

Certified Public Accountants
& Consultants



Alabama Law Foundation, Inc.
March 31, 2020
Financial Statements

Alabama Law Foundation, Inc.

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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, 2020, 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.

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, 2020, and the changes in its net assets 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 March 31, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 9, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Changes in Accounting Principles

As discussed in Note 13 to the financial statements, in 2019 the Foundation adopted new accounting guidance related to the recognition of revenue from contracts with customers and accounting guidance for contributions. Our audit opinion is not modified with respect to this matter.

Jackson Thornton & Co. PC

Montgomery, Alabama
June 8, 2020

Alabama Law Foundation, Inc.
Statements of Financial Position
At March 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 286,589	\$ 212,914
Investments	8,661,649	8,615,782
IOLTA revenue receivable	125,132	131,969
Contributions receivable	180,851	159,145
Other receivables	35,879	26,849
Property and equipment, net	386	2,770
Total assets	<u>\$ 9,290,486</u>	<u>\$ 9,149,429</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 30,110	\$ 35,117
Grants payable	763,200	290,617
Total liabilities	<u>793,310</u>	<u>325,734</u>
Net Assets		
Without donor restrictions	3,924,098	4,207,628
With donor restrictions	4,573,078	4,616,067
Total net assets	<u>8,497,176</u>	<u>8,823,695</u>
Total liabilities and net assets	<u>\$ 9,290,486</u>	<u>\$ 9,149,429</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, 2020
(With Comparative Summarized Totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues, Gains, Losses, and Reclassifications				
IOLTA revenue (net of bank charges)	\$ 1,571,796		\$1,571,796	\$1,155,423
Contributions	163,039	\$ 288,516	451,555	396,607
Investment return, net	(550,173)	(123,102)	(673,275)	293,254
Other revenue	22,751		22,751	20,905
Bad debt loss				(2,000)
Net assets released from restrictions				
Satisfaction of program restrictions	208,403	(208,403)		
Total revenues, gains, losses, and reclassifications	<u>1,415,816</u>	<u>(42,989)</u>	<u>1,372,827</u>	<u>1,864,189</u>
Expenses				
Program services				
Grants program	1,265,180		1,265,180	881,572
Scholarship program	60,207		60,207	46,122
Access to justice program	82,489		82,489	98,005
Supporting services				
General and administrative	186,820		186,820	186,663
Fundraising	104,650		104,650	94,464
Total expenses	<u>1,699,346</u>	<u></u>	<u>1,699,346</u>	<u>1,306,826</u>
Changes in Net Assets	<u>(283,530)</u>	<u>(42,989)</u>	<u>(326,519)</u>	<u>557,363</u>
Net Assets at Beginning of Year	<u>4,207,628</u>	<u>4,616,067</u>	<u>8,823,695</u>	<u>8,266,332</u>
Net Assets at End of Year	<u><u>\$ 3,924,098</u></u>	<u><u>\$ 4,573,078</u></u>	<u><u>\$8,497,176</u></u>	<u><u>\$8,823,695</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, 2020
(With Comparative Summarized Totals for March 31, 2019)

	Grants	Scholarship	Access to Justice	Total Program Services	General and Administrative	Fundraising	2020 Total	2019 Total
Grants awarded	\$ 1,147,667			\$ 1,147,667			\$ 1,147,667	\$ 790,499
Scholarships		\$ 35,650		35,650			35,650	20,573
Salaries, benefits, and payroll taxes	66,404	10,599	\$ 50,175	127,178	\$ 52,995	\$ 31,797	211,970	214,063
Accounting					33,150		33,150	28,221
Communications and publications	1,046		920	1,966	25,303	7,607	34,876	29,106
Depreciation	423	740	211	1,374	2,008	845	4,227	6,686
Events						40,234	40,234	29,013
Office expense	5,958	1,782	3,257	10,997	10,639	1,457	23,093	32,070
Professional fees	6,390	4,289		10,679	23,427	10,514	44,620	81,825
Rent	7,837	1,306	1,306	10,449	10,449	5,224	26,122	6,983
Repairs and maintenance	4,009	1,155		5,164	4,586	2,126	11,876	9,036
Seminars and training	2,439		2,125	4,564	1,150	164	5,878	2,050
Technology	14,154	4,495	17,791	36,440	15,871	4,682	56,993	35,877
Travel	8,853	191	6,704	15,748	7,242		22,990	20,824
Totals	<u>\$ 1,265,180</u>	<u>\$ 60,207</u>	<u>\$ 82,489</u>	<u>\$ 1,407,876</u>	<u>\$ 186,820</u>	<u>\$ 104,650</u>	<u>\$ 1,699,346</u>	<u>\$ 1,306,826</u>

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

Alabama Law Foundation, Inc.
Statements of Cash Flows
For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From (Used For) Operating Activities		
Change in net assets	\$ (326,519)	\$ 557,363
Depreciation	4,227	6,686
Realized and unrealized loss on investments	1,057,775	167,177
Loss on disposal of equipment		227
Bad debt loss		2,000
Contributions restricted for permanent investment	(2,678)	(8,367)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
IOLTA revenue receivable	6,837	(79,586)
Contributions receivable	(21,706)	(2,525)
Other receivables	(9,030)	2,343
Accounts payable and accrued expenses	(5,007)	(4,765)
Grants payable	472,583	(198,753)
Net cash from operating activities	<u>1,176,482</u>	<u>441,800</u>
Cash Flows From (Used For) Investing Activities		
Purchases of equipment	(1,843)	(2,932)
Proceeds from sale and maturity of investments	100,476	11,488
Purchases of investments	<u>(1,204,118)</u>	<u>(329,899)</u>
Net cash used for investing activities	<u>(1,105,485)</u>	<u>(321,343)</u>
Cash Flows From (Used For) Financing Activities		
Contributions restricted for permanent investment	<u>2,678</u>	<u>8,367</u>
Net cash from financing activities	<u>2,678</u>	<u>8,367</u>
Net Increase in Cash and Cash Equivalents	73,675	128,824
Cash and Cash Equivalents at Beginning of Year	212,914	84,090
Cash and Cash Equivalents at End of Year	<u><u>\$ 286,589</u></u>	<u><u>\$ 212,914</u></u>

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

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

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, 2019 - 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, 2019, from which the summarized information was derived.

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.

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies (continued)

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 statements 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.

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.

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

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 \$0 and \$2,000 for the years ended March 31, 2020 and 2019, 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.

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	\$ 286,589
Accounts receivable	235,413
	<u>\$ 522,002</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 \$3,506,638 as of March 31, 2020 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. At March 31, 2020 and 2019, the Foundation had approximately \$62,000 and \$0, respectively, of cash over the federally insured limit. The Foundation has not experienced any losses in such accounts.

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

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, 2020			
Money funds	\$ 1,300,136	\$ 1,300,136	\$ 1,300,136
Fixed income mutual funds	2,630,342	2,515,005	2,515,005
Equity mutual funds	5,171,913	4,648,548	4,648,548
Exchange traded funds	203,326	197,960	197,960
Totals	<u>\$ 9,305,717</u>	<u>\$ 8,661,649</u>	<u>\$ 8,661,649</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>

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, 2020 is composed of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 347,843	\$ 77,244	\$ 425,087
Net realized and unrealized loss on securities	(857,442)	(200,333)	(1,057,775)
Other investment expense	(40,574)	(13)	(40,587)
Investment return, net	<u>\$ (550,173)</u>	<u>\$ (123,102)</u>	<u>\$ (673,275)</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

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

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 406,773	\$ 91,773	\$ 498,546
Net realized and unrealized gain 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>

Note 6 - Property and Equipment

A summary of property and equipment is presented below:

	2020	2019
Furniture and equipment	\$ 67,464	\$ 67,259
Leasehold improvements		10,000
Website development	33,078	33,078
	<u>100,542</u>	<u>110,337</u>
Less accumulated depreciation	100,156	107,567
Totals	<u>\$ 386</u>	<u>\$ 2,770</u>

Note 7 - Net Assets with Donor Restrictions

At March 31, 2020 and 2019, amounts with donor restrictions are:

	2020	2019
Coordinate statewide pro bono legal services	\$ 485,132	\$ 365,262
Scholarship assistance for law school students	317,965	316,582
Grants to civil legal aid organizations	101,517	179,294
Scholarship assistance in Kid's Chance program	19,675	26,318
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	2,638,310	2,720,810
Atticus Finch Society endowment	950,689	948,011
Endowment for scholarships	50,000	50,000
Total net assets with donor restrictions	<u>\$ 4,573,078</u>	<u>\$ 4,616,067</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

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 management fee. The management fee for 2019 was \$142,170. 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 \$77,126 and \$80,626 for the years ended March 31, 2020 and 2019, 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 \$92,400 and \$99,400, respectively, for the years ended March 31, 2020 and 2019 for this purpose. Receivables at March 31, 2020 and 2019 include \$33,200 and \$22,800, 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 year ended March 31, 2019. As of March 31, 2019, the Foundation ended its 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. Total lease expense for 2020 was \$26,122. The following is a schedule of future minimum rental payments:

Fiscal Year Ending March 31	
2021	\$ 26,546
2022	26,886
2023	27,225
2024	27,479
	<u>\$ 108,136</u>

Note 10 - Contributions Receivable

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

	2020	2019
Receivables in less than one year	\$ 83,050	\$ 74,100
Receivables in one to five years	85,975	79,550
Receivables in more than five years	16,150	10,627
Total unconditional promises to give	185,175	164,277
Less discounts to net present value	4,324	5,132
Net unconditional promises to give	<u>\$ 180,851</u>	<u>\$ 159,145</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

The Foundation believes that all contributions receivable at March 31, 2020 and 2019 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.

The composition of endowment net asset by type of fund at March 31, 2020 is as follows:

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Donor Restricted endowment funds		\$ 3,956,964	\$ 3,956,964
Board designated endowment funds	\$ 3,506,638		3,506,638
Totals	<u>\$ 3,506,638</u>	<u>\$ 3,956,964</u>	<u>\$ 7,463,602</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

Note 11 - Endowment (continued)

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

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
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>

Changes in endowment net assets for the year ended March 31, 2020 is as follows:

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Endowment net assets, at March 31, 2019	\$ 4,011,570	\$ 4,168,241	\$ 8,179,811
Investment return			
Interest and dividends	339,955	77,244	417,199
Realized and unrealized gains	(841,499)	(200,333)	(1,041,832)
(losses) Other investment expense	(30,018)	(6,736)	(36,754)
Total investment return	<u>(531,562)</u>	<u>(129,825)</u>	<u>(661,387)</u>
Contributions		16,428	16,428
Appropriation of endowment assets for expenditure		(97,880)	(97,880)
Other changes			
Transfer to increase board designated endowment funds	26,630		26,630
Endowment net assets, at March 31, 2020	<u>\$ 3,506,638</u>	<u>\$ 3,956,964</u>	<u>\$ 7,463,602</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2020 and 2019

Note 11 - Endowment (continued)

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

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
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)
(losses) 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 fund	43,720		43,720
Endowment net assets, at March 31, 2019	\$ 4,011,570	\$ 4,168,241	\$ 8,179,811

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, 2020 or 2019.

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 constrain. 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 - Retirement Plan

The Foundation sponsors a safe harbor 401(k) Plan so that employees may contribute a portion of their pretax income into a retirement fund. The Foundation contributed \$4,600 as of March 31, 2020 to the 401(k) Plan to supplement employee contributions, which represented 5% of compensation up to the statutory limit for eligible employees.

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Note 13 - Change in Accounting Principle

Effective April 1, 2019, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09) and FASB ASU 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). These two ASUs were adopted together because they both establish standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. Adopting one ASU without the other would leave the accounting for some ongoing grants and contracts unresolved. The adoption of the new guidance had no impact on the Foundation's revenues, receivables, and contract liabilities.

Note 14 - Effect of New Accounting Pronouncements

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 31, 2021. 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.

Note 15 - Subsequent events

The Foundation has evaluated events through June 8, 2020, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2020, have been incorporated into these financial statements.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of the geographical area in which the Foundation operates. There has been no immediate impact on the Foundation's operations. Future impacts may include decreases in IOLTA revenue due to the Federal Reserve Board rate cut on IOLTA account rates. The ultimate effects of the pandemic on the Foundation's finances are unknown.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which established the Paycheck Protection Program (the "Program"). The Program was created to assist small businesses in paying their employees and certain other expenses during the COVID-19 crisis. The Foundation applied for a loan under this Program and received from its bank a loan in the amount of \$32,200 on April 28, 2020. The loan is forgivable if the Foundation meets certain criteria as established under the Program. The Foundation will seek loan forgiveness in fiscal year 2021. The Foundation anticipates there may be further guidance issued by the Small Business Administration (SBA), the U.S. Department of the Treasury, the bank, and other regulators related to the Program which could impact the loan and loan forgiveness. Any of the loan amount not forgiven under the Program will be due April 28, 2022 with interest at 1.0%. The loan is unsecured and does not require personal guarantees.