

Certified Public Accountants
& Consultants



Alabama Law Foundation, Inc.
March 31, 2021
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 statements of financial position of Alabama Law Foundation, Inc. (the Foundation) as of March 31, 2021, 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, 2021, 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 the Foundation's March 31, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Jackson Thornton & Co. PC

Montgomery, Alabama
September 1, 2021

Alabama Law Foundation, Inc.
Statements of Financial Position
At March 31, 2021 and 2020

Assets

	2021	2020
Assets		
Cash and cash equivalents	\$ 290,278	\$ 286,589
Investments	11,183,353	8,661,649
IOLTA revenue receivable	67,715	125,132
Contributions receivable	188,926	180,851
Other receivables	68,625	35,879
Property and equipment, net	61	386
Total assets	<u>\$ 11,798,958</u>	<u>\$ 9,290,486</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 101,473	\$ 30,110
Grants payable	694,242	763,200
Notes payable	64,400	
Total liabilities	<u>860,115</u>	<u>793,310</u>
Net Assets		
Without donor restrictions	5,997,159	3,924,098
With donor restrictions	4,941,684	4,573,078
Total net assets	<u>10,938,843</u>	<u>8,497,176</u>
Total liabilities and net assets	<u>\$ 11,798,958</u>	<u>\$ 9,290,486</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, 2021
(with Comparative Summarized Totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues, Gains, Losses, and Reclassifications				
IOLTA revenue (net of bank charges)	\$ 836,330		\$ 836,330	\$ 1,571,796
Contributions	137,025	\$ 292,706	429,731	451,555
Investment return, net	2,234,178	531,443	2,765,621	(673,275)
Other revenue	5,179		5,179	22,751
Bad debt loss	(2,950)		(2,950)	
Net assets released from restrictions				
Satisfaction of program restrictions	455,543	(455,543)		
Total revenues, gains, losses, and reclassifications	<u>3,665,305</u>	<u>368,606</u>	<u>4,033,911</u>	<u>1,372,827</u>
Expenses				
Program services				
Grants program	1,196,171		1,196,171	1,265,180
Scholarship program	48,353		48,353	60,207
Access to justice program	89,085		89,085	82,489
Supporting services				
General and administrative	183,998		183,998	186,820
Fundraising	74,637		74,637	104,650
Total expenses	<u>1,592,244</u>		<u>1,592,244</u>	<u>1,699,346</u>
Changes in Net Assets	<u>2,073,061</u>	<u>368,606</u>	<u>2,441,667</u>	<u>(326,519)</u>
Net Assets at Beginning of Year	<u>3,924,098</u>	<u>4,573,078</u>	<u>8,497,176</u>	<u>8,823,695</u>
Net Assets at End of Year	<u>\$ 5,997,159</u>	<u>\$ 4,941,684</u>	<u>\$ 10,938,843</u>	<u>\$ 8,497,176</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, 2021
(with Comparative Summarized Totals for 2020)

	Grants	Scholarship	Access to Justice	Total Program Services	General and Administrative	Fundraising	2021 Total	2020 Total
Grants awarded	\$ 1,050,500			\$ 1,050,500			\$ 1,050,500	\$ 1,147,667
Scholarships		\$ 18,371		18,371		\$ 4,337	22,708	35,650
Salaries, benefits, and payroll taxes	101,452	14,493	\$ 65,677	181,622	\$ 72,466	43,480	297,568	211,970
Accounting					36,404		36,404	33,150
Communications and publications	633	1,442	311	2,386	8,788	4,371	15,545	34,876
Depreciation	401	702	200	1,303	1,905	802	4,010	4,227
Events								40,234
Office expense	4,925	614	499	6,038	7,255	734	14,027	23,093
Professional fees	4,841	3,373		8,214	17,750	6,454	32,418	44,620
Rent	7,938	1,323	1,323	10,584	10,586	5,292	26,462	26,122
Repairs and maintenance	3,267	1,002		4,269	3,767	1,973	10,009	11,876
Seminars and training	344			344	400	29	773	5,878
Technology	21,870	7,033	21,075	49,978	24,677	7,165	81,820	56,993
Travel								22,990
Totals	<u>\$ 1,196,171</u>	<u>\$ 48,353</u>	<u>\$ 89,085</u>	<u>\$ 1,333,609</u>	<u>\$ 183,998</u>	<u>\$ 74,637</u>	<u>\$ 1,592,244</u>	<u>\$ 1,699,346</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, 2021 and 2020

	2021	2020
Cash Flows From (Used For) Operating Activities		
Change in net assets	\$ 2,441,667	\$ (326,519)
Depreciation	4,010	4,227
Realized and unrealized loss (gain) on investments	(2,363,797)	1,057,775
Bad debt loss	2,950	
Contributions restricted for permanent investment	(8,984)	(2,678)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
IOLTA revenue receivable	57,417	6,837
Contributions receivable	(11,025)	(21,706)
Other receivables	(32,746)	(9,030)
Accounts payable and accrued expenses	71,363	(5,007)
Grants payable	(68,958)	472,583
Net cash from operating activities	<u>91,897</u>	<u>1,176,482</u>
Cash Flows From (Used For) Investing Activities		
Purchases of equipment	(3,685)	(1,843)
Proceeds from sale and maturity of investments	1,296,910	100,476
Purchases of investments	(1,454,817)	(1,204,118)
Net cash used for investing activities	<u>(161,592)</u>	<u>(1,105,485)</u>
Cash Flows From (Used For) Financing Activities		
Contributions restricted for permanent investment	8,984	2,678
Proceeds from notes payable	64,400	
Net cash from financing activities	<u>73,384</u>	<u>2,678</u>
Net Increase in Cash and Cash Equivalents	3,689	73,675
Cash and Cash Equivalents at Beginning of Year	286,589	212,914
Cash and Cash Equivalents at End of Year	<u>\$ 290,278</u>	<u>\$ 286,589</u>

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

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

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 the Foundation 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, 2020 - 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, 2020, 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, 2021 and 2020

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. The Foundation 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, 2021 and 2020

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 \$2,950 and \$0 for the years ended March 31, 2021 and 2020, 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 statements of financial position date, comprise the following:

Cash and cash equivalents	\$ 290,278
Accounts receivable	216,417
	<u>\$ 506,695</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 \$5,728,574 as of March 31, 2021 is subject to an annual spending rate as described in Note 12. 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, 2021 and 2020, the Foundation had approximately \$68,000 and \$62,000, 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, 2021 and 2020

Note 4 - Investments

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

	Cost	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
March 31, 2021			
Money funds	\$ 1,338,087	\$ 1,338,087	\$ 1,338,087
Fixed income mutual funds	2,627,151	2,604,958	2,604,958
Equity mutual funds	5,346,270	7,036,488	7,036,488
Exchange traded funds	203,326	203,820	203,820
Totals	<u>\$ 9,514,834</u>	<u>\$ 11,183,353</u>	<u>\$ 11,183,353</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>

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, 2021 is composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 361,304	\$ 81,500	\$ 442,804
Net realized and unrealized loss on securities	1,913,571	450,226	2,363,797
Other investment expense	(40,697)	(283)	(40,980)
Investment return, net	<u>\$ 2,234,178</u>	<u>\$ 531,443</u>	<u>\$ 2,765,621</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

Investment return for the year ended March 31, 2020 is composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 347,843	\$ 77,244	\$ 425,087
Net realized and unrealized gain 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>

Note 6 - Property and Equipment

A summary of property and equipment is presented below:

	2021	2020
Furniture and equipment	\$ 81,986	\$ 67,464
Website development	18,025	33,078
	100,011	100,542
Less accumulated depreciation	99,950	100,156
Totals	<u>\$ 61</u>	<u>\$ 386</u>

Note 7 - Net Assets with Donor Restrictions

At March 31, 2021 and 2020, amounts with donor restrictions are:

	2021	2020
Subject to Expenditure for Specified Purpose		
Coordinate statewide pro bono legal services	\$ 622,765	\$ 485,132
Grants to civil legal aid organizations	87,597	101,517
Scholarship assistance in Kid's Chance program	29,987	19,675
Leadership development for future leaders of the Alabama State Bar through the Bill Scruggs Fund	9,790	9,790
Fund education and training of Alabama judges	23,619	
Total	<u>773,758</u>	<u>616,114</u>

Endowment

Bank of America settlement restricted for mortgage foreclosure legal assistance grants	2,390,810	2,638,310
Grants to civil legal aid organizations	437,273	
Scholarship assistance for law school students	330,170	317,965
Atticus Finch Society endowment	959,673	950,689
Endowment for scholarships	50,000	50,000
Total	<u>4,167,926</u>	<u>3,956,964</u>
Total net assets with donor restrictions	<u>\$ 4,941,684</u>	<u>\$ 4,573,078</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

Note 8 - Related Party Transactions

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 \$88,350 and \$77,126 for the years ended March 31, 2021 and 2020, 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 \$95,800 and \$92,400, respectively, for the years ended March 31, 2021 and 2020 for this purpose. Receivables at March 31, 2021 and 2020 include \$30,200 and \$33,200, respectively, due from the State Bar for the *Pro Hac Vice* program.

Note 9 - Lease Agreement

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 was \$26,462 and \$26,122 the years ended March 31, 2021 and 2020, respectively. The following is a schedule of future minimum rental payments:

Fiscal Year Ending March 31

2022	\$ 26,886
2023	27,225
2024	<u>27,479</u>
	<u>\$ 81,590</u>

Note 10 - Notes Payable

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 two loans under this Program.

The Foundation received from its bank loans in the amount of \$32,200 and \$32,200 on April 28, 2020 and March 24, 2020, respectively. The loans are forgivable if the Foundation meets certain criteria as established under the Program. The Foundation will see loan forgiveness in fiscal year 2022. Any of the loan amounts not forgiven under the Program will be due April 28, 2022 and March 24, 2023, respectively, with interest at 1.0%. The loans are unsecured and do not require personal guarantees.

Accounting standards allow management to recognize the loan proceeds as a loan until forgiven by the lender or to recognize the loan proceeds as income as the expenses triggering forgiveness are incurred. The Foundation has recognized the loan proceeds as a loan at March 31, 2021.

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

Note 11 - Contributions Receivable

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

	<u>2021</u>	<u>2020</u>
Receivables in less than one year	\$ 86,425	\$ 83,050
Receivables in one to five years	89,225	85,975
Receivables in more than five years	<u>16,450</u>	<u>16,150</u>
Total unconditional promises to give	192,100	185,175
Less discounts to net present value	<u>3,174</u>	<u>4,324</u>
Net unconditional promises to give	<u><u>\$ 188,926</u></u>	<u><u>\$ 180,851</u></u>

The Foundation believes that all contributions receivable at March 31, 2021 and 2020 will be fully collected. Accordingly, no allowance for doubtful accounts has been established.

Note 12 - 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, 2021 and 2020

Note 12 - Endowment (continued)

The composition of endowment net asset by type of fund at March 31, 2021 is as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor restricted endowment funds		\$ 4,167,926	\$ 4,167,926
Board-designated endowment funds	\$ 5,728,574		5,728,574
Totals	<u>\$ 5,728,574</u>	<u>\$ 4,167,926</u>	<u>\$ 9,896,500</u>

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>

Changes in endowment net assets for the year ended March 31, 2021 is as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, at March 31, 2020	\$ 3,506,638	\$ 3,956,964	\$ 7,463,602
Investment return			
Interest and dividends	354,711	81,499	436,210
Realized and unrealized gains (losses)	1,877,697	450,225	2,327,922
Other investment expense	(30,384)	(6,961)	(37,345)
Total investment return	<u>2,202,024</u>	<u>524,763</u>	<u>2,726,787</u>
Contributions		9,909	9,909
Appropriation of endowment assets for expenditure		(323,710)	(323,710)
Other changes			
Transfer to increase Board-designated endowment funds	19,912		19,912
Endowment net assets, at March 31, 2021	<u>\$ 5,728,574</u>	<u>\$ 4,167,926</u>	<u>\$ 9,896,500</u>

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

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 (losses)	(841,499)	(200,333)	(1,041,832)
Other investment expense	(30,018)	(6,736)	(36,754)
Total investment return	(531,562)	(129,825)	(661,387)
Contributions		16,428	16,428
Appropriation of endowment assets for expenditure		(97,880)	(97,880)
Other changes			
Transfer to increase Board-designated endowment fund	26,630		26,630
Endowment net assets, at March 31, 2020	\$ 3,506,638	\$ 3,956,964	\$ 7,463,602

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, 2021 or 2020.

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.

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 13 - 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 \$5,600 and \$4,600 for the years ended March 31, 2021 and 2020, respectively, to the 401(k) plan to supplement employee contributions, which represented 5% of compensation up to the statutory limit for eligible employees.

Alabama Law Foundation, Inc.
Notes to Financial Statements
March 31, 2021 and 2020

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 September 1, 2021, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2021, 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. While it is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, reduced IOLTA revenue is expected to continue due to the Federal Reserve Board rate cut on IOLTA account rates.

Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Alabama Law Foundation, Inc. (the Foundation) as of and for the year ended March 31, 2021, and our report thereon dated September 1, 2021, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2021 supplementary information on pages 18 through 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2021 and 2020 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the year ended March 31, 2021, as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the statements of financial position of the Foundation as of March 31, 2020, and the related statements of activities and changes in net assets and cash flows for the year ended March 31, 2020 (none of which is presented herein), and we expressed an unmodified opinion on those financial statements. That audit was conducted for the purpose of expressing an opinion on the financial statements as a whole. The accompanying 2020 supplementary information on pages 18 through 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the March 31, 2020 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying 2020 supplementary information on pages 18 through 19 is fairly stated in all material respects in relation to the financial statements from which it has been derived.

Jackson Thornton & Co. PC

Montgomery, Alabama
September 1, 2021

Alabama Law Foundation, Inc.
Schedule of Financial Position by Fund
At March 31, 2021
(with Comparative Totals for March 31, 2020)

	General Fund	Scholarship Fund	Kid's Chance Fund	Fellows Fund	Access to Justice	Bill Scruggs Fund	William V. Black Scholarship	Justice Janie L. Shores Scholarship	Robe Fund	2021 Total	2020 Total
Assets											
Cash and cash equivalents	\$ 290,278									\$ 290,278	\$ 286,589
Due (to) from other funds	(1,716,398)	\$ (228,006)	\$ 29,987	\$ 1,044,261	\$ 607,016	\$ 9,790	\$ 68,692	\$ 161,039	\$ 23,619		
Investments	10,499,257	684,096								11,183,353	8,661,649
IOLTA revenue receivable	67,715									67,715	125,132
Contributions receivable	54,004			134,922						188,926	180,851
Other receivables	52,913				15,712					68,625	35,879
Property and equipment, net	24				37					61	386
Total assets	<u>\$ 9,247,793</u>	<u>\$ 456,090</u>	<u>\$ 29,987</u>	<u>\$ 1,179,183</u>	<u>\$ 622,765</u>	<u>\$ 9,790</u>	<u>\$ 68,692</u>	<u>\$ 161,039</u>	<u>\$ 23,619</u>	<u>\$ 11,798,958</u>	<u>\$ 9,290,486</u>
Liabilities											
Accounts payable and accrued expenses	\$ 101,473									\$ 101,473	\$ 30,110
Grants payable	694,242									694,242	763,200
PPP loan	64,400									64,400	
Total liabilities	<u>860,115</u>									<u>860,115</u>	<u>793,310</u>
Net Assets											
Without donor restrictions	4,512,325	\$ 260,990		\$ 1,179,183				\$ 44,661		5,997,159	3,924,098
With donor restrictions	<u>3,875,353</u>	<u>195,100</u>	<u>\$ 29,987</u>		<u>\$ 622,765</u>	<u>\$ 9,790</u>	<u>\$ 68,692</u>	<u>116,378</u>	<u>\$ 23,619</u>	<u>4,941,684</u>	<u>4,573,078</u>
Total net assets	<u>8,387,678</u>	<u>456,090</u>	<u>29,987</u>	<u>1,179,183</u>	<u>622,765</u>	<u>9,790</u>	<u>68,692</u>	<u>161,039</u>	<u>23,619</u>	<u>10,938,843</u>	<u>8,497,176</u>
Total liabilities and net assets	<u>\$ 9,247,793</u>	<u>\$ 456,090</u>	<u>\$ 29,987</u>	<u>\$ 1,179,183</u>	<u>\$ 622,765</u>	<u>\$ 9,790</u>	<u>\$ 68,692</u>	<u>\$ 161,039</u>	<u>\$ 23,619</u>	<u>\$ 11,798,958</u>	<u>\$ 9,290,486</u>

See Independent Auditor's Report on Supplementary Information.

Alabama Law Foundation, Inc.
Schedule of Activities and Changes in Net Assets by Fund
For the Year Ended March 31, 2021
(with Comparative Totals for March 31, 2020)

	General Fund	Scholarship Fund	Kid's Chance Fund	Fellows Fund	Access to Justice	Bill Scruggs Fund	William V. Black Scholarship	Justice Janie L. Shores Scholarship	Robe Fund	2021 Total	2020 Total
Revenues, Gains, and Losses											
IOLTA revenue (net of bank charges)	\$ 836,330									\$ 836,330	\$ 1,571,796
Contributions	191,043	\$ 100	\$ 25,419	\$ 50,766	\$ 157,166			\$ 825	\$ 4,412	429,731	451,555
Investment return, net	2,353,042	123,776		230,181			\$ 19,530	39,092		2,765,621	(673,275)
Other revenue	5,179									5,179	22,751
Bad debt loss				(2,950)						(2,950)	
Total revenues, gains, and losses	3,385,594	123,876	25,419	277,997	157,166		19,530	39,917	4,412	4,033,911	1,372,827
Expenses											
Grants awarded	1,050,500									1,050,500	1,147,667
Scholarships			14,458				1,250	7,000		22,708	35,650
Accounting	36,404									36,404	33,150
Computer	66,470			132	11,105					77,707	53,339
Depreciation	3,936				74					4,010	4,227
Dues and subscriptions	5,792				350					6,142	7,706
Events											40,234
Internet expense	3,859				254					4,113	3,654
Newsletter	321									321	75
Office supplies	452				14					466	1,479
Other	7,357			62						7,419	13,908
Printing and postage	12,865		649	886	31				793	15,224	34,801
Professional fees											75
Payroll taxes	14,750				463					15,213	13,906
Public relations	32,272							146		32,418	44,545
Rent	26,462									26,462	26,122
Repairs and maintenance	9,037			972						10,009	11,876
Retirement expense	8,183				1,188					9,371	7,834
Salaries	266,930				6,054					272,984	190,230
Seminars and training	773									773	5,878
Travel											22,990
Total expenses	1,546,363		15,107	2,052	19,533		1,250	7,146	793	1,592,244	1,699,346
Changes in Net Assets	1,839,231	123,876	10,312	275,945	137,633		18,280	32,771	3,619	2,441,667	(326,519)
Net Assets at Beginning of Year	6,568,447	332,214	19,675	903,238	485,132	\$ 9,790	50,412	128,268		8,497,176	8,823,695
Interfund Transfers	(20,000)								20,000		
Net Assets at End of Year	\$ 8,387,678	\$ 456,090	\$ 29,987	\$ 1,179,183	\$ 622,765	\$ 9,790	\$ 68,692	\$ 161,039	\$ 23,619	\$ 10,938,843	\$ 8,497,176

See Independent Auditor's Report on Supplementary Information.