

ALABAMA STATE BAR FOUNDATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021 AND 2020

**ALABAMA STATE BAR FOUNDATION
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SEPTEMBER 30, 2021 AND 2020**

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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, 2021 and 2020, 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, 2021 and 2020, 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 11, 2022

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
SEPTEMBER 30, 2021 AND 2020**

ASSETS		
	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 621,267	\$ 637,746
Payroll tax receivable	26	-
Investments	2,550,192	2,304,908
Total current assets	3,171,485	2,942,654
CAPITAL ASSETS		
Artwork	88,179	88,179
Building	4,607,889	4,607,889
Computers	435,455	569,786
Construction in progress	13,681	-
Equipment	319,955	318,489
Furniture and fixtures	763,759	647,428
Land	324,419	324,419
Land improvements	200,820	200,820
	6,754,157	6,757,010
Less accumulated depreciation	4,500,943	4,460,646
Net capital assets	2,253,214	2,296,364
TOTAL ASSETS	\$ 5,424,699	\$ 5,239,018
LIABILITIES AND NET POSITION		
NET POSITION		
Invested in capital assets	\$ 2,253,214	\$ 2,296,364
Unrestricted	3,171,485	2,942,654
TOTAL NET POSITION	5,424,699	5,239,018
TOTAL LIABILITIES AND NET POSITION	\$ 5,424,699	\$ 5,239,018

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Rental income	\$ 872,040	\$ 872,040
Royalties	2,170	14,561
Miscellaneous revenue	9,553	3,950
Total operating revenues	<u>883,763</u>	<u>890,551</u>
OPERATING EXPENSES		
Building and equipment maintenance	111,746	93,949
Computer consultation and programming	228,946	126,958
Depreciation	181,171	185,971
Insurance	16,511	13,695
Housekeeping services	40,630	36,778
Minor equipment and furniture	6,514	1,439
Miscellaneous expense	74	5
Mobile communications	5,361	7,704
Personnel costs	174,461	260,183
Postage meter rental	9,528	4,999
Professional fees	82,636	45,822
Publications	1,953	2,011
Payroll taxes	4,016	669
Supplies	3,430	5,688
Security	-	2,318
Travel	412	-
Utilities	87,676	86,423
Meeting supplies	518	2,713
Total operating expenses	<u>955,583</u>	<u>877,325</u>
OPERATING REVENUE (LOSS)	<u>(71,820)</u>	<u>13,226</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	265,838	187,928
Loss on disposal of assets	(2,822)	-
Investment fees	(5,515)	(4,938)
Total nonoperating revenues (expenses)	<u>257,501</u>	<u>182,990</u>
CHANGES IN NET POSITION	185,681	196,216
NET POSITION AT BEGINNING OF YEAR	<u>5,239,018</u>	<u>5,042,802</u>
NET POSITION AT END OF YEAR	<u>\$ 5,424,699</u>	<u>\$ 5,239,018</u>

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from lessees	\$ 872,040	\$ 872,040
Other cash receipts	11,723	18,511
Cash payments to suppliers of goods or services	<u>(774,412)</u>	<u>(691,354)</u>
Net cash provided by operating activities	<u>109,351</u>	<u>199,197</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(127,326)	(3,246)
Purchases of work in progress	<u>(13,681)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(141,007)</u>	<u>(3,246)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	887,158	394,147
Purchases of investments	(914,234)	(474,750)
Interest received	47,768	53,242
Investment fees paid	<u>(5,515)</u>	<u>(4,938)</u>
Net cash provided by (used in) investing activities	<u>15,177</u>	<u>(32,299)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,479)	163,652
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>637,746</u>	<u>474,094</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 621,267</u>	<u>\$ 637,746</u>
RECONCILIATION OF OPERATING REVENUE TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating revenue (loss)	\$ (71,820)	\$ 13,226
Adjustments to reconcile operating revenue (loss) to net cash provided by operating activities:		
Depreciation expense	<u>181,171</u>	<u>185,971</u>
Net cash provided by operating activities	<u>\$ 109,351</u>	<u>\$ 199,197</u>

See notes to the financial statements.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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, 2021 AND 2020**

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, 2021 AND 2020**

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 11, 2022, 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 June 15, 2021. The Foundation is currently evaluating the impact of the new pronouncement on their financial statements.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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>2021</u>	<u>% of Total</u>	<u>2020</u>	<u>% of Total</u>
Mutual Funds – Equities	\$ 1,022,285	39%	\$ 901,593	40%
Corporate Bonds	452,351	17%	403,263	16%
Mortgage-backed Securities	163,660	6%	140,329	9%
U.S. Government Agency Securities	316,514	12%	267,678	12%
U.S. Government Guaranteed Securities	595,382	26%	592,045	23%
	<u>\$ 2,550,192</u>	<u>100%</u>	<u>\$ 2,304,908</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, 2021, 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	\$ 452,351	\$ 15,252	\$ 297,864	\$ 139,235	\$ -
Mortgage-backed Securities	163,660	-	13,991	15,599	134,070
U.S. Government Agency Securities	316,514	-	4,747	27,969	283,798
U.S. Government Guaranteed Securities	595,382	148,322	277,979	169,081	-
	<u>1,527,907</u>	<u>\$ 163,574</u>	<u>\$ 594,581</u>	<u>\$ 351,884</u>	<u>\$ 417,868</u>
Mutual Funds – Equities	<u>1,022,285</u>				
Total Investments	<u>\$ 2,550,192</u>				

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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, 2021, 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, 2021, 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, 2021, the Foundation was in compliance with the investment guidelines adopted by the Board of Trustees.

3. LESSEE OPERATING LEASE

The Foundation leases equipment under two lease agreements. The first agreement was entered into during the year ended September 30, 2020 and expires in 2022 with annual rent expense of \$5,016. The second agreement was entered into during the year and expires in 2023 with annual rent expense of \$4,376. Rent expense for the leases totaled \$9,392 and \$4,672 for the years ended September 30, 2021 and 2020, respectively.

4. RELATED PARTY TRANSACTIONS

The Foundation and the Alabama State Bar are related through a common Board of Trustees. The Alabama State Bar leases 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, 2021 and 2020.

In addition, the Alabama State Bar assigns full-time employees to perform duties for the Foundation throughout the year in which the Foundation reimburses the Alabama State Bar. Salaries reimbursed for each of the years ended September 30, 2021 and 2020 was \$121,961 and \$251,433, respectively. These amounts are reported as personnel costs in the Statements of revenues, expenses and changes in net position.

**ALABAMA STATE BAR FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

5. UNCERTAINTIES

The outbreak of the coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries. The ongoing pandemic could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus. Nevertheless, the coronavirus presents material uncertainty and risk with respect to the Foundation, its performance, and its financial results.