

ALABAMA STATE BAR FOUNDATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

**ALABAMA STATE BAR FOUNDATION
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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, 2019 and 2018, 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, 2019 and 2018, 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
December 19, 2019

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF ASSETS, LIABILITIES, AND NET POSITION
MODIFIED CASH BASIS
SEPTEMBER 30, 2019 AND 2018**

ASSETS		
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 474,094	\$ 326,747
Investments	2,089,619	1,959,083
Total current assets	2,563,713	2,285,830
CAPITAL ASSETS		
Artwork	88,179	86,611
Building	4,607,889	4,607,889
Computers	569,803	565,312
Construction in progress	-	37,000
Equipment	318,489	307,197
Furniture and fixtures	648,400	648,400
Land	324,419	324,419
Land improvements	200,820	200,820
	6,757,999	6,777,648
Less accumulated depreciation	4,278,910	4,190,395
Net capital assets	2,479,089	2,587,253
TOTAL ASSETS	\$ 5,042,802	\$ 4,873,083
LIABILITIES AND NET POSITION		
NET POSITION		
Invested in capital assets	\$ 2,479,089	\$ 2,587,253
Unrestricted	2,563,713	2,285,830
TOTAL NET POSITION	5,042,802	4,873,083
TOTAL LIABILITIES AND NET POSITION	\$ 5,042,802	\$ 4,873,083

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Rental income	\$ 875,040	\$ 878,040
Contributions	8,900	17,075
Royalties	13,468	12,099
Miscellaneous revenue	5,077	5,894
Total operating revenues	<u>902,485</u>	<u>913,108</u>
OPERATING EXPENSES		
Building and equipment maintenance	37,585	30,874
Computer consultation and programming	116,720	112,461
Contract labor	292,222	423,543
Depreciation	197,417	223,272
Insurance	13,678	13,678
Housekeeping services	40,503	39,551
Minor equipment and furniture	17,081	3,385
Miscellaneous expense	53	107
Mobile communications	6,935	8,034
Postage meter rental	4,120	4,120
Professional fees	23,750	52,296
Publications	1,894	2,763
Supplies	7,620	6,285
Security	2,378	5,520
Utilities	88,026	107,057
Meeting supplies	2,865	3,191
Total operating expenses	<u>852,847</u>	<u>1,036,137</u>
OPERATING REVENUE (LOSS)	<u>49,638</u>	<u>(123,029)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	124,525	124,343
Investment fees	(4,444)	(4,260)
Total nonoperating revenues (expenses)	<u>120,081</u>	<u>120,083</u>
CHANGES IN NET POSITION	169,719	(2,946)
NET POSITION AT BEGINNING OF YEAR	<u>4,873,083</u>	<u>4,876,029</u>
NET POSITION AT END OF YEAR	<u>\$ 5,042,802</u>	<u>\$ 4,873,083</u>

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from lessees	\$ 875,040	\$ 878,040
Other cash receipts	27,445	35,068
Cash payments to suppliers of goods or services	(655,430)	(812,865)
Net cash provided by operating activities	247,055	100,243
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(89,254)	(35,290)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	481,366	415,747
Purchases of investments	(542,607)	(455,086)
Interest received	55,231	45,632
Investment fees paid	(4,444)	(4,260)
Net cash provided by (used in) investing activities	(10,454)	2,033
NET INCREASE IN CASH AND CASH EQUIVALENTS	147,347	66,986
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	326,747	259,761
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 474,094	\$ 326,747
RECONCILIATION OF OPERATING REVENUE (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating revenue (loss)	\$ 49,638	\$ (123,029)
Adjustments to reconcile operating revenue (loss) to net cash provided by operating activities:		
Depreciation expense	197,417	223,272
Net cash provided by operating activities	\$ 247,055	\$ 100,243

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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, 2019 AND 2018**

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, 2019 AND 2018**

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 December 19, 2019, which is the date the financial statements were available to be issued.

New Accounting Pronouncements

GASB Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2019.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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>2019</u>	<u>% of Total</u>	<u>2018</u>	<u>% of Total</u>
Mutual Funds – Equities	\$ 844,273	43%	\$ 850,040	43%
Corporate Bonds	346,611	19%	367,845	17%
Mortgage-backed Securities	180,826	5%	99,147	7%
U.S. Government Agency Securities	243,374	11%	204,204	8%
U.S. Government Guaranteed Securities	474,535	22%	437,847	25%
	<u>\$ 2,089,619</u>	<u>100%</u>	<u>\$ 1,959,083</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, 2019, 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	\$ 346,611	\$ 39,172	\$ 177,945	\$ 116,682	\$ 12,812
Mortgage-backed Securities	180,826	-	-	41,702	139,124
U.S. Government Agency Securities	243,374	-	-	32,295	211,079
U.S. Government Guaranteed Securities	474,535	72,829	144,838	256,868	-
	<u>1,245,346</u>	<u>\$ 112,001</u>	<u>\$ 322,783</u>	<u>\$ 447,547</u>	<u>\$ 363,015</u>
Mutual Funds – Equities	<u>844,273</u>				
Total Investments	<u>\$ 2,089,619</u>				

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

2. INVESTMENTS – CONTINUED

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, 2019, 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, 2019, the Mutual Funds – Equities, 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 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, 2019, the Foundation was in compliance with the investment guidelines adopted by the Board of Trustees.

3. LESSEE OPERATING LEASE

The Foundation was under a lease agreement which expired in 2019 with annual rent expense of \$4,120 for the years 2016 – 2019. Rent expense for the lease totaled \$4,120 for each of the years ended September 30, 2019 and 2018. Subsequent to year end, the Foundation entered into a new lease agreement, expiring in 2022 with annual rent expense of \$5,016.

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 State Bar was \$872,040 for each of the years ended September 30, 2019 and 2018. Rental income received from the Alabama Law Foundation was \$3,000 and \$6,000 for the years ended September 30, 2019 and 2018, respectively.

December 19, 2019

To the Board of Trustees
Alabama State Bar Foundation

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Alabama State Bar Foundation (the Foundation) for the year ended September 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 23, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Information

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Foundation's financial statements were depreciable lives of fixed assets and fair values of investments.

We evaluated the key factors and assumptions used to develop the estimated useful lives of assets and fair value of investments in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Alabama State Bar Foundation
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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board of trustees and management of the Alabama State Bar Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Warren Averett, LLC

To the Board of Trustees and Management
Alabama State Bar Foundation

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Alabama State Bar Foundation (the Foundation) as of and for the year ended September 30, 2019 in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit, we became aware of the following deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency:

Develop a Privacy Risk Management Plan

The loss, theft, or breach of personal information can cause considerable damage to an organization's business and reputation. Lost productivity, loss of public trust and confidence, and media scrutiny are a few of the consequences that can happen when there is a data breach or loss of personal information. In addition, the growing trend for government and industry regulations requiring the implementation of policies and procedures that ensure the security of personal information.

While there is no way to absolutely prevent a data breach, the need for effective and timely management of such breaches remains a critical issue. Management should develop or use a service provider to develop a formal, effective, and repeatable plan to determine the nature of a breach and the steps to take in response to it. In addition, management should ensure that staff is well trained so that they know what might constitute a breach that warrants the attention of management. The absence of such a plan may open the Foundation up to further damage than is warranted by a situation.

We will review the status of this comment during our next audit engagement. We have already discussed the comment and suggestion with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This communication is intended solely for the information and use of management of the Alabama State Bar Foundation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Warren Averett, LLC". The signature is written in a cursive, flowing style.

Warren Averett, LLC