



**Alabama State Bar
State Treasury Fund**

FINANCIAL STATEMENTS

September 30, 2022



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INDEPENDENT AUDITORS' REPORT

To the Board of Bar Commissioners
Alabama State Bar
State Treasury Fund

Opinion

We have audited the accompanying financial statements of the State Treasury Fund of the Alabama State Bar ("the Fund"), which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles general accepted in the United State of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Reporting Entity

As discussed in Note 1, the financial statements of the Fund are intended to present the financial position, and the changes in financial position of only that portion of the business-type activities that are attributable to the transactions of the Fund. They do not purport to and do not present fairly the financial position of the State of Alabama as of September 30, 2022, and the changes in its financial position for the year then ended in accordance with the accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United State of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2023, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fund's internal control over financial reporting and compliance.

Carr, Rigg & Ingram, L.L.C.

Montgomery, Alabama
August 24, 2023

**Alabama State Bar
State Treasury Fund
Statement of Net Position**

September 30, 2022

Assets

Current assets

Cash and cash equivalents	\$ 298,211
Due from other funds	1,976,325

Total current assets 2,274,536

Total assets \$ 2,274,536

Liabilities and net position

Current liabilities

Accounts payable and accrued liabilities	\$ 117,875
Due to affiliates	35,550
Deferred revenues	1,931,425

Total current liabilities 2,084,850

Total liabilities 2,084,850

Net position 189,686

Total liabilities and net position \$ 2,274,536

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

**Alabama State Bar
State Treasury Fund**

Statement of Revenues, Expenses, and Changes in Net Position

For the year ended September 30, 2022

Operating revenues	
License fees	\$ 4,377,110
Bar exam fees	675,275
Pro Hac Vice fees	203,600
Reciprocity fees	53,375
Disciplinary fees and costs	79,955
Authorized house counsel	15,200
Petition for reinstatement	6,750
<hr/>	
Total operating revenues	5,411,265
Operating expenses	
Personnel costs	2,646,648
Employee benefits	701,119
Payroll taxes	190,840
Rentals and leases	886,421
Professional services	212,349
Printing	115,500
Grants and awards	133,025
Advertising	9,293
Travel - in state	50,775
Travel - out of state	94,875
Insurance	25,746
Utilities and communication	1,814
Termination costs	2,918
Seminars	3,020
Miscellaneous	2,533
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Total operating expenses	5,076,876
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Operating income (loss)	334,389
Transfers out to other funds	(604,000)
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Change in net position	(269,611)
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Net position, beginning of year	580,435
Restatement (see Note 7)	(121,138)
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Net position, beginning of year, as restated	459,297
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Net position, end of year	\$ 189,686

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

**Alabama State Bar
State Treasury Fund
Statement of Cash Flows**

For the year ended September 30, 2022

Cash flows from operating activities	
Fees and dues collected from members	\$ 5,616,140
Cash generated from other operations	21,950
Salaries and benefits paid to personnel	(3,712,921)
Grants and awards paid to recipients	(133,025)
Payments to contractors and vendors	(1,465,643)
<hr/>	
Net cash provided by (used in) operating activities	326,501
Cash flows from financing activities	
Transfers out to other funds	(604,000)
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Net cash provided by (used in) financing activities	(604,000)
<hr/>	
Net increase (decrease) in cash and cash equivalents	(277,499)
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Cash and cash equivalents, beginning of year	575,710
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Cash and cash equivalents, end of year	\$ 298,211
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Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 334,389
Adjustments to reconcile operating income (loss) to next cash provided by (used in) operating activities:	
Due from other funds	(223,700)
Accounts payable and accrued liabilities	(3,263)
Due to affiliates	(7,750)
Deferred revenues	226,825
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Net cash provided by (used in) operating activities	\$ 326,501
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The accompanying notes are an integral part of these financial statements.

**Alabama State Bar
State Treasury Fund
Notes to 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'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 State Treasury Fund of the Alabama State Bar (the Fund) is one of a number of fund groups of the Bar. The Fund is subject to certain legislative controls (budgetary) relating to the Bar's fiscal operations. The 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. This Fund includes 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Fund is presented to assist in understanding the Fund's financial statements. The financial statements and notes are representations of the Fund's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United State of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

In the accompanying financial statements, only the accounts and activities of the Bar's State Treasury Fund are presented. In addition to the State Treasury Fund, the Bar maintains the Alabama State Bar Association, Clearing Account, Client Security, Meetings and Events, Volunteer Lawyers, Alabama Lawyer, and Sections funds. These funds are not included in the accompanying financial statements.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

All activities of the Fund 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 Fund is determined by its measurement focus. The transactions of the Fund 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 statement of net position.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 Fund's statement net position, 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.

Deferred Revenues

Deferred revenues consists of dues and fees received from licensees for a future budget period.

Income Taxes

The Fund 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.

NOTE 2: 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. The Fund has only unrestricted net position.

Advertising

The Fund's policy is to expense advertising costs as the costs are incurred. Advertising costs for the year ended September 30, 2022 amounted to \$9,293.

Revenues and Expenses

The Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Fund is license and bar exam fees. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 24, 2023 and determined there were no events that occurred that required disclosure.

NOTE 3: RELATED PARTIES AND AFFILIATES

Alabama State Bar Foundation (Foundation)

The Fund 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 Fund leases the building, furniture, fixtures, and office equipment from the Foundation under annual lease agreements. Rental expense associated with these leases was \$872,040 for the year ended September 30, 2022.

NOTE 3: RELATED PARTIES AND OPERATING LEASES (Continued)

Alabama Law Foundation (Law Foundation)

The Fund 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 Fund are remitted to the Law Foundation. The Fund remitted \$114,400 for the year ended September 30, 2022. As of September 30, 2022, the Fund had \$22,000 due to the Law Foundation.

Alabama Lawyers Assistance Foundation (Assistance Foundation)

The Fund 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 Fund are remitted to the Assistance Foundation in connection with its purposes. The Fund remitted \$28,875 in fees to the Assistance Foundation for the year ended September 30, 2022. As of September 30, 2022, the Fund had \$11,050 due to the Assistance Foundation.

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 Fund and LRS, Inc. share common board members and facilities. There were no financial transactions between the Fund and LRS, Inc. during the year ended September 30, 2022.

Alabama State Bar Association Health Plan and Trust (Trust)

The Alabama State 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 year ended September 30, 2022.

NOTE 4: CONTINGENCIES

The Fund is involved in litigation as a part of its normal operations. The litigation is not expected to have a significant impact on the financial operations of the Fund.

**Alabama State Bar
State Treasury Fund
Notes to Financial Statements**

NOTE 5: CONCENTRATION OF CASH

The Fund maintains its cash balances in the State Treasury Fund of the State of Alabama. This institution is FDIC insured up to \$250,000. The Fund 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 Fund did not have any uninsured balances as of September 30, 2022.

NOTE 6: RETIREMENT PLAN

The Fund 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 year ended September 30, 2022, employee participation required contributions of earnable compensation of 7.50% and 6.00% for tier 1 and tier 2 employees, respectively. The Fund contributes an actuarially determined percentage which is set annually. The employer percentage for the year ended September 30, 2022 was 14.83% and 14.44% for tier 1 and tier 2 employees, respectively. 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 year ended September 30, 2022 were \$369,015.

NOTE 7: RESTATEMENT

During the year ended September 30, 2022, the Fund determined that certain amounts related to accounts payable and accrued expenses as of September 30, 2021 should have been accrued. Accordingly, beginning net position has been restated as follows:

September 30, 2021

Net position, as previously stated	\$	580,435
Accounts payable and accrued liabilities		(121,138)
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Net position, as restated	\$	459,297

The adjustments had no impact on net position as of September 30, 2022, or the change in net position for the year ended September 30, 2022.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Bar Commissioners
Alabama State Bar
State Treasury Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Treasury Fund of the Alabama State Bar ("the Fund"), a component unit of the State of Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated August 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described here:

Finding 2022-1

Criteria: The Alabama State Bar is required to comply with the Code of Alabama 1975 Competitive Bid Law (Code §§ 41-16-1) and the Alabama Public Works Bid Law (Code §§ 39-21-1).

Condition: The Alabama State Bar did not comply with the Code of Alabama 1975 Competitive Bid Law (Code §§ 41-16-1) for two (2) purchases of goods and services that we tested for compliance.

Cause: The Alabama State Bar did not have processes in place to identify expenditures that are subject to the competitive bid requirement.

Effect: The Alabama State Bar failed to comply with the competitive bid requirement for certain expenditures.

Recommendation: The Alabama State Bar should establish effective internal controls to ensure compliance with the Code of Alabama 1975 Competitive Bid Law (Code §§ 41-16-1) and the Alabama Public Works Bid Law (Code §§ 39-21-1).

Alabama State Bar's Response: The Alabama State Bar is in the process of transitioning to the Judicial Branch for operational efficiency under current state law. The Chief Procurement Officer of the State of Alabama has granted Procurement Delegation Authority to the Alabama State Bar until September 30, 2023 during this transition period.

Finding 2022-2

Criteria: he Code of Alabama 1975, Section 29-2-41.2(b) states, "Notwithstanding any other provisions of this article, all contracts for employment of an attorney to provide legal services, including contracts involving an attorney providing legal services under an agreement with the Attorney General, shall be reviewed by the Contract Review Permanent Legislative Oversight Committee."

Condition: The Alabama State Bar did not comply with the Code of Alabama 1975, Section 29-2-41.2(b) for one (1) contract for employment of an attorney to provide legal services that we tested for compliance.

Cause: The Alabama State Bar did not have processes in place to identify contracts for legal services that are subject to the contract review requirement.

Effect: The Alabama State Bar failed to comply with the contract review requirement for a legal services contract.

Recommendation: The Alabama State Bar should establish effective internal controls to ensure compliance with the Code of Alabama 1975, Section 29-2-41.2(b).

Alabama State Bar's Response: The Alabama State Bar is in the process of transitioning to the Judicial Branch for operational efficiency under current state law, including submission of all legal services contracts for review by the Contract Review Permanent Legislative Oversight Committee.

Alabama State Bar's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Alabama State Bar's response to the findings identified in our audit and described previously. Alabama State Bar's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

Montgomery, Alabama

August 24, 2023