

ALABAMA STATE BAR FOUNDATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

**ALABAMA STATE BAR FOUNDATION
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SEPTEMBER 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Alabama State Bar Foundation

We have audited the accompanying financial statements of the Alabama State Bar Foundation, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

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 1; 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 auditors consider internal control relevant to the entity'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 entity'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 respective financial position – modified cash basis of the Foundation as of September 30, 2017 and 2016, and the respective changes in financial position – modified cash basis, thereof for the years then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 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 that matter.

Other Matter

The Alabama State Bar Foundation 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.

Warren Averett, LLC

Montgomery, Alabama
January 18, 2018

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH BASIS
SEPTEMBER 30, 2017 AND 2016**

ASSETS		
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 259,761	\$ 146,592
Investments	1,878,034	1,927,411
Total current assets	2,137,795	2,074,003
CAPITAL ASSETS		
Artwork	66,611	66,611
Building	4,599,289	4,599,289
Computers	565,312	560,947
Equipment	302,335	323,758
Furniture and fixtures	648,400	651,796
Land	324,419	324,421
Land improvements	200,820	200,821
	6,707,186	6,727,643
Less accumulated depreciation	3,968,952	3,830,491
Net capital assets	2,738,234	2,897,152
TOTAL ASSETS	\$ 4,876,029	\$ 4,971,155
LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in capital assets	\$ 2,738,234	\$ 2,897,152
Unrestricted	2,137,795	2,074,003
TOTAL NET ASSETS	4,876,029	4,971,155
TOTAL LIABILITIES AND NET ASSETS	\$ 4,876,029	\$ 4,971,155

See notes to the financial statements.

ALABAMA STATE BAR FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Rental income	\$ 828,000	\$ 771,000
Royalties	15,956	12,409
Miscellaneous revenue	6,122	1,509
Total operating revenues	<u>850,078</u>	<u>784,918</u>
OPERATING EXPENSES		
Building and equipment maintenance	43,099	42,943
Computer consultation and programming	106,038	93,440
Contract labor	510,323	558,065
Depreciation	239,784	240,032
Insurance	12,450	12,431
Janitorial service	40,958	45,038
Minor equipment and furniture	9,679	6,789
Miscellaneous expense	106	61
Mobile communications	6,782	7,190
Postage meter rental	4,120	4,659
Professional fees	8,415	31,508
Publications	2,501	1,933
Supplies	6,995	5,646
Security	5,280	5,850
Utilities	91,790	90,658
Vending machine supplies	2,905	3,862
Total operating expenses	<u>1,091,225</u>	<u>1,150,105</u>
OPERATING LOSS	<u>(241,147)</u>	<u>(365,187)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	149,582	142,920
Gain on disposal of assets	549	72
Investment fees	(4,110)	(4,225)
Total nonoperating revenues (expenses)	<u>146,021</u>	<u>138,767</u>
CHANGES IN NET ASSETS	(95,126)	(226,420)
NET ASSETS AT BEGINNING OF YEAR	<u>4,971,155</u>	<u>5,197,575</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,876,029</u>	<u>\$ 4,971,155</u>

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from lessees	\$ 828,000	\$ 771,000
Other cash receipts	22,078	13,918
Cash payments to suppliers of goods or services	(851,441)	(910,073)
Net cash used in operating activities	(1,363)	(125,155)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(80,868)	(48,953)
Proceeds from sale of assets	549	72
Net cash used in capital and related financing activities	(80,319)	(48,881)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	401,388	762,671
Purchases of investments	(247,834)	(639,936)
Interest received	45,407	50,111
Investment fees paid	(4,110)	(4,225)
Net cash provided by investing activities	194,851	168,621
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	113,169	(5,415)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	146,592	152,007
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 259,761	\$ 146,592
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (241,147)	\$ (365,187)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	239,784	240,032
Net cash used in operating activities	\$ (1,363)	\$ (125,155)

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

The Alabama State Bar Foundation (Foundation) was authorized by an act of the State of Alabama Legislature in 1961 to be a nonprofit public corporation. The Foundation was incorporated for the purpose of constructing, erecting, owning, operating, and maintaining a building to be occupied by the Alabama State Bar. In furtherance of this purpose, the Foundation owns and leases furnishings, fixtures, and office equipment and employs appropriate personnel. The Foundation is a special-purpose governmental entity engaged in support activities of the Alabama State Bar.

Basis of Presentation and Accounting

The Foundation's policy is to prepare its financial statements on the modified 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 incurred except for its accounting for fixed assets, depreciation, and investments.

All activities of the Foundation 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, including depreciation) 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 Foundation is determined by its measurement focus. The transactions of the Foundation 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 assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Foundation considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

1. 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 assets of the Foundation.

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 assets, and unrealized gains and losses are reported in the statements of revenues, expenses, and changes in net assets.

The Foundation'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 Foundation 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.

Capital Assets

Capital assets are recorded at cost or fair market value if donated, less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets, using the straight-line method. Original works of art owned by the Foundation are not depreciated. Repairs and maintenance expenditures are expensed in the period incurred.

Donated Property and Equipment

Donations of property and equipment are recorded as revenue at their estimated fair value at the date of donation. Such donations are reported as miscellaneous revenue.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

Income Taxes

The Foundation 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 government instrumentalities and is an administrative arm of the Supreme Court of the State of Alabama. Contributions to the Foundation are deductible to the extent provided by Section 170 of the Internal Revenue Code.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

New Accounting Pronouncements

During fiscal year 2016, the Foundation implemented GASB Statement No. 72, *Fair Value Measurement and Application*, that provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. Implementation of this standard did not have a significant impact on the Foundation's financial statements.

During fiscal year 2016, the Foundation implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which supersedes GASB Statement No. 55. The hierarchy of GAAP prioritizes the guidance state and local governments follow when preparing financial statements in accordance with GAAP. Implementation of this standard did not have a significant impact on the Foundation's financial statements.

Subsequent Events

Management has evaluated subsequent events through January 18, 2018, which is the date the financial statements were available to be issued.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

2. INVESTMENTS

Fair value of the Foundation's investments are measured using Level 1 inputs based on quoted prices in active markets and consisted of the following as of September 30:

<u>Investment Type</u>	<u>2017</u>	<u>% of Total</u>	<u>2016</u>	<u>% of Total</u>
Mutual Funds – Equities	\$ 819,866	43%	\$ 792,996	41%
Corporate Bonds	316,524	17%	460,044	24%
Mortgage-backed Securities	124,632	7%	114,391	6%
U.S. Government Agency Securities	470,345	25%	418,154	22%
U.S. Government Guaranteed Securities	<u>146,667</u>	<u>8%</u>	<u>141,826</u>	<u>7%</u>
	<u>\$1,878,034</u>	<u>100%</u>	<u>\$1,927,411</u>	<u>100%</u>

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, 2017, the Foundation had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			
		<u>Less than 1</u>	<u>1–5</u>	<u>6–10</u>	<u>More than 10</u>
Corporate Bonds	\$ 316,524	\$ 32,337	\$ 228,914	\$ 55,273	\$ -
Mortgage-backed securities	124,632	-	-	28,228	96,404
U.S. Government Agency Securities	470,345	54,813	271,789	143,743	-
U.S. Government Guaranteed Securities	<u>146,667</u>	<u>-</u>	<u>-</u>	<u>33,923</u>	<u>112,744</u>
	<u>1,058,168</u>	<u>\$ 87,150</u>	<u>\$ 500,703</u>	<u>\$ 261,167</u>	<u>\$ 209,148</u>
Mutual Funds – Equities	<u>819,866</u>				
Total Investments	<u>\$ 1,878,034</u>				

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Foundation. See "Summary of Significant Accounting Policies – Investments" for additional information concerning permitted investments of the Foundation. As of September 30, 2017, the Foundation'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 Foundation. As of September 30, 2017, the Mutual Funds were not rated.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

2. INVESTMENTS – CONTINUED

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a custodial agent, the Foundation 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 Foundation are registered in the name of the Foundation'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, 2017, the Foundation was in compliance with the investment guidelines adopted by the Board of Trustees.

3. LESSEE OPERATING LEASE

The Foundation leased property under a lease that expired during 2016, and entered into a new lease agreement during 2016, which will expire in 2019 with annual rent expense of \$4,120 for the years 2016 – 2019. Rent expense for the lease totaled \$4,120 for the year 2017.

4. RELATED PARTY TRANSACTIONS

The Foundation, the Alabama State Bar and the Alabama Law Foundation are related through a common Board of Trustees. The Alabama State Bar and Alabama Law Foundation lease facilities, furniture, and equipment from the Foundation under annual agreements. Rental income received from the Alabama Law Foundation was \$6,000 for the year ended September 30, 2017. Rental income received from the Alabama State Bar was \$822,000 and \$771,000 for the years ended September 30, 2017 and 2016, respectively.