

ALABAMA STATE BAR FOUNDATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

**ALABAMA STATE BAR FOUNDATION
TABLE OF CONTENTS
SEPTEMBER 30, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Assets, Liabilities, and Net Position – Modified Cash Basis	3
Statements of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis	4
Statements of Cash Flows – Modified Cash Basis	5
Notes to the Financial Statements	6

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, 2018 and 2017, 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, 2018 and 2017, 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 7, 2019

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF ASSETS, LIABILITIES, AND NET POSITION
MODIFIED CASH BASIS
SEPTEMBER 30, 2018 AND 2017**

ASSETS		
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 326,747	\$ 259,761
Investments	1,959,083	1,878,034
Total current assets	2,285,830	2,137,795
CAPITAL ASSETS		
Artwork	86,611	66,611
Building	4,607,889	4,599,289
Computers	565,312	565,312
Construction in progress	37,000	-
Equipment	307,197	302,335
Furniture and fixtures	648,400	648,400
Land	324,419	324,419
Land improvements	200,820	200,820
	6,777,648	6,707,186
Less accumulated depreciation	4,190,395	3,968,952
Net capital assets	2,587,253	2,738,234
TOTAL ASSETS	\$ 4,873,083	\$ 4,876,029
LIABILITIES AND NET POSITION		
NET POSITION		
Invested in capital assets	\$ 2,587,253	\$ 2,738,234
Unrestricted	2,285,830	2,137,795
TOTAL NET POSITION	4,873,083	4,876,029
TOTAL LIABILITIES AND NET POSITION	\$ 4,873,083	\$ 4,876,029

See notes to the financial statements.

ALABAMA STATE BAR FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Rental income	\$ 878,040	\$ 828,000
Contributions	17,075	-
Royalties	12,099	15,956
Miscellaneous revenue	5,894	6,122
Total operating revenues	<u>913,108</u>	<u>850,078</u>
OPERATING EXPENSES		
Building and equipment maintenance	30,874	43,099
Computer consultation and programming	112,461	106,038
Contract labor	423,543	510,323
Depreciation	223,272	239,784
Insurance	13,678	12,450
Housekeeping services	39,551	40,958
Minor equipment and furniture	3,385	9,679
Miscellaneous expense	107	106
Mobile communications	8,034	6,782
Postage meter rental	4,120	4,120
Professional fees	52,296	8,415
Publications	2,763	2,501
Supplies	6,285	6,995
Security	5,520	5,280
Utilities	107,057	91,790
Meeting supplies	3,191	2,905
Total operating expenses	<u>1,036,137</u>	<u>1,091,225</u>
OPERATING LOSS	<u>(123,029)</u>	<u>(241,147)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	124,343	149,582
Gain on disposal of assets	-	549
Investment fees	(4,260)	(4,110)
Total nonoperating revenues (expenses)	<u>120,083</u>	<u>146,021</u>
CHANGES IN NET POSITION	<u>(2,946)</u>	<u>(95,126)</u>
NET POSITION AT BEGINNING OF YEAR	<u>4,876,029</u>	<u>4,971,155</u>
NET POSITION AT END OF YEAR	<u><u>\$ 4,873,083</u></u>	<u><u>\$ 4,876,029</u></u>

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

NET INCREASE IN CASH AND CASH EQUIVALENTS	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from lessees	\$ 878,040	\$ 828,000
Other cash receipts	35,068	22,078
Cash payments to suppliers of goods or services	(812,865)	(851,441)
Net cash provided by (used in) operating activities	<u>100,243</u>	<u>(1,363)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(35,290)	(80,868)
Proceeds from sale of assets	-	549
Net cash used in capital and related financing activities	<u>(35,290)</u>	<u>(80,319)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	415,747	401,388
Purchases of investments	(455,086)	(247,834)
Interest received	45,632	45,407
Investment fees paid	(4,260)	(4,110)
Net cash provided by investing activities	<u>2,033</u>	<u>194,851</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	66,986	113,169
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>259,761</u>	<u>146,592</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 326,747</u></u>	<u><u>\$ 259,761</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (123,029)	\$ (241,147)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	<u>223,272</u>	<u>239,784</u>
Net cash provided by (used in) operating activities	<u><u>\$ 100,243</u></u>	<u><u>\$ (1,363)</u></u>

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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 position. Net position (i.e., total assets net of total liabilities) is 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, 2018 AND 2017**

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

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, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. 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 position 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 position 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.

Subsequent Events

Management has evaluated subsequent events through January 7, 2019, which is the date the financial statements were available to be issued.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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>2018</u>	<u>% of Total</u>	<u>2017</u>	<u>% of Total</u>
Mutual Funds – Equities	\$ 850,040	43%	\$ 819,866	43%
Corporate Bonds	367,845	19%	316,524	17%
Mortgage-backed Securities	99,147	5%	124,632	7%
U.S. Government Agency Securities	204,204	11%	146,667	8%
U.S. Government Guaranteed Securities	437,847	22%	470,345	25%
	<u>\$ 1,959,083</u>	<u>100%</u>	<u>\$ 1,878,034</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, 2018, 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	\$ 367,845	\$ 71,786	\$ 211,673	\$ 84,386	\$ -
Mortgage-backed Securities	99,147	-	-	21,098	78,049
U.S. Government Agency Securities	204,204	-	-	40,134	164,070
U.S. Government Guaranteed Securities	437,847	24,648	200,622	212,577	-
	<u>1,109,043</u>	<u>\$ 96,434</u>	<u>\$ 412,295</u>	<u>\$ 358,195</u>	<u>\$ 242,119</u>
Mutual Funds – Equities	<u>850,040</u>				
Total Investments	<u>\$ 1,959,083</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, 2018, 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, 2018, the Mutual Funds, Mortgage Backed Securities, and U.S. Government Agency Securities were not rated.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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, 2018, the Foundation was in compliance with the investment guidelines adopted by the Board of Trustees.

3. LESSEE OPERATING LEASE

The Foundation entered into a 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 2018.

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 each of the years ended September 30, 2018 and 2017. Rental income received from the Alabama State Bar was \$872,040 and \$822,000 for the years ended September 30, 2018 and 2017, respectively.