundation was organized for 1) the establishment and maintenance of a program to identify and assist lawyers impaired by alcohol, substance abuse, addiction, and other mental health conditions; 2) the education of the public, judiciary, lawyers, and law students concerning the problems caused by alcohol, substance abuse, addiction, and other mental health conditions, 3) to increase awareness of the assistance available for those who are impaired and to provide encouragement and assistance to lawyers recovering from alcohol, substance abuse, addiction, and other mental health conditions. A portion of certain fees collected by the Bar are remitted to the Assistance Foundation in connection with its purposes. The Bar remitted \$22,175 and \$25,450 in fees to the Assistance Foundation for the years ended September 30, 2019 and 2018, respectively. The Bar had amounts due to the Assistance Foundation in the amount of \$10,525 and \$8,875 as of September 30, 2019 and 2018, respectively.

#### **NOTE 7: CONCENTRATION OF CASH**

The Bar maintains its cash balances and certificates of deposit in local banks and brokerage institutions. These institutions are FDIC insured up to \$250,000 and SIPC insured up to \$500,000. The Bar also participates in The Security for Alabama Funds Enhancement, or SAFE Program. The SAFE Program provides for participating banks to pledge eligible collateral to further protect deposits of public funds. As a result, the Bar did not have any uninsured balances as of September 30, 2019 and 2018.

#### **NOTE 8: RETIREMENT PLAN**

The Bar participates in the Employees' Retirement System of Alabama (ERS), an agent multipleemployer public employee retirement plan. The ERS was established October 1, 1945, under the provisions of Act 515 of the Alabama Code and is administered by a separate Board of Control. The plan covers qualified persons employed by certain state-supported institutions. During the 2012 regular session of the Alabama Legislature, a new defined benefit plan tier (tier 2) was created for employees hired on or after January 1, 2013. For the years ended September 30, 2019 and 2018, employee participation require contributions of earnable compensation of 7.50% and 6.00%, respectively for tier 1 and tier 2 employees. The Bar contributes an actuarially determined percentage which is set annually. The employer percentages for the year ended September 30, 2019 were 15.24% and 14.87%, respectively for tier 1 and tier 2 employees. The employer percentages for the year ended September 30, 2018 were 14.51% and 14.14%, respectively for tier 1 and tier 2 employees. Benefits vest after 10 years of credited service. Participants retiring after attaining the age of 60 are entitled to the computed annual retirement benefit, payable monthly for life. Upon resignation, plan members receive accumulated contributions and proportional accumulated interest on those contributions. Employer contributions made to the plan on behalf of employees for the years ended September 30, 2019 and 2018 were \$399,003 and \$372,853, respectively.



# Alabama State Bar Schedule of Assets, Liabilities and Net Position by Fund - Modified Cash Basis

September 30,						201	19							
	State		Alabama		Client	M	leetings	Vo	lunteer	A	labama			
	Treasury	:	State Bar	Clearing	Security	an	d Events	La	wyers		Lawyer	9	Sections	
	Fund	Α	ssociation	Account	Fund		Fund		Fund		Fund		Fund	Total
Assets														
Cash and cash equivalents	\$ 106,539	\$	1,020,896	\$ 2,166,884	\$ 442,565	\$	72,150	\$	1,749	\$	42,243	\$	533,048	\$ 4,386,074
Certificates of deposit	-		-	-	-		-		-		122,898		-	122,898
Accounts receivable	-		-	-	-		1,225		-		-		-	1,225
Due from (to) other funds	1,676,030		241,991	(2,132,981)	159,550		362		-		300		54,748	-
Total current assets	1,782,569		1,262,887	33,903	602,115		73,737		1,749		165,441		587,796	4,510,197
Investments	-		5,157,683	-	3,119,200		-		-		-		-	8,276,883
Total assets	\$ 1,782,569	\$	6,420,570	\$ 33,903	\$ 3,721,315	\$	73,737	\$	1,749	\$	165,441	\$	587,796	\$ 12,787,080
Liabilities and net position														
Current liabilities														
Deferred revenues	\$ 1,653,305	\$	264,841	\$ -	\$ 159,700	\$	-	\$	-	\$	-	\$	1,260	\$ 2,079,106
Due to affiliates	30,725		-	33,400	-		-		-		-		-	64,125
Custodial accounts	-		-	-	-		-		-		-		586,536	586,536
Total current liabilities	1,684,030		264,841	33,400	159,700	_	-	_	-		-		587,796	2,729,767
Net position	98,539		6,155,729	503	3,561,615		73,737		1,749		165,441		-	10,057,313
Total liabilities and net position	\$ 1,782,569	\$	6,420,570	\$ 33,903	\$ 3,721,315	\$	73,737	\$	1,749	\$	165,441	\$	587,796	\$ 12,787,080

### Alabama State Bar Schedule of Assets, Liabilities and Net Position by Fund - Modified Cash Basis (Continued)

September 30,						20	18					
	State Treasury		Alabama State Bar	Clearing	Client Security		Meetings	olunteer awyers	llabama Lawyer	,	Sections	
	Fund	Δ	ssociation	Account	Fund		Fund	Fund	Fund		Fund	Total
Assets												
Cash and cash equivalents	\$ 121,083	\$	792,801	\$ 2,552,482	\$ 432,057	\$	2,105	\$ 19,667	\$ 59,609	\$	490,594	\$ 4,470,398
Certificates of deposit	-		-	-	-		-	-	122,898		-	122,898
Accounts receivable	-		-	-	-		2,812	-	-		-	2,812
Due from (to) other funds	2,008,300		264,244	(2,511,829)	186,525		(13,374)	-	300		65,834	-
Total current assets	2,129,383		1,057,045	40,653	618,582		(8,457)	19,667	182,807		556,428	4,596,108
Investments	-		4,420,453	-	3,061,960		-	_	-		· -	7,482,413
Total assets	\$ 2,129,383	\$	5,477,498	\$ 40,653	\$ 3,680,542	\$	(8,457)	\$ 19,667	\$ 182,807	\$	556,428	\$ 12,078,521
Liabilities and net position												
Current liabilities												
Deferred revenues	\$ 1,956,825	\$	300,719	\$ -	\$ 186,525	\$	-	\$ -	\$ -	\$	145	\$ 2,444,214
Due to affiliates	37,075		-	40,150	-		-	-	-		-	77,225
Custodial accounts				-			-	-	-		556,283	556,283
Total current liabilities	1,993,900		300,719	40,150	186,525		-	-	-		556,428	3,077,722
Net position (deficit)	135,483		5,176,779	503	3,494,017		(8,457)	19,667	182,807			9,000,799
Total liabilities and net position (deficit)	\$ 2,129,383	\$	5,477,498	\$ 40,653	\$ 3,680,542	\$	(8,457)	\$ 19,667	\$ 182,807	\$	556,428	\$ 12,078,521

### Alabama State Bar Schedule of Revenues, Expenses and Changes in Net Position by Fund - Modified Cash Basis

For the year ended September 30,					2019				
	State	Alabama		Client	Meetings	Volunteer	Alabama	Eliminating	
	Treasury	State Bar	Clearing	Security	and Events	Lawyers	Lawyer	Journal	
	Fund	Association	Account	Fund	Fund	Fund	Fund	Entries	Total
Operating Revenues									
License fees	\$ 4,557,308		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,557,308
Member dues	-	721,338	-	-	-	-	-	-	721,338
CSF assessments and recoupments	-	-	-	493,089	-	-	-	-	493,089
Bar exam fees	601,450	-	-	-	-	-	-	-	601,450
Annual meeting	-	-	-	-	201,631	-	-	-	201,631
Grants	-	-	-	-	-	209,823	-	-	209,823
Pro Hac Vice fees	124,975	-	-	-	-	-	-	-	124,975
MCLE fees	-	175,374	-	-	-	-	-	-	175,374
Law student registration fees	-	123,750	-	-	-	-	-	-	123,750
Reciprocity fees	42,875	-	-	-	-	-	-	-	42,875
Alabama State Bar allotment	-	-	-	-	40,000	-	99,000	(139,000)	-
Advertising	-	-	-	-	-	-	69,331	-	69,331
Lawyer referral service fees	-	31,179	-	-	-	-	-	-	31,179
Sponsorships	-	-	-	-	136,720	-	-	-	136,720
Disciplinary fees and costs	55,816	-	-	-	-	-	-	-	55,816
Authorized house counsel	19,725	-	-	-	_	-	-	-	19,725
Petition for reinstatement	4,500	-	_	-	_	-	-	_	4,500
Royalties	· -	-	_	-	_	-	9,716	_	9,716
Bar exam review fees	-	1,605	_	-	_	-	-	_	1,605
Specialization fees	-	6,900	_	-	_	-	_	_	6,900
Miscellaneous	240	5,064	-	60	40,451	5,250	132	-	51,197
Total operating revenues	5,406,889	1,065,210	_	493,149	418,802	215,073	178,179	(139,000)	7,638,302
	2,,	,,		,			,	(,3)	,:,
Operating Expenses									
Personnel costs	2,791,631	-	-	58,453	-	155,793	-	-	3,005,877
Employee benefits	758,541	-	-	19,525	-	44,708	-	-	822,774
Payroll taxes	200,574	-	-	4,049	-	11,649	-	-	216,272
Rentals and leases	891,720	20,497	-	-	-	-	-	-	912,217
Professional services	270,224	164,684	-	21,393	1,500	-	1,868	-	459,669
									(Continued)

### Alabama State Bar Schedule of Revenues, Expenses and Changes in Net Position by Fund - Modified Cash Basis (Continued)

For the year ended September 30,					2019				
	State	Alabama		Client	Meetings	Volunteer	Alabama	Eliminating	
	Treasury	State Bar	Clearing	Security	and Events	Lawyers	Lawyer	Journal	
	Fund	Association	Account	Fund	Fund	Fund	Fund	Entries	Total
CSF claims	-	-	-	513,995	-	-	-	-	513,995
Printing	99,462	-	-	-	4,032	657	186,707	(99,000)	191,858
Grants and awards	137,825	40,000	-	-	-	_	-	(40,000)	137,825
Postage	· -	83,490	-	-	-	_	6,298	-	89,788
Advertising	16,182	5,852	-	-	18,113	_	-	-	40,147
Travel - in state	119,981	5,486	-	3,124	11,622	8,268	-	-	148,481
Travel - out of state	41,036	8,727	-	-	-	-	-	-	49,763
Insurance	23,133	-	-	-	-	1,554	-	-	24,687
Office expense	-	49,778	-	-	-	-	-	-	49,778
Training and education	5,760	9,631	-	-	-	-	-	-	15,391
Utilities and communication	14,527	11,583	-	-	-	-	-	-	26,110
Audio and video	-	-	-	-	15,522	-	-	-	15,522
Leadership forum	-	-	-	-	16,438	-	-	-	16,438
Food and beverage	-	-	-	-	148,147	-	-	-	148,147
Honorarium	-	-	-	-	14,753	-	-	-	14,753
Committee and board meetings	-	-	-	-	1,601	150	408	-	2,159
Staff expenses	-	-	-	-	51,365	-	-	-	51,365
Termination costs	73,038	-	-	-	-	-	-	-	73,038
Miscellaneous	199	(7,028)	-	1,156	53,515	10,212	2,153	-	60,207
Total operating expenses	5,443,833	392,700	-	621,695	336,608	232,991	197,434	(139,000)	7,086,263
Operating income (deficit)	(36,944)	672,510	-	(128,546)	82,194	(17,918)	(19,255)	_	552,042

(Continued)

### Alabama State Bar Schedule of Revenues, Expenses and Changes in Net Position by Fund - Modified Cash Basis (Continued)

For the year ended September 30,					2019				
	State	Alabama		Client	Meetings	Volunteer	Alabama	Eliminating	
	Treasury Fund	State Bar Association	Clearing Account	Security Fund	and Events Fund	Lawyers Fund	Lawyer Fund	Journal Entries	Total
Nonoperating revenues (expenses)									
Investment return	-	317,249	-	203,292	-	-	1,889	-	522,430
Investment fees	-	(10,809)	-	(7,148)	-	-	-	-	(17,957)
Total nonoperating revenues	-	306,440	-	196,144	-	-	1,889	_	504,473
Change in net position	(36,944)	978,950	-	67,598	82,194	(17,918)	(17,366)	-	1,056,514
Net position (deficit), beginning of year	135,483	5,176,779	503	3,494,017	(8,457)	19,667	182,807	-	9,000,799
Net position, end of year	\$ 98,539	\$ 6,155,729	\$ 503	\$ 3,561,615	\$ 73,737	\$ 1,749	\$ 165,441	\$ -	\$ 10,057,313

### Alabama State Bar Schedule of Revenues, Expenses and Changes in Net Position - Modified Cash Basis

For the year ended September 30,					2018				
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Eliminating Journal Entries	Total
Operating Revenues									
License fees	\$ 4,517,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,517,912
Member dues	-	715,487	-	-	-	-	-	-	715,487
CSF assessments and recoupments	-	-	-	489,158	-	-	-	-	489,158
Bar exam fees	589,850	-	-	-	-	-	-	-	589,850
Annual meeting	-	-	-	-	187,678	-	-	-	187,678
Grants	-	-	-	-	-	200,717	-	-	200,717
Pro Hac Vice fees	166,000	-	-	-	-	-	-	-	166,000
MCLE fees	-	146,150	-	-	-	-	-	-	146,150
Law student registration fees	-	115,400	-	-	-	-	-	-	115,400
Reciprocity fees	37,625	-	-	-	-	-	-	-	37,625
Alabama State Bar allotment	-	-	-	-	60,000	-	99,000	(159,000)	-
Advertising	-	-	-	-	-	-	79,241	-	79,241
Leadership forum	-	-	-	-	23,900	-	-	-	23,900
Lawyer referral service fees	-	29,300	-	-	-	-	-	-	29,300
Sponsorships	-	-	-	-	75,934	-	-	-	75,934
Disciplinary fees and costs	55,401	-	-	-	-	-	-	-	55,401
Authorized house counsel	15,850	-	-	-	-	-	-	-	15,850
Petition for reinstatement	6,750	-	-	-	-	-	-	-	6,750
Royalties	-	-	-	-	-	-	9,233	-	9,233
Bar exam review fees	-	1,125	-	-	-	-	-	-	1,125
Specialization fees	-	5,213	-	-	-	-	-	-	5,213
Convenience fees	-	-	60	-	-	-	-	-	60
Miscellaneous	60	8,367	-	145	29,607	8,300	162	-	46,641
Total operating revenues	5,389,448	1,021,042	60	489,303	377,119	209,017	187,636	(159,000)	7,514,625
Operating Expenses									
Personnel costs	2,718,760	-	-	56,774	-	151,199	-	-	2,926,733
Employee benefits	740,443	1,700	-	18,963	-	43,202	-	-	804,308
Payroll taxes	193,365	-	-	3,968	-	11,209	-	-	208,542
Rentals and leases	894,592	17,958	-	-	-	-	-	-	912,550
Professional services	432,892	261,499	-	-	-	-	2,967	-	697,358
									(Continued)
									,

See independent auditors' report.

### Alabama State Bar Schedule of Revenues, Expenses and Changes in Net Position - Modified Cash Basis (Continued)

or the year ended September 30,					2018				
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Eliminating Journal Entries	Total
				224 4 40					224 4 40
CSF claims	-	2.570	-	321,140	2.064	-	-	-	321,140
Printing	99,000	3,570	-	-	3,961	319	167,728	(99,000)	175,578
Grants and awards	164,325	60,500	-	-	-	-	-	(60,000)	164,825
Postage	-	83,350	-	-	-	-	5,965	-	89,315
Advertising	11,907	6,608	-	-	14,025	-	-	-	32,540
Travel - in state	103,587	3,570	-	2,016	-	7,269	-	-	116,442
Travel - out of state	56,988	6,056	-	-	-	-	-	-	63,044
Insurance	23,058	-	-	-	-	2,311	-	-	25,369
Office expense	-	47,204	-	42	-	-	-	-	47,246
Training and education	6,435	6,525	-	-	-	-	-	-	12,960
Utilities and communication	14,856	13,709	-	-	-	-	-	-	28,565
Audio and video	-	_	-	_	20,158	-	-	_	20,158
Leadership forum	-	_	-	_	84,287	-	_	-	84,287
Food and beverage	_	_	_	_	153,357	_	_	_	153,357
Honorarium	_	_	_	_	11,495	_	_	_	11,495
Committee and board meetings	_	_	_	_	1,592	90	_	_	1,682
Staff expenses	_	_	_	_	74,246	-	_	_	74,246
Termination costs	21,499	_	_	_	, -	_	_	-	21,499
Miscellaneous	2,559	(7,769)	-	720	40,179	20,568	62	-	56,319
Total operating expenses	5,484,266	504,480	-	403,623	403,300	236,167	176,722	(159,000)	7,049,558
Operating income (deficit)	(94,818)	516,562	60	85,680	(26,181)	(27,150)	10,914	-	465,067

(Continued)

### Alabama State Bar Schedule of Revenues, Expenses and Changes in Net Position - Modified Cash Basis (Continued)

For the year ended September 30,					2018				
	State	Alabama		Client	Meetings	Volunteer	Alabama	Eliminating	
	Treasury	State Bar	Clearing	Security	and Events	Lawyers	Lawyer	Journal	
	Fund	Association	Account	Fund	Fund	Fund	Fund	Entries	Total
Nonoperating revenues (expenses)									
Investment return		- 264,342	-	189,707	-	-	9	-	454,058
Investment fees	-	(9,592)	-	(6,661)	-	-	-	-	(16,253)
Total nonoperating revenues	-	- 254,750	-	183,046	-	-	9	-	437,805
Change in net position	(94,818	3) 771,312	60	268,726	(26,181)	(27,150)	10,923	-	902,872
Net position, beginning of year	140,301		443	3,225,291	17,724	46,817	171,884	-	8,097,927
Transfers	90,000	(90,000)	-	-	-	-	-	-	
Net position (deficit), end of year	\$ 135,483	3 \$ 5,176,779	\$ 503	\$ 3,494,017	\$ (8,457)	\$ 19,667	\$ 182,807	\$ -	\$ 9,000,799