

Alabama State Bar

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**


September 30, 2020 and 2019



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**Alabama State Bar
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September 30, 2020 and 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Car, Riggs & Ingram, L.L.C.

Montgomery, Alabama
January 11, 2021

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

<i>September 30,</i>	2020	2019
Assets		
Cash and cash equivalents	\$ 5,403,034	\$ 4,386,074
Certificates of deposit	122,898	122,898
Accounts receivable	-	1,225
Total current assets	5,525,932	4,510,197
Investments	9,337,396	8,276,883
Total assets	\$ 14,863,328	\$ 12,787,080
Liabilities and net position		
Current liabilities		
Deferred revenues	\$ 2,292,482	\$ 2,079,106
Due to affiliates	76,771	64,125
Custodial accounts	720,869	586,536
Total current liabilities	3,090,122	2,729,767
Net position	11,773,206	10,057,313
Total liabilities and net position	\$ 14,863,328	\$ 12,787,080

The accompanying notes are an integral part of these financial statements.

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

<i>For the years ended September 30,</i>	2020	2019
Operating revenues		
License fees	\$ 4,589,485	\$ 4,557,308
Member dues	740,350	721,338
CSF assessments and recoupments	470,644	493,089
Bar exam fees	644,225	601,450
Annual meeting	71,246	201,631
Grants	201,243	133,990
Grants - Legal Services Alabama	70,000	75,833
Pro Hac Vice fees	145,375	124,975
MCLE fees	154,579	175,374
Law student registration fees	129,350	123,750
Reciprocity fees	42,000	42,875
Advertising	60,207	69,331
Lawyer referral service fees	26,757	31,179
Sponsorships	44,150	136,720
Disciplinary fees and costs	66,207	55,816
Authorized house counsel	18,575	19,725
Petition for reinstatement	7,500	4,500
Royalties	10,850	9,716
Bar exam review fees	1,225	1,605
Specialization fees	9,588	6,900
Leadership forum dues	24,225	-
Miscellaneous	1,470	51,197
Total operating revenues	7,529,251	7,638,302
Operating expenses		
Personnel costs	2,942,997	3,005,877
Employee benefits	812,931	822,774
Payroll taxes	215,160	216,272
Rentals and leases	924,948	912,217
Professional services	519,244	459,669
CSF claims	251,297	513,995
Printing	189,685	191,858
Grants and awards	146,625	137,825
Postage	90,398	89,788
Advertising	24,137	40,147
Travel - in state	64,535	148,481
Travel - out of state	26,063	49,763

(continued)

The accompanying notes are an integral part of these financial statements.

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

<i>For the years ended September 30,</i>	2020	2019
Insurance	25,287	24,687
Office expense	44,454	49,778
Training and education	7,206	15,391
Utilities and communication	28,105	26,110
Audio and video	11,420	15,522
Leadership forum	20,685	16,438
Food and beverage	34,873	148,147
Honorarium	900	14,753
Committee and board meetings	1,315	2,159
Staff expenses	17,773	51,365
Termination costs	78,547	73,038
Miscellaneous	64,201	60,207
Total operating expenses	6,542,786	7,086,261
Operating income	986,465	552,041
Nonoperating revenues (expenses)		
Investment return	749,408	522,430
Investment fees	(19,980)	(17,957)
Total nonoperating revenues	729,428	504,473
Change in net position	1,715,893	1,056,514
Net position, beginning of year	10,057,313	9,000,799
Net position, end of year	\$ 11,773,206	\$ 10,057,313

The accompanying notes are an integral part of these financial statements.

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

<i>For the years ended September 30,</i>	2020	2019
Cash flows from operating activities		
Fees and dues collected from members	\$ 7,257,386	\$ 6,570,551
Grants and sponsorships collected from donors	315,393	346,543
Cash generated from other operations	169,848	356,100
Salaries and benefits paid to personnel	(4,183,293)	(4,392,257)
Grants and awards paid to recipients	(133,979)	(150,925)
Payments to contractors and vendors	(1,826,013)	(2,010,344)
Payments made for claims	(251,297)	(513,995)
Investment and other income received	197,002	206,813
Net cash flows provided by operating activities	1,545,047	412,486
Cash flows from investing activities		
Proceeds from maturities of investments	1,579,286	1,914,677
Purchases of investments	(2,107,373)	(2,411,487)
Net cash used in investing activities	(528,087)	(496,810)
Net increase (decrease) in cash and cash equivalents	1,016,960	(84,324)
Cash and cash equivalents, beginning of year	4,386,074	4,470,398
Cash and cash equivalents, end of year	\$ 5,403,034	\$ 4,386,074
Reconciliation of increase in net position to net cash provided by operating activities:		
Change in net position	\$ 1,715,893	\$ 1,056,514
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Realized and unrealized gains	(532,426)	(297,660)
Change in operating assets and liabilities:		
Accounts receivable	1,225	1,587
Deferred revenues	213,376	(365,108)
Due to affiliates	12,646	(13,100)
Custodial accounts	134,333	30,253
Net cash provided by operating activities	\$ 1,545,047	\$ 412,486

The accompanying notes are an integral part of these financial statements.

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:

State Treasury Fund – 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.

Alabama State Bar Association Fund – 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.

Clearing Account Fund – 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.

Client Security Fund – 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)

Meetings and Events Fund – This fund accounts for receipts and disbursements associated with the Bar’s annual meeting and other programmatic events.

Volunteer Lawyers Fund – 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.

Alabama Lawyer Fund – This fund accounts for the receipts and disbursements associated with the Bar’s member publication – The Alabama Lawyer.

Sections Fund – 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.

Coronavirus Relied Fund - This fund accounts for the receipts and disbursements associated with the necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).

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 Revenues

Deferred revenues 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, 2020 and 2019 amounted to \$24,137 and \$40,147, respectively.

Subsequent Events

Management has evaluated subsequent events through January 11, 2021, the date on which the financial statements were available to be issued. See Note 9 for relevant disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

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

Cash and cash equivalents consisted of the following:

<i>September 30,</i>	2020	2019
Held in checking accounts	\$ 3,522,538	\$ 3,096,650
Held in money market accounts	1,880,496	1,289,424
	\$ 5,403,034	\$ 4,386,074

Alabama State Bar
Notes to Financial Statements

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:

<i>September 30, 2020</i>	Cost	Unrealized Gains	Unrealized Losses	Fair Value	% of Total
Mutual funds - equities	\$ 1,818,737	\$ 1,860,848	\$ -	\$ 3,679,585	39.41%
Corporate bonds	1,544,116	88,862	(122)	1,632,856	17.49%
Mortgage backed securities and					
U.S. government agency securities	1,549,175	83,387	(53)	1,632,509	17.48%
U.S. government guaranteed securities	2,232,477	160,475	(506)	2,392,446	25.62%
Total investments	\$ 7,144,505	\$ 2,193,572	\$ (681)	\$ 9,337,396	100.00%

<i>September 30, 2019</i>	Cost	Unrealized Gains	Unrealized Losses	Fair Value	% of Total
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%

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, 2020 and 2019, respectively.

<i>For the years ended September 30,</i>	2020	2019
Interest and dividends, net of fees	\$ 197,002	\$ 206,813
Realized gains, net	29,475	50,981
Unrealized gains, net	502,951	246,679
Total investment return, net	\$ 729,428	\$ 504,473

**Alabama State Bar
Notes to Financial Statements**

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, 2020, the Bar had the following investments and maturities:

<i>September 30, 2020</i>	Fair Value	Investment maturities in Years			
		Less than 1	1-5	Less 6-10	More than 10
Corporate bonds	\$ 1,632,856	\$ 483,120	\$ 637,599	\$ 512,137	\$ -
Mortgage backed securities and U.S. government agency securities	1,632,509	-	8,185	387,630	1,236,694
U.S. government guaranteed securities	2,392,446	548,666	644,564	1,199,216	-
Total maturities	5,657,811	\$ 1,031,786	\$ 1,290,348	\$ 2,098,983	\$ 1,236,694
Mutual funds - equities	3,679,585				
Total investments	<u>\$ 9,337,396</u>				

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, 2020, 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, 2020, 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, 2020, the Bar was in compliance with the investment guidelines adopted by the Board of Bar Commissioners.

NOTE 4: FAIR VALUE MEASUREMENTS

The Bar categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes the inputs to valuation used to measure the fair value of the asset, giving the highest priority to quoted prices in an active market for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

Level 1	Quoted (unadjusted) prices in an active market for identical assets or liabilities
Level 2	Significant other inputs which are observable either directly or indirectly, including quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in a less active market, or other market-corroborated inputs.
Level 3	Valuations derived from valuation techniques using significant unobservable inputs for the assets or liabilities.

When securities are traded in secondary markets and quoted market prices are not available, the Company 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 U.S. government agency securities, residential mortgage-backed securities and corporate debt securities. There have been no changes in the methodologies used at December 31, 2019.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the guidance. The three valuation techniques are as follows:

Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

Income approach – Techniques to convert future amounts to a single present amount based on market expectations utilizing present value techniques.

Alabama State Bar
Notes to Financial Statements

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

The following tables provide information as of September 30, 2020 and 2019, concerning fair value measurement:

	Based on:		
	Level 1 inputs	Level 2 inputs	Level 3 inputs
<i>September 30, 2020</i>			
Mutual funds - equities	\$ 3,679,585	\$ -	\$ -
Corporate bonds	1,632,856	-	-
Mortgage backed securities and U.S. government agency securities	-	1,632,509	-
U.S. government guaranteed securities	2,392,446	-	-
Total investments	\$ 7,704,887	\$ 1,632,509	\$ -

	Based on:		
	Level 1 inputs	Level 2 inputs	Level 3 inputs
<i>September 30, 2019</i>			
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 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.

NOTE 5: CUSTODIAL ACCOUNTS (Continued)

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

<i>September 30,</i>	2020	2019
Balance - beginning of year	\$ 586,536	\$ 556,283
Total receipts	228,447	290,814
Total disbursements	(94,114)	(260,561)
Balance - end of year	\$ 720,869	\$ 586,536

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, 2020 and 2019, respectively.

Alabama Law Foundation (Law Foundation)

The Bar and the Law Foundation 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 \$90,200 and \$92,000 for the years ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and 2019, the Bar had \$64,850 and \$53,600 due to the Law Foundation, respectively. Additionally, the Bar's volunteer lawyer's fund received grant funds in the amount of \$131,750 and \$113,000 from the Law Foundation for the years ended September 30, 2020 and 2019, respectively.

NOTE 6: RELATED PARTIES AND OPERATING LEASES (Continued)

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 \$25,075 and \$22,175 in fees to the Assistance Foundation for the years ended September 30, 2020 and 2019, respectively. The Bar had amounts due to the Assistance Foundation in the amount of \$10,675 and \$10,525 as of September 30, 2020 and 2019, respectively.

Lawyers Render Service, Inc. (LRS, Inc.)

Lawyers Render Services, Inc. is a nonprofit organization organized for charitable and educational purposes. LRS, Inc. provides funding for creation, assistance and/or maintaining the Alabama Lawyers Assistance Program, wellness programs for members of the Bar, and other charitable or educational activities. The Bar and LRS, Inc. share common board members and facilities. There were no financial transactions between the Bar and LRS, Inc. during the years ended September 30, 2020 and 2019.

Alabama State Bar Association Health Plan and Trust (Trust)

The Bar established a health plan and trust for the sole purpose of providing health benefits to members of the Bar and beneficiaries. There were no financial transactions between the Bar and the Trust during the years ended September 30, 2020 and 2019.

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, 2020 and 2019.

NOTE 8: RETIREMENT PLAN

The Bar participates in the Employees' Retirement System of Alabama (ERS), an agent multiple-employer 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, 2020 and 2019, 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, 2020 were 15.24% and 14.87%, respectively for tier 1 and tier 2 employees. The employer percentages for the year ended September 30, 2019 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, 2020 and 2019 were \$404,357 and \$399,003, respectively.

Note 9: SUBSEQUENT EVENTS

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) is characterized as a pandemic. As of the date of this report, uncertainties continue to arise that may have a significant negative impact on the operating activities and results of the Bar. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects of the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Supplementary Information

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

September 30,

	2020								
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Sections Fund	Total
Assets									
Cash and cash equivalents	\$ 105,261	\$ 1,445,251	\$ 2,396,566	\$ 649,915	\$ 112,509	\$ 13,072	\$ 23,221	\$ 657,239	\$ 5,403,034
Certificates of deposit	-	-	-	-	-	-	122,898	-	122,898
Due from (to) other funds	1,887,383	243,442	(2,357,583)	175,675	1,246	(14,658)	300	64,195	-
Total current assets	1,992,644	1,688,693	38,983	825,590	113,755	(1,586)	146,419	721,434	5,525,932
Investments	-	6,024,839	-	3,312,557	-	-	-	-	9,337,396
Total assets	\$ 1,992,644	\$ 7,713,532	\$ 38,983	\$ 4,138,147	\$ 113,755	\$ (1,586)	\$ 146,419	\$ 721,434	\$ 14,863,328
Liabilities and net position									
Current liabilities									
Deferred revenues	\$ 1,832,675	\$ 283,492	\$ -	\$ 175,750	\$ -	\$ -	\$ -	\$ 565	\$ 2,292,482
Due to affiliates	37,075	-	38,450	-	1,246	-	-	-	76,771
Custodial accounts	-	-	-	-	-	-	-	720,869	720,869
Total current liabilities	1,869,750	283,492	38,450	175,750	1,246	-	-	721,434	3,090,122
Net position (deficit)	122,894	7,430,040	533	3,962,397	112,509	(1,586)	146,419	-	11,773,206
Total liabilities and net position (deficit)	\$ 1,992,644	\$ 7,713,532	\$ 38,983	\$ 4,138,147	\$ 113,755	\$ (1,586)	\$ 146,419	\$ 721,434	\$ 14,863,328

See independent auditors' report.

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

<i>September 30,</i>	2019								
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Sections 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

See independent auditors' report.

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

For the year ended September 30,

	2020									
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Coronavirus Relief Fund	Eliminating Journal Entries	Total
Operating Revenues										
License fees	\$ 4,589,485	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,589,485
Member dues	-	740,350	-	-	-	-	-	-	-	740,350
CSF assessments and recoupments	-	-	-	470,644	-	-	-	-	-	470,644
Bar exam fees	644,225	-	-	-	-	-	-	-	-	644,225
Annual meeting	-	-	-	-	71,246	-	-	-	-	71,246
Grants	-	-	-	-	-	156,250	-	44,993	-	201,243
Grants - Legal Services Alabama	-	-	-	-	-	70,000	-	-	-	70,000
Pro Hac Vice fees	145,375	-	-	-	-	-	-	-	-	145,375
MCLE fees	-	154,500	-	-	79	-	-	-	-	154,579
Law student registration fees	-	129,350	-	-	-	-	-	-	-	129,350
Reciprocity fees	42,000	-	-	-	-	-	-	-	-	42,000
Alabama State Bar allotment	-	-	-	-	60,000	-	99,000	-	(159,000)	-
Advertising	-	-	-	-	-	-	60,207	-	-	60,207
Lawyer referral service fees	-	26,757	-	-	-	-	-	-	-	26,757
Sponsorships	-	-	-	-	44,150	-	-	-	-	44,150
Disciplinary fees and costs	66,207	-	-	-	-	-	-	-	-	66,207
Authorized house counsel	18,575	-	-	-	-	-	-	-	-	18,575
Petition for reinstatement	7,500	-	-	-	-	-	-	-	-	7,500
Royalties	-	-	-	-	525	-	10,325	-	-	10,850
Bar exam review fees	-	1,225	-	-	-	-	-	-	-	1,225
Specialization fees	-	9,588	-	-	-	-	-	-	-	9,588
Leadership forum dues	-	-	-	-	24,225	-	-	-	-	24,225
Miscellaneous	30	1,278	-	-	-	-	162	-	-	1,470
Total operating revenues	5,513,397	1,063,048	-	470,644	200,225	226,250	169,694	44,993	(159,000)	7,529,251
Operating Expenses										
Personnel costs	2,722,171	-	-	59,606	-	161,220	-	-	-	2,942,997
Employee benefits	746,163	-	-	20,122	-	46,646	-	-	-	812,931
Payroll taxes	194,487	4,368	-	4,199	-	12,106	-	-	-	215,160
Rentals and leases	888,171	36,777	-	-	-	-	-	-	-	924,948
Professional services	210,966	261,390	(30)	-	46,148	-	770	-	-	519,244

(Continued)

See independent auditors' report.

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

For the year ended September 30,

	2020									
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Coronavirus Relief Fund	Eliminating Journal Entries	Total
CSF claims	-	-	-	251,297	-	-	-	-	-	251,297
Printing	99,000	5,698	-	-	225	-	183,762	-	(99,000)	189,685
Grants and awards	151,625	60,000	-	-	(5,000)	-	-	-	(60,000)	146,625
Postage	-	84,035	-	-	(6)	-	6,369	-	-	90,398
Advertising	9,739	4,805	-	-	8,935	-	658	-	-	24,137
Travel - in state	54,043	4,714	-	521	1,484	3,773	-	-	-	64,535
Travel - out of state	21,483	4,580	-	-	-	-	-	-	-	26,063
Insurance	23,172	-	-	-	177	1,938	-	-	-	25,287
Office expense	-	43,498	-	-	840	116	-	-	-	44,454
Training and education	3,067	4,139	-	-	-	-	-	-	-	7,206
Utilities and communication	13,529	14,576	-	-	-	-	-	-	-	28,105
Audio and video	-	-	-	-	11,420	-	-	-	-	11,420
Leadership forum	-	-	-	-	20,685	-	-	-	-	20,685
Food and beverage	-	-	-	-	34,873	-	-	-	-	34,873
Honorarium	-	-	-	-	900	-	-	-	-	900
Committee and board meetings	-	-	-	-	1,315	-	-	-	-	1,315
Staff expenses	-	-	-	-	17,773	-	-	-	-	17,773
Termination costs	49,364	29,183	-	-	-	-	-	-	-	78,547
Miscellaneous	2,062	(8,490)	-	166	21,684	3,786	-	44,993	-	64,201
Total operating expenses	5,189,042	549,273	(30)	335,911	161,453	229,585	191,559	44,993	(159,000)	6,542,786
Operating income (deficit)	324,355	513,775	30	134,733	38,772	(3,335)	(21,865)	-	-	986,465

(Continued)

See independent auditors' report.

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

For the year ended September 30,

	2020									
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Coronavirus Relief Fund	Eliminating Journal Entries	Total
Nonoperating revenues (expenses)										
Investment return	-	473,353	-	273,212	-	-	2,843	-	-	749,408
Investment fees	-	(12,817)	-	(7,163)	-	-	-	-	-	(19,980)
Total nonoperating revenues	-	460,536	-	266,049	-	-	2,843	-	-	729,428
Change in net position	324,355	974,311	30	400,782	38,772	(3,335)	(19,022)	-	-	1,715,893
Net position, beginning of year	98,539	6,155,729	503	3,561,615	73,737	1,749	165,441	-	-	10,057,313
Transfers	(300,000)	300,000	-	-	-	-	-	-	-	-
Net position (deficit), end of year	\$ 122,894	\$ 7,430,040	\$ 533	\$ 3,962,397	\$ 112,509	\$ (1,586)	\$ 146,419	\$ -	\$ -	\$ 11,773,206

See independent auditors' report.

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

For the year ended September 30,

	2019									
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Coronavirus Relief Fund	Eliminating Journal 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	-	-	-	-	-	133,990	-	-	-	133,990
Grants - Legal Services Alabama	-	-	-	-	-	75,833	-	-	-	75,833
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
Convenience fees	-	-	-	-	-	-	-	-	-	-
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
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)

See independent auditors' report.

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

For the year ended September 30,

2019

	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Coronavirus Relief Fund	Eliminating Journal 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)	7,086,261
Operating income (deficit)	(36,944)	672,510	-	(128,546)	82,194	(17,918)	(19,255)	-	-	552,041

(Continued)

See independent auditors' report.

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

For the year ended September 30,

	2019									
	State Treasury Fund	Alabama State Bar Association	Clearing Account	Client Security Fund	Meetings and Events Fund	Volunteer Lawyers Fund	Alabama Lawyer Fund	Coronavirus Relief Fund	Eliminating 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

See independent auditors' report.