

Certified Public Accountants  
& Consultants



**Alabama Law Foundation, Inc.**  
**March 31, 2019**  
Financial Statements

**Alabama Law Foundation, Inc.**

**Index**

	<b><u>Page</u></b>
Independent auditor's report	1 - 2
Statements of financial position	3
Statements of activities and changes in net assets	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7 - 17

## **Independent Auditor's Report**

The Finance Committee  
Alabama Law Foundation, Inc.  
Montgomery, Alabama

### **Report on the Financial Statements**

We have audited the accompanying statement of financial position of Alabama Law Foundation, Inc. (the Foundation) as of March 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 auditor considers 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 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.

### **Emphasis of Matter**

As discussed in Note 12 to the financial statements, for the year ended March 31, 2019 the Foundation adopted new accounting guidance related to presentation of financial statements for not-for-profit entities. Prior year disclosures have also been revised to reflect the retrospective application of adopting these changes in accounting. Our audit opinion is not modified with respect to this matter.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alabama Law Foundation, Inc. as of March 31, 2019, and the changes in its net assets, functional expenses, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Alabama Law Foundation, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Jackson Thornton & Co. PC*

Montgomery, Alabama  
July 9, 2019

**Alabama Law Foundation, Inc.**  
**Statements of Financial Position**  
**At March 31, 2019 and 2018**

**Assets**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 212,914	\$ 84,090
Investments	8,615,782	8,464,548
IOLTA revenue receivable	131,969	52,383
Contributions receivable	159,145	158,620
Other receivables	26,849	29,192
Property and equipment, net	2,770	6,751
Total assets	<u>\$ 9,149,429</u>	<u>\$ 8,795,584</u>

**Liabilities and Net Assets**

<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 35,117	\$ 39,882
Grants payable	290,617	489,370
Total liabilities	<u>325,734</u>	<u>529,252</u>
<b>Net Assets</b>		
Without donor restrictions	4,207,628	3,512,069
With donor restrictions	4,616,067	4,754,263
Total net assets	<u>8,823,695</u>	<u>8,266,332</u>
Total liabilities and net assets	<u>\$ 9,149,429</u>	<u>\$ 8,795,584</u>

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

**Alabama Law Foundation, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**For the Year Ended March 31, 2019**  
**(With Comparative Totals for 2018)**

	<b>2019</b>			<b>2018</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Total</b>
<b>Revenues, Gains, Losses, and Reclassifications</b>				
IOLTA revenue (net of bank charges)	\$ 1,155,423		\$ 1,155,423	\$ 619,699
Contributions	114,796	\$ 281,811	396,607	413,598
Investment return, net	233,306	59,948	293,254	537,994
Other revenue	20,905		20,905	26,920
Bad debt loss	(2,000)		(2,000)	(3,000)
Net assets released from restrictions				
Satisfaction of program restrictions	479,955	(479,955)		
Total revenues, gains, losses, and reclassifications	<u>2,002,385</u>	<u>(138,196)</u>	<u>1,864,189</u>	<u>1,595,211</u>
<b>Expenses</b>				
Program services				
Grants program	881,572		881,572	807,128
Scholarship program	46,122		46,122	43,665
Access to justice program	98,005		98,005	147,194
Supporting services				
General and administrative	186,663		186,663	237,404
Fundraising	94,464		94,464	86,149
Total expenses	<u>1,306,826</u>		<u>1,306,826</u>	<u>1,321,540</u>
<b>Changes in Net Assets</b>	<u>695,559</u>	<u>(138,196)</u>	<u>557,363</u>	<u>273,671</u>
<b>Net Assets at Beginning of Year</b>	<u>3,512,069</u>	<u>4,754,263</u>	<u>8,266,332</u>	<u>7,992,661</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 4,207,628</u></u>	<u><u>\$ 4,616,067</u></u>	<u><u>\$ 8,823,695</u></u>	<u><u>\$ 8,266,332</u></u>

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

**Alabama Law Foundation, Inc.**  
**Statements of Functional Expenses**  
**For the Year Ended March 31, 2019**  
**(With Comparative Totals for March 31, 2018)**

	<b>Grants</b>	<b>Scholarship</b>	<b>Access to Justice</b>	<b>Total Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>2019 Total</b>	<b>2018 Total</b>
Grants awarded	\$ 790,499			\$ 790,499			\$ 790,499	\$ 828,405
Scholarships		\$ 20,573		20,573			20,573	25,500
Management fee, salaries, benefits, and payroll taxes	53,249	12,926	\$ 44,481	110,656	\$ 70,835	\$ 32,572	214,063	223,816
Accounting					28,221		28,221	25,128
Communications and publications	930		1,054	1,984	18,749	8,373	29,106	28,583
Depreciation	669	1,170	334	2,173	3,176	1,337	6,686	4,313
Events						29,013	29,013	32,858
Office expense	4,263	2,060	8,227	14,550	11,668	5,852	32,070	20,908
Professional fees	7,411	4,941	31,620	43,972	27,172	10,681	81,825	37,776
Rent	2,095	349	349	2,793	2,793	1,397	6,983	6,000
Repairs and maintenance	3,192	709		3,901	3,619	1,516	9,036	5,266
Seminars and training	1,973		(1,895)	78	1,775	197	2,050	8,131
Technology	10,014	3,294	6,442	19,750	12,701	3,426	35,877	41,821
Travel	7,277	100	7,393	14,770	5,954	100	20,824	33,035
Totals	<u>\$ 881,572</u>	<u>\$ 46,122</u>	<u>\$ 98,005</u>	<u>\$ 1,025,699</u>	<u>\$ 186,663</u>	<u>\$ 94,464</u>	<u>\$ 1,306,826</u>	<u>\$ 1,321,540</u>

See Independent Auditor's Report on Supplementary Information.

**Alabama Law Foundation, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended March 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From (Used for) Operating Activities</b>		
Change in net assets	\$ 557,363	\$ 273,671
Depreciation	6,686	4,314
Realized and unrealized loss (gain) on investments	167,177	(231,674)
Loss on disposal of equipment	227	
Bad debt loss	2,000	3,000
Contributions restricted for permanent investment	(8,367)	(15,958)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
IOLTA revenue receivable	(79,586)	(3,882)
Contributions receivable	(2,525)	(11,093)
Other receivables	2,343	10,400
Accounts payable and accrued expenses	(4,765)	(29,477)
Deferred revenue		(4,020)
Grants payable	(198,753)	(147,622)
Net cash provided from (used for) operating activities	<u>441,800</u>	<u>(152,341)</u>
<b>Cash Flows From (Used for) Investing Activities</b>		
Purchases of equipment	(2,932)	
Proceeds from sale and maturity of investments	11,488	1,412,149
Purchases of investments	(329,899)	(1,377,124)
Net cash (used for) from investing activities	<u>(321,343)</u>	<u>35,025</u>
<b>Cash Flows From Financing Activities</b>		
Contributions restricted for permanent investment	<u>8,367</u>	<u>15,958</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	128,824	(101,358)
<b>Cash and Cash Equivalents at Beginning of Year</b>	84,090	185,448
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 212,914</u></u>	<u><u>\$ 84,090</u></u>

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



**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

**Note 1 - Summary of Significant Accounting Policies**

Nature of activities - Alabama Law Foundation, Inc. (the Foundation) was formed to promote law related public service projects and to provide for the delivery of legal services to the poor. The Foundation makes grants to organizations qualified to meet these objectives.

The Foundation receives revenue from Interest on Lawyer Trust Accounts (IOLTA) made available by participating attorneys through financial institution remittances of interest earned on the participants' client escrow accounts. The Foundation also receives other contributions from various sources to support its programs.

Basis of accounting - The financial statements of Alabama Law Foundation, Inc. have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation - The Foundation's net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax exempt status, and any limits resulting from contractual agreements that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, board designated endowment funds.

Net assets with donor restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are classified in this class if the donor limited their use.

Other donor-imposed restrictions are limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The Foundation has such donor restricted net assets.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets with donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Summarized financial information for the year ended March 31, 2018 - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended March 31, 2018, from which the summarized information was derived.

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

Use of estimates - The preparation 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 cash flows statement purposes, the Foundation considers all short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturities that they present insignificant risk of changes in value because of changes in interest rates, to be cash equivalents. Cash accounts held as a portion of the Foundation's investment portfolio are classified as investments and are not considered to be cash equivalents for the purpose of the statements of cash flows.

Functional allocation of expenses - The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets. The statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The primary allocation basis used by management for personnel expenses and applicable overhead expenses is estimated based on time and effort.

Income Taxes - The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is made in the financial statements. Alabama Law Foundation, Inc. is not a private foundation. Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements.

Investments - Investments are carried at fair value. The net realized and unrealized gains and losses on investments are reflected as investment return on the statement of activities and changes in net assets.

Fair value measurements - The Foundation follows the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification as assumptions market participants would use in pricing an asset or liability. The Foundation has no assets that would be categorized as Level 2 or 3 in the fair value hierarchy.

Property and equipment - Property and equipment additions with a cost of \$1,000 or greater and a useful life exceeding one year are capitalized and carried at cost less accumulated depreciation. Depreciation of furniture and equipment has been calculated using an accelerated method. Leasehold improvements and website development costs are amortized using a straight-line method. The estimated useful lives used to compute depreciation are as follows:

Furniture and equipment	3 - 7 years
Leasehold improvements	20 years
Website development	3 years

Leases that transfer substantially all of the risks and benefits of ownership are capital leases. Other leases are operating leases. Assets acquired under capital leases are included in property and equipment, and the amortization of the capital lease assets is included in depreciation expense.

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

IOLTA revenue - IOLTA revenue is recorded on the accrual basis as an increase in unrestricted net assets in the period that the interest is earned on the IOLTA accounts.

Contributions - In general, contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions are reported as restricted support and added to net assets with donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Unconditional promises to give are reported at net realizable value if, at the time the promise is made, payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially. Unconditional promises to give are measured using present value techniques and historical discount rates in periods subsequent to their receipt. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions receivable are written off when deemed uncollectible. Bad debt losses were \$2,000 and \$3,000 for the years ended March 31, 2019 and 2018, respectively.

Grants - Grants to other organizations are recognized as an expense when the unconditional promise is made to the grantee, which is generally at the time the Foundation's Board of Trustees approves the grants.

Reclassification - Certain prior year amounts have been reclassified in order to be comparative to the current year presentation.

Subsequent events - The Foundation has evaluated events through July 9, 2019, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2019, have been incorporated into these financial statements.

**Note 2 - Liquidity and Availability of Financial Assets**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 212,914
Accounts receivable	313,912
	<u>\$ 526,826</u>

The Foundation's endowment funds consist of donor restricted endowments and funds designated by the Board as endowments. Income from donor restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor restricted endowment funds are not available for general expenditure. The board designated endowment of \$4,011,570 as of March 31, 2019 is subject to an annual spending rate as described in Note 11. Although the Foundation does not intend to spend from this Board designated endowment (other than amounts appropriated for expenditure as part of the Board's annual budget approval and appropriation) these amounts could be made available, if necessary.

**Note 3 - Cash**

The Foundation maintains cash accounts primarily in bank deposit accounts, which at times may exceed federally insured limits. The Foundation maintains cash and cash equivalents that are insured by FDIC up to \$250,000. The Foundation had no uninsured cash equivalents at March 31, 2019 or 2018. The Foundation has not experienced any losses in such accounts.

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

**Note 4 - Investments**

Investments are reported at fair value and are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
March 31, 2019			
Money funds	\$ 591,935	\$ 591,935	\$ 591,935
Fixed income mutual funds	2,601,078	2,576,967	2,576,967
Equity mutual funds	4,802,408	5,243,759	5,243,759
Exchange traded funds	203,326	203,121	203,121
Totals	<u>\$ 8,198,747</u>	<u>\$ 8,615,782</u>	<u>\$ 8,615,782</u>
March 31, 2018			
Money funds	\$ 963,263	\$ 963,263	\$ 963,263
Fixed income mutual funds	2,495,347	2,476,726	2,476,726
Equity mutual funds	4,218,044	4,821,459	4,821,459
Exchange traded funds	203,326	203,100	203,100
Totals	<u>\$ 7,879,980</u>	<u>\$ 8,464,548</u>	<u>\$ 8,464,548</u>

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect the Foundation's investment balances.

**Note 5 - Investment Return**

Net investment return is reported in the statements of activities and changes in net assets and consists of income from investments (interest and dividend income, realized and unrealized capital gains and losses) less external investment expenses.

Investment return for the year ended March 31, 2019 is composed of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 406,773	\$ 91,773	\$ 498,546
Net realized and unrealized loss on securities	(135,549)	(31,628)	(167,177)
Other investment expense	(37,918)	(197)	(38,115)
Investment return, net	<u>\$ 233,306</u>	<u>\$ 59,948</u>	<u>\$ 293,254</u>

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

Investment return for the year ended March 31, 2018 is composed of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Interest and dividend income	\$ 285,393	\$ 59,896	\$ 345,289
Net realized and unrealized gain on securities	186,898	44,776	231,674
Other investment expense	(38,907)	(62)	(38,969)
Investment return, net	<u>\$ 433,384</u>	<u>\$ 104,610</u>	<u>\$ 537,994</u>

**Note 6 - Property and Equipment**

A summary of property and equipment is presented below:

	<b>2019</b>	<b>2018</b>
Furniture and equipment	\$ 67,259	\$ 72,711
Leasehold improvements	10,000	10,000
Website development	33,078	35,828
	110,337	118,539
Less accumulated depreciation	107,567	111,788
Totals	<u>\$ 2,770</u>	<u>\$ 6,751</u>

**Note 7 - Net Assets with Donor Restrictions**

At March 31, 2019 and 2018, amounts with donor restrictions are:

	<b>2019</b>	<b>2018</b>
Coordinate statewide pro bono legal services	\$ 365,262	\$ 283,852
Scholarship assistance for law school students	316,582	320,510
Grants to civil legal aid organizations	179,294	245,206
Scholarship assistance in Kid's Chance program	26,318	16,451
Leadership development for future leaders of the Alabama State Bar through the Bill Scruggs Fund	9,790	9,790
Bank of America settlement Restricted for mortgage foreclosure legal assistance grants	2,720,810	2,888,810
Atticus Finch Society endowment	948,011	939,644
Endowment for scholarships	50,000	50,000
Total net assets with donor restrictions	<u>\$ 4,616,067</u>	<u>\$ 4,754,263</u>

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

**Note 8 - Related Party Transactions**

Certain members of the Board of Trustees of the Alabama Law Foundation, Inc. are appointed by, or are officers of, the Alabama State Bar (State Bar). Through December 31, 2018, The Foundation and the State Bar had an agreement which provided for an employee of the State Bar to administer the Foundation's programs. The Foundation reimbursed the State Bar for the employee's salary, payroll taxes and benefits in the form of a management fee. The management fee for 2019 and 2018 was \$142,170 and \$145,455, respectively. As of December 31, 2018, the Foundation ended their management agreement with the State Bar.

The State Bar solicits contributions on behalf of the Foundation through a check off on the annual dues invoice to State Bar members. The Foundation has recognized contribution revenue of \$80,626 and \$80,028 for the years ended March 31, 2019 and 2018, respectively, through the State Bar check off.

A portion of the *Pro Hac Vice* fees collected by the State Bar have been designated by the Supreme Court of Alabama to be used for indigent civil legal services. The Foundation has recognized net assets with donor restriction contribution revenue of \$99,400 and \$111,200, respectively, for the years ended March 31, 2019 and 2018 for this purpose. Receivables at March 31, 2019 and 2018 include \$22,800 and \$23,800, respectively, due from the State Bar for the *Pro Hac Vice* program.

In addition, the Foundation leased office space from the State Bar as described in Note 9.

**Note 9 - Lease Agreement**

The Foundation previously entered into an operating lease agreement with the Alabama State Bar for office space. Beginning October 1, 2016, the lease terms provided for a monthly rent of \$500 through September 30, 2017. From October 1, 2017 through March 31, 2019, the Foundation paid rent of \$500 on a month to month basis. The Foundation recognized rent expense of \$6,000 for the years ended March 31, 2019 and 2018. As of March 31, 2019, the Foundation ended their operating lease agreement with the State Bar.

As of November 30, 2018, the Foundation entered into an operating lease agreement with The Retirement Systems of Alabama for office space. The lease term is for five years beginning March 15, 2019. The following is a schedule of future minimum rental payments:

<b><u>Fiscal Year Ending March 31</u></b>	
2020	\$ 26,207
2021	26,546
2022	26,886
2023	27,225
2024	27,479
	<u><u>\$ 134,343</u></u>

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

**Note 10 - Contributions Receivable**

Contributions receivable represent unconditional promises to give at March 31 as follows:

	<u>2019</u>	<u>2018</u>
Receivables in less than one year	\$ 74,100	\$ 68,100
Receivables in one to five years	79,550	82,750
Receivables in more than five years	<u>10,627</u>	<u>13,375</u>
Total unconditional promises to give	164,277	164,225
Less discounts to net present value	<u>5,132</u>	<u>5,605</u>
Net unconditional promises to give	<u><u>\$ 159,145</u></u>	<u><u>\$ 158,620</u></u>

The Foundation believes that all contributions receivable at March 31, 2019 and 2018 will be fully collected. Accordingly, no allowance for doubtful accounts has been established.

**Note 11 - Endowment**

The Foundation's endowment includes both donor restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Relevant law - The Board of Trustees of the Foundation has interpreted the State of Alabama's Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment funds that is not retained in perpetuity is subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, the Foundation considers the following factors to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Foundation and the donor restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Foundation.
- (7) The investment policies of the Foundation.

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

**Note 11 - Endowment (continued)**

The composition of endowment net asset by type of fund at March 31, 2019 is as follows:

	<b>Net Assets without Donor Restrictions</b>	<b>Net Assets with Donor Restrictions</b>	<b>Total</b>
Donor Restricted endowment funds		\$ 4,168,241	\$ 4,168,241
Board designated endowment funds	\$ 4,011,570		4,011,570
Totals	<u>\$ 4,011,570</u>	<u>\$ 4,168,241</u>	<u>\$ 8,179,811</u>

The composition of endowment net asset by type of fund at March 31, 2018 is as follows:

	<b>Net Assets without Donor Restrictions</b>	<b>Net Assets with Donor Restrictions</b>	<b>Total</b>
Donor Restricted endowment funds		\$ 4,345,975	\$ 4,345,975
Board designated endowment funds	\$ 3,728,467		3,728,467
Totals	<u>\$ 3,728,467</u>	<u>\$ 4,345,975</u>	<u>\$ 8,074,442</u>



**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

**Note 11 - Endowment (continued)**

Changes in endowment net assets for the year ended March 31, 2019 is as follows:

	<b>Net Assets without Donor Restrictions</b>	<b>Net Assets with Donor Restrictions</b>	<b>Total</b>
Endowment Net Assets, at March 31, 2018	\$ 3,728,467	\$ 4,345,975	\$ 8,074,442
Investment return			
Interest and dividends	399,354	91,773	491,127
Realized and unrealized gains	(132,993)	(31,628)	(164,621)
Other investment expense	(26,978)	(7,688)	(34,666)
Total investment return	239,383	52,457	291,840
Contributions		10,117	10,117
Appropriation of endowment assets for expenditure		(240,308)	(240,308)
Other Changes			
Transfer to increase board designated endowment funds	43,720		43,720
Endowment Net Assets, at March 31, 2019	\$ 4,011,570	\$ 4,168,241	\$ 8,179,811

Changes in endowment net assets for the year ended March 31, 2018 is as follows:

	<b>Net Assets without Donor Restrictions</b>	<b>Net Assets with Donor Restrictions</b>	<b>Total</b>
Endowment Net Assets, at March 31, 2017	\$ 2,962,847	\$ 1,398,720	\$ 4,361,567
Investment return			
Interest and dividends	293,550	59,896	353,446
Realized and unrealized gains	169,832	44,775	214,607
Other investment expense	(24,404)	(8,703)	(33,107)
Total investment return	438,978	95,968	534,946
Contributions		34,632	34,632
Appropriation of endowment assets for expenditure		(238,314)	(238,314)
Other changes			
Bad debt loss		(3,000)	(3,000)
Transfer of purpose restricted assets to endowment fund		3,057,969	3,057,969
Transfer to increase board designated endowment fund	326,642		326,642
Endowment Net Assets, at March 31, 2018	\$ 3,728,467	\$ 4,345,975	\$ 8,074,442

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

During fiscal year 2018, the Foundation's Board of Trustees adopted a resolution to designate the Bank of America settlement funds, which were restricted for mortgage foreclosure legal assistance by Bank of America, as an endowment for this restricted purpose, with the intent of providing a perpetual base for generating grants. The transfer of these funds to the Foundation's endowment is shown in the table above as a transfer of purpose restricted assets to the endowment fund.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions. There were no such deficiencies at March 31, 2019 or 2018.

Return objectives and risk parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a relatively stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a rate of return, after all expenses, that is at least equal to the contemplated spending rate plus the general rate of inflation as measured by the Consumer Price Index (CPI).

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value as of the end of the preceding 20 quarters. The goal of the spending policy is to support current and future operations of the Foundation while preserving the purchasing power of, and seeking to grow, fund assets.

**Note 12 - Change in Accounting Principle**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The Foundation has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Foundation's financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily and permanently restricted net asset classes have been renamed net assets with donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of financial assets (Note 2).
- Investment return is reported net of external investment expenses.

**Alabama Law Foundation, Inc.**  
**Notes to Financial Statements**  
**March 31, 2019 and 2018**

The changes have the following effect on net assets at March 31, 2018:

	<b>As Originally Presented</b>	<b>After Adoption of ASU 2016-14</b>
Unrestricted net assets	\$ 3,512,069	
Net assets without donor restrictions		\$ 3,512,069
Temporarily restricted net assets	3,764,619	
Permanently restricted net assets	989,644	
Net assets with donor restrictions		4,754,263
	<u>\$ 8,266,332</u>	<u>\$ 8,266,332</u>

**Note 13 - Effect of New Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes existing revenue recognition guidance under accounting principles generally accepted in the United States of America. Topic 606 outlines a new, single comprehensive model for entities to use in accounting for revenue. In doing so, it is possible more judgment and estimates may be required by management than currently required under accounting principles generally accepted in the United States of America. Topic 606 is effective for annual reporting periods beginning after December 15, 2018 using one of two methods: retrospective to each reporting period presented in the financial statements; or retrospectively with the cumulative effect recognized at the date of initial application. The application of Topic 606 may result in material differences from current accounting principles generally accepted in the United States of America. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The amendments in this update are effective for fiscal years beginning after December 15, 2018. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right of use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. This ASU will be effective for fiscal years beginning after December 15, 2019. Lessees (for capital and operating leases) and lessors (for sales type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.