

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants and Single Audit Report

American Bar Association

August 31, 2020 and 2019

Contents

| | Page |
|---|------|
| Report of Independent Certified Public Accountants | 3 |
| Consolidated Financial Statements | |
| Consolidated statements of financial position | 5 |
| Consolidated statements of activities | 6 |
| Consolidated statements of cash flows | 8 |
| Notes to consolidated financial statements | 9 |
| Details of Consolidation | |
| Consolidating statement of activities | 27 |
| Single Audit Report | |
| Schedule of Expenditures of Federal Awards | 29 |
| Notes to Schedule of Expenditures of Federal Awards | 35 |
| Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 36 |
| Report of Independent Certified Public Accountants on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance | 38 |
| Schedule of findings and questioned costs | 40 |
| Summary schedule of prior audit findings | 42 |

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Governors
American Bar Association

Report on the financial statements

We have audited the accompanying consolidated financial statements of American Bar Association (the ABA), which comprise the consolidated statements of financial position as of August 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Bar Association as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of activities and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 16, 2021, on our consideration of the ABA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ABA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ABA's internal control over financial reporting and compliance.



Chicago, Illinois
February 16, 2021

American Bar Association

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2020 and 2019
(In thousands)

| | 2020 | 2019 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 7,960 | \$ 11,275 |
| Accounts receivable (net of allowance for doubtful accounts of \$376 in 2020 and \$1,485 in 2019) | 22,930 | 13,372 |
| Inventory, net | 2,272 | 2,184 |
| Prepaid and other assets | 2,500 | 2,309 |
| Due from related parties | 176 | 177 |
| Investments | 272,187 | 275,414 |
| Investments held for others | 322 | 299 |
| Property and equipment | | |
| Furniture and equipment | 9,766 | 14,207 |
| Leasehold improvements | 10,660 | 28,317 |
| Work-in-progress | - | 3 |
| Less accumulated depreciation | (9,932) | (30,304) |
| Property and equipment, net | 10,494 | 12,223 |
| TOTAL ASSETS | \$ 318,841 | \$ 317,253 |
| LIABILITIES | | |
| Accounts payable | \$ 8,593 | \$ 6,993 |
| Deferred revenue | 45,124 | 56,669 |
| Deferred rent | 21,137 | 21,467 |
| Short term borrowing | 5,000 | - |
| Other liabilities | 11,901 | 10,976 |
| Pension liability | 28,183 | 43,030 |
| Long term debt | 42,600 | 30,000 |
| Due to related parties | 381 | 359 |
| Total liabilities | 162,919 | 169,494 |
| NET ASSETS | | |
| Without donor restrictions: | | |
| Board-designated | 129,949 | 127,426 |
| Undesignated | 10,906 | 7,559 |
| Without donor restrictions | 140,855 | 134,985 |
| With donor restrictions | 15,067 | 12,774 |
| Total net assets | 155,922 | 147,759 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 318,841 | \$ 317,253 |

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

American Bar Association

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2020
(In thousands)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|--------------|
| Operating | | | |
| Revenues | | | |
| Membership dues | \$ 49,173 | \$ - | \$ 49,173 |
| Meeting fees | 14,044 | - | 14,044 |
| Advertising | 1,726 | - | 1,726 |
| Grants | 74,134 | - | 74,134 |
| Sponsorships | 5,934 | - | 5,934 |
| Gifts and contributions | 6,968 | 5,956 | 12,924 |
| Publications | 5,129 | - | 5,129 |
| Royalties | 8,328 | - | 8,328 |
| Accreditation fees | 5,210 | - | 5,210 |
| Other | 2,764 | - | 2,764 |
| Investment income for operations | 5,969 | - | 5,969 |
| Designated reserve for operations | 11,497 | - | 11,497 |
| Net assets released from restrictions | 3,971 | (3,971) | - |
| | 194,847 | 1,985 | 196,832 |
| Total operating revenue | | | |
| Expenses | | | |
| Salaries, wages, and benefits | 96,625 | - | 96,625 |
| Professional fees and services | 31,385 | - | 31,385 |
| Meetings and travel | 20,977 | - | 20,977 |
| Advertising and marketing | 2,938 | - | 2,938 |
| Printing and publications | 5,656 | - | 5,656 |
| Facilities | 21,741 | - | 21,741 |
| Supplies and other | 5,254 | - | 5,254 |
| | 184,576 | - | 184,576 |
| Total operating expenses | | | |
| Excess of operating revenues over expenses | | | |
| | 10,271 | 1,985 | 12,256 |
| Nonoperating items | | | |
| Investment return, excluding returns designated for operations | | | |
| Endowment fund | - | 308 | 308 |
| Other | 11,081 | - | 11,081 |
| Pension changes other than net periodic pension cost | (2,153) | - | (2,153) |
| Designated reserve for operations | (11,497) | - | (11,497) |
| Other nonoperating | (1,832) | - | (1,832) |
| Change in net assets | 5,870 | 2,293 | 8,163 |
| Net assets at beginning of year | 134,985 | 12,774 | 147,759 |
| Net assets at end of year | \$ 140,855 | \$ 15,067 | \$ 155,922 |

The accompanying notes are an integral part of this consolidated statement.

American Bar Association
CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2019
(In thousands)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|--------------|
| Operating: | | | |
| Revenues | | | |
| Membership dues | \$ 61,822 | \$ - | \$ 61,822 |
| Meeting fees | 26,224 | - | 26,224 |
| Advertising | 2,134 | - | 2,134 |
| Grants | 56,151 | - | 56,151 |
| Sponsorships | 8,370 | - | 8,370 |
| Gifts and contributions | 4,054 | 3,929 | 7,983 |
| Publications | 6,041 | - | 6,041 |
| Royalties | 8,711 | - | 8,711 |
| Accreditation fees | 5,409 | - | 5,409 |
| Other | 3,951 | - | 3,951 |
| Investment income for operations | 7,674 | - | 7,674 |
| Designated reserve for operations | 5,353 | - | 5,353 |
| Net assets released from restrictions | 4,972 | (4,972) | - |
| Total operating revenue | 200,866 | (1,043) | 199,823 |
| Expenses | | | |
| Salaries, wages, and benefits | 91,960 | - | 91,960 |
| Professional fees and services | 33,415 | - | 33,415 |
| Meetings and travel | 36,356 | - | 36,356 |
| Advertising and marketing | 1,502 | - | 1,502 |
| Printing and publications | 8,028 | - | 8,028 |
| Facilities | 22,908 | - | 22,908 |
| Supplies and other | 6,012 | - | 6,012 |
| Total operating expenses | 200,181 | - | 200,181 |
| Excess (deficiency) of operating revenues over expenses | 685 | (1,043) | (358) |
| Nonoperating items | | | |
| Investment return, excluding returns designated for operations | | | |
| Endowment fund | - | 131 | 131 |
| Other | (4,145) | - | (4,145) |
| Pension changes other than net periodic pension cost | (16,576) | - | (16,576) |
| Designated reserve for operations | (5,353) | - | (5,353) |
| Other nonoperating | (1,768) | - | (1,768) |
| Change in net assets | (27,157) | (912) | (28,069) |
| Net assets at beginning of year | 162,142 | 13,686 | 175,828 |
| Net assets at end of year | \$ 134,985 | \$ 12,774 | \$ 147,759 |

The accompanying notes are an integral part of this consolidated statement.

American Bar Association

CONSOLIDATED STATEMENTS OF CASH FLOWS

August 31, 2020 and 2019
(In thousands)

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 8,163 | \$ (28,069) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation expense | 2,358 | 3,666 |
| Pension expense | 2,951 | 2,532 |
| Realized and change in unrealized gains/losses from investments | (17,356) | (3,825) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (9,558) | 754 |
| Inventory | (88) | 300 |
| Prepaid and other assets | (191) | (248) |
| Investments held for others | (23) | (29) |
| Amounts due from related parties | 1 | 15 |
| Accounts payable | 1,600 | (3,306) |
| Deferred revenue | (11,545) | (3,366) |
| Deferred rent | (330) | (308) |
| Contributions to pension plan | (19,951) | - |
| Pension changes other than net periodic pension cost | 2,153 | 16,576 |
| Other liabilities | 947 | 30 |
| | <u>(40,869)</u> | <u>(15,278)</u> |
| Net cash used in operating activities | | |
| Cash flows from investing activities | | |
| Sales of investments | 21,483 | 26,045 |
| Purchases of investments | (900) | (1,402) |
| Purchases of property and equipment | (629) | (818) |
| | <u>19,954</u> | <u>23,825</u> |
| Net cash provided by investing activities | | |
| Cash flows from financing activities | | |
| Proceeds from long-term debt borrowings | 48,000 | - |
| Proceeds from borrowings on short-term debt | 13,000 | 10,000 |
| Principal payments on long-term debt | (35,400) | (8,000) |
| Principal payments on short-term debt | (8,000) | (10,000) |
| | <u>17,600</u> | <u>(8,000)</u> |
| Net cash provided by (used in) financing activities | | |
| Net change in cash and cash equivalents | (3,315) | 547 |
| Cash and cash equivalents at beginning of year | <u>11,275</u> | <u>10,728</u> |
| Cash and cash equivalents at end of year | <u>\$ 7,960</u> | <u>\$ 11,275</u> |
| Supplemental disclosures of cash flow information | | |
| Cash paid for interest | \$ 1,536 | \$ 1,122 |
| Cash paid for income taxes | 63 | 404 |

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

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2020 and 2019
(Dollars in thousands)

NOTE A - ORGANIZATION

The American Bar Association (the ABA) is the national professional association for the nation's lawyers and provides a wide range of services to its members and the public. The ABA's mission is to serve equally its members, its profession and the public by defending liberty and delivering justice as the national representative of the legal profession.

The consolidated financial statements of the ABA include the accounts of the ABA and the American Bar Association Fund for Justice and Education (the FJE). Inter-entity transactions and balances have been eliminated in consolidation.

The ABA established the FJE as a separate fund in order to obtain tax deductibility for contributions made to the FJE. The FJE has no existence separate from the ABA other than its having applied for and maintained its status as a tax-exempt fund. The FJE's bylaws require that the FJE maintain its assets separate and apart from the general and unrestricted assets of the ABA, that these assets may not be used in any manner for the general purposes of the ABA and that the FJE maintain books and records separate and apart from the general books and records of the ABA.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The ABA's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates.

Consolidated financial statement presentation follows the accounting standards for not-for-profit organizations. Under these standards, net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions, as follows:

- Net assets with donor restrictions represent contributions subject to donor-imposed restrictions. Some restrictions are temporary in nature, stipulating that resources be used after a specified date or for a particular purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of a restriction is accomplished, net assets are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Some restrictions are perpetual in nature and mandate the original principal be invested in perpetuity. The majority of the earnings from net assets restricted in perpetuity are available for the general use of the ABA.
- Net assets without donor restrictions are not subject to donor-imposed stipulations other than broad restrictions relating to the nature or purposes of the entity. The ABA uses unrestricted contributions at its complete discretion without time or purpose limits. Board-designated net assets are net assets without donor restrictions designated by the Board to be used for several specific purposes. The Board retains control over these net assets and may, at its discretion, subsequently use the net assets for other purposes.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Net Assets/Board-Designated Funding of Operations

The ABA's net assets without donor restrictions include certain amounts the Board has designated as a reserve for operations. As part of the ABA's annual budgeting process, the Board decides whether it is appropriate to increase or decrease operating revenues by transferring amounts from or to the non-operating section of the consolidated statements of activities. Allocations for operations from Board-designated reserves were \$11,497 and \$5,353 for the fiscal years 2020 and 2019, respectively.

Cash and Cash Equivalents

Cash equivalents include money market funds with underlying securities having a dollar-weighted average maturity of 90 days or less at the time of purchase. The ABA can liquidate shares of the fund at any time without cost. The ABA had deposits in excess of federally insured limits at August 31, 2020 and 2019. The ABA has not experienced any losses in such deposit accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. The cash equivalents were \$40 as of August 31, 2020 and 2019.

Accounts Receivable

Accounts receivable are stated at amounts due, net of an allowance for doubtful accounts. The ABA evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding and the anticipated future uncollectible amounts based on historical experience. Accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Inventory

Inventory consists of book publications and is stated at the lower of cost or market. This accounting method takes into consideration both selling price and cost. The ABA uses the weighted-average cost method in determining inventory costs.

Inventories are stated net of a reserve for excess and obsolete items. Reserves for excess and obsolete inventories are based on the value of inventory items in excess of 18 months of sales activity or specific identification. The reserve for excess and obsolete inventory was \$3,967 and \$3,992 as of August 31, 2020 and 2019, respectively.

Investments

The ABA records at fair value all investments in debt securities and equity securities with readily determinable fair values based on quoted market prices. Investments held for others represent investments that are the property of related party organizations (see Note C), which are maintained in the ABA investment portfolio.

The estimated fair values of investments that do not have readily determinable fair values are based on the net asset value (NAV) per share or based on estimates provided by external investment managers. These fair values are examined through a valuation review process performed by management. A range of possible values exists for these securities and, therefore, the estimated values may differ from the values that would have been used had a ready market for these securities existed.

Property and Equipment

The ABA records leasehold improvements, furniture and equipment at cost and capitalizes acquisitions of such items having an initial cost of \$5 or more and an estimated useful life of greater than one year. Acquisitions with a cost of less than \$5 are expensed in the current period. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the assets, ranging from three to 16 years.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Operations

In the consolidated financial statements, revenues earned and expenses incurred in conducting the programs and services of the ABA are presented as operating activities. Non-operating activities include investment return, net return designated for operations, pension changes other than net periodic pension costs, gains or losses on the sale or disposal of property and equipment, if applicable, and other non-operating items.

Gifts and Contributions

The ABA recognizes cash gifts and contributions as revenue in the period received. Gifts and contributions are reported as donor restricted if they are received with donor restrictions that limit their use other than for broad restrictions relating to the nature or purposes of the ABA. The expiration or fulfillment of donor-imposed restrictions on contributions result in those contributions being reported as net assets released from restrictions in the accompanying consolidated statements of activities. Pledges are recorded in the period pledged.

Membership Dues

Revenue is recognized in the period when the latter of the following has occurred: (1) goods and services are provided; and (2) payment for those goods and services is received. Membership dues received for a future fiscal period are accounted for as deferred revenue. That deferred revenue is recognized as revenue in the fiscal period when the goods and services paid for are provided.

Meeting Fees

Meeting fees for the current fiscal year are recognized when the meeting dates occur. Payments received for meetings being held in the next fiscal year are accounted for as deferred revenue.

Grant Revenue

The ABA recognizes grant revenue on grants that meet the criteria for exchange transactions when expenses are incurred for the purpose specified by the grantor.

A portion of the ABA's revenue is derived from federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when expenditures have been incurred or performance requirements have been met, in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. At August 31, 2020 and 2019, unrecognized cost-reimbursable grant awards were \$64,000 and \$104,000 respectively, because qualifying expenditures have not yet been incurred. Amounts received in advance under federal and state contracts and grants of \$14,000 and \$17,000 are recorded as refundable advances, in deferred revenue, in the statements of financial position as of August 31, 2020 and 2019.

Sponsorship Revenue

The ABA solicits and receives sponsorships for various meetings, events, and initiatives. Revenue is recognized at the conclusion of the sponsored event. For annual sponsorships, revenue is recognized ratably over the life of the sponsorship agreement. Payments received prior to recognition are accounted for as deferred revenue.

Publications Revenue

The ABA publishes and distributes numerous magazines and books. Payment is requested in advance for all publications, except for publications sold to libraries and government agencies. Revenue is recorded upon shipment.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Royalty Revenue

The ABA receives various royalties from other organizations. These royalties are primarily from membership benefits offered to members and staff of the ABA. The revenue is recognized when earned according to contractual agreements with each organization.

Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the ABA. Those expenses include payroll taxes, fringe benefits, facilities costs and technology costs. Payroll taxes and fringe benefits costs are allocated as a percentage of total salary costs to each department, line of business or function based on direct salary charges incurred. Facilities costs are assessed based on committed space each function occupies, and technology costs are spread based on headcount employed by each department, line of business, or function.

Income Taxes

The ABA and FJE have received favorable determination letters from the Internal Revenue Service as an exempt organization under Section 501(c)(6) and Sections 501(c)(3) respectively, of the Internal Revenue Code of 1986, except for income taxes pertaining to unrelated business income. The Financial Accounting Standards Board ("FASB") guidance requires tax effects from uncertain tax positions to be recognized only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements. No provision was necessary for ABA nor FJE for unrelated business income. The amount of unrelated business income after expenses for current year tax liability was not material overall to the financial statements.

Prior-Year Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the change in consolidated net assets.

Newly Adopted Accounting Pronouncements

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715), in order to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. This update requires that an employer report the service cost component in the same line as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations. ABA implemented this guidance in fiscal year 2020 and presented the service cost component of the net pension costs within salaries, wages, and benefits and all other components of net benefit cost within other nonoperating in the consolidated statement of activities. ABA applied the provisions of ASU 2017-07 retrospectively to the 2019 statement of activities and reclassified expenses of \$1,366 from salaries, wages, and benefits to other nonoperating.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

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*. This ASU clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. ABA adopted this guidance on September 1, 2019. The impact of adopting ASU 2018-08 in fiscal year 2020 resulted in an increase in net assets of \$15,440 in the consolidated statement of activities.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is currently effective for the ABA for fiscal year 2021. The guidance permits the use of either a retrospective or cumulative effect transition method. ABA is evaluating whether this will have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes most of the current lease accounting and presentation guidance. The core principle is that a lessee should recognize the assets and liabilities that arise from leases (with an exception for leases with a term of 12 months or less) by recognizing in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset. This guidance is currently effective for the ABA for fiscal year 2023 (early adoption is permitted). ABA is evaluating whether this will have a material impact on the consolidated financial statements.

NOTE C - RELATED-PARTY TRANSACTIONS

Each of the American Bar Endowment, the American Bar Foundation, the ABA Retirement Funds and the National Judicial College is under its own management, but each is related to the ABA through some common directors, officers or members.

The American Bar Endowment contributed \$3,241 and \$3,696 to the ABA as of August 31, 2020 and 2019, respectively. In addition, the American Bar Endowment has pledged \$3,444 to be contributed in 2021, and that contribution has also been recognized as of August 31, 2020. The FJE contributed \$50 and \$103 to the National Judicial College during the years ended August 31, 2020 and 2019, respectively. The ABA held \$322 and \$299 in long-term investments for the National Judicial College as of August 31, 2020 and 2019, respectively.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

NOTE D - INVESTMENTS

The ABA's consolidated investments (excluding cash equivalents and investments held for others) at August 31, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------|-------------------|-------------------|
| Mutual funds | \$ 56,951 | \$ 55,267 |
| Alternative investments | <u>215,236</u> | <u>220,147</u> |
| Total investments | <u>\$ 272,187</u> | <u>\$ 275,414</u> |

On an annual basis, the Board may approve the allocation of investment income to operating revenue. Investment income allocated to operations in 2020 and 2019 totaled \$5,969 and \$7,674, respectively. The allocated amount includes all short-term investment income earned and a percentage of the average balance of the long-term investments for a prior 12-quarter period. Investment returns, excluding the return on investments allocated to operations, are recorded as a non-operating activity and totaled \$11,389 and (\$4,014) for fiscal years 2020 and 2019, respectively.

NOTE E - FAIR VALUE OF FINANCIAL INSTRUMENTS

The ABA values its financial assets based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value in three broad levels, which are described below:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3 - Unobservable inputs are used when little or no market data is available.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

In determining fair value, the ABA uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value. Financial assets carried at fair value at August 31 are classified in the tables below.

| | 2020 | | 2019 | |
|--------------------------------------|------------------|-------------------|------------------|-------------------|
| | Level 1 | Total | Level 1 | Total |
| Money market accounts | \$ 40 | \$ 40 | \$ 40 | \$ 40 |
| Mutual funds - equity | 56,951 | 56,951 | 55,267 | 55,267 |
| Alternative investments | | | | |
| Fixed (measured at NAV) | - | 81,044 | - | 86,444 |
| Equity (measured at NAV) | - | 133,356 | - | 132,708 |
| Other (measured at NAV) | - | 836 | - | 995 |
| Total investments | 56,991 | 272,227 | 55,307 | 275,454 |
| Investments held for related parties | | | | |
| Alternative investments | | | | |
| Equity (measured at NAV) | - | 322 | - | 299 |
| Total assets at fair value | <u>\$ 56,991</u> | <u>\$ 272,549</u> | <u>\$ 55,307</u> | <u>\$ 275,753</u> |

The following table sets forth the investment strategies and redemption terms for those investments that are measured at NAV per share as of August 31:

| | 2020 | 2019 | Redemption | | Redemption |
|-------------------------|-------------------|-------------------|--------------|-----------|------------|
| | Fair value | Fair value | restrictions | frequency | period |
| Alternative investments | | | | | |
| Fixed | \$ 81,044 | \$ 86,444 | No lock up | Daily | 1 - 7 days |
| Equity | 133,678 | 133,007 | No lock up | Daily | 1 day |
| Other | 836 | 995 | No lock up | Daily | 1 day |
| Total | <u>\$ 215,558</u> | <u>\$ 220,446</u> | | | |

Alternative investments (fixed, equity, and other) are composed of institutional funds that provide exposure to broadly diversified funds of return seeking assets including global equities, real assets and global fixed income. These investments are valued using NAV.

NOTE F - EMPLOYEE BENEFIT PLANS

The employees of the ABA, together with the employees of the American Bar Endowment, the American Bar Foundation and the National Judicial College (the Plan Sponsors) participate in the A-E-F-C Pension Plan (the Pension Plan), a defined benefit plan, and the ABA Thrift Plan, a contributory and defined contribution plan (the Thrift Plan). In an amendment effective January 1, 2007, employees hired on or after that date are not eligible to participate in the Pension Plan, but participate in the defined contribution portion of the Thrift Plan. Employees as of December 31, 2006 could remain in and accrue additional benefits under the Pension Plan or elect to convert to the defined contribution plan as of January 1, 2007. Annual employer contributions to the defined contribution plan are 5% of the participant's annual salary. Employees who converted to the defined contribution plan retain vested benefits accrued as of December 31, 2006 under the Pension Plan.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Under the Thrift Plan, participants may contribute to a 401(k) in which the employer matches each contribution at a rate of 50% of the participant's contribution, up to an employer maximum of 3% of a participant's annual salary.

The ABA's portion of the Pension Plan expense for the years ended August 31, 2020 and 2019 were \$2,951 and \$2,533, respectively, of which \$1,790, and \$1,366, were recorded within nonoperating in the consolidated statements of activities. Effective January 1, 2011, the Pension Plan was amended to reduce the plan benefit formula with the intent that the expected cost of ABA's future accrual would approximate 5% of total participants' pay.

The Pension Plan pays management and consulting fees to various entities that are netted against investment income. These fees are in support of the Pension Plan as a whole, which also supports some ABA related parties. Total fees paid were \$1,221 and \$1,566 for fiscal years 2020 and 2019, respectively.

The funded status of the ABA's portion of the Pension Plan at the measurement dates, August 31, 2020 and 2019, and the pension liability recognized in the ABA's consolidated statements of financial position at August 31, 2020 and 2019, are as follows:

| | 2020 | 2019 |
|---|-------------|-------------|
| Change in projected benefit obligation | | |
| Projected benefit obligation at beginning of year | \$ 170,843 | \$ 154,027 |
| Service cost | 1,161 | 1,166 |
| Interest cost | 5,225 | 6,460 |
| Actuarial loss | 8,200 | 19,293 |
| Benefits paid | (11,117) | (10,103) |
| Projected benefit obligation at end of year | 174,312 | 170,843 |
| Change in Pension Plan assets | | |
| Fair value of Pension Plan assets at beginning of year | 127,813 | 130,105 |
| Actual return on Pension Plan assets | 9,482 | 7,811 |
| Benefits paid | (11,117) | (10,103) |
| Employer contributions | 19,951 | - |
| Fair value of assets at end of year | 146,129 | 127,813 |
| Funded status as of the measurement date | \$ (28,183) | \$ (43,030) |
| Components of adjustments to net assets | | |
| Unrecognized prior service cost | \$ (27) | \$ (36) |
| Unrecognized net loss | 69,391 | 67,248 |
| Total adjustments to measurement date | \$ 69,364 | \$ 67,212 |
| Amounts recognized in the consolidated statements of financial position | | |
| Pension liability | \$ (28,183) | \$ (43,030) |
| Accumulated benefit obligation | \$ 174,312 | \$ 170,843 |

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

| | 2020 | 2019 |
|---|----------|-----------|
| Weighted average assumptions used to determine benefit obligation as of August 31 | | |
| Discount rate | 2.78% | 3.15% |
| Rate of compensation increase | 2.65 | 3.23 |
| Expected return on Pension Plan assets | 6.50 | 6.50 |
| Components of net periodic pension costs for the years ended August 31 | | |
| Service cost | \$ 1,161 | \$ 1,166 |
| Interest cost | 5,225 | 6,460 |
| Expected return on Pension Plan assets | (9,456) | (8,541) |
| Amortization of net loss | 6,030 | 3,598 |
| Amortization of prior service credit | (9) | (151) |
| Total net periodic pension cost | \$ 2,951 | \$ 2,532 |
| Weighted average assumptions used to determine net periodic benefit cost | | |
| Discount rate | 3.15% | 4.33% |
| Rate of compensation increase | 3.23 | 3.23 |
| Expected return on Pension Plan assets | 6.50 | 6.50 |
| Components of pension-related changes other than net periodic pension costs are as follows for the years ended August 31: | | |
| Net loss | \$ 8,174 | \$ 20,023 |
| Amortization of net loss | (6,030) | (3,598) |
| Amortization of prior service credits | 9 | 151 |
| Total pension changes other than net periodic pension costs | \$ 2,153 | \$ 16,576 |
| Total net periodic cost and pension changes other than net periodic pension cost | \$ 5,104 | \$ 19,108 |

The estimated prior service credit and actuarial loss for the plan that will be amortized into net periodic benefit cost during the following fiscal year are as follows:

| | | |
|----------------------|----|-------|
| Prior service credit | \$ | (9) |
| Net actuarial loss | | 6,803 |

The mortality actuarial assumption used in the August 31, 2020 valuation was the weighted Pri-2012 mortality table for employees, retirees and contingent survivors, with generational mortality improvement scale using MP-2019.

The mortality actuarial assumption used in the August 31, 2019 valuation was the weighted RP-2014 mortality table for employees, retirees and contingent survivors, with generational mortality improvement scale using MP-2018.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Pension Plan Assets

The investment policy of the Pension Plan Administration Committee (Committee) seeks reasonable asset growth at prudent risk levels within target allocations. Asset allocation target ranges are reviewed quarterly and re-balanced to within policy target allocations. The investment policy is reviewed at least annually, and revised, as deemed appropriate, by the Committee.

The Pension Plan's investments are diversified to mitigate risks of loss yet maximize investment returns. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value, resulting in additional losses in the near term. It is the intention of the ABA to fund its portion of the Pension Plan as required by the Employee Retirement Income Security Act of 1974.

The fair values of the Pension Plan assets at August 31, by asset category, are as follows:

| | 2020 | | 2019 | |
|----------------------------------|-----------------|-------------------|------------------|-------------------|
| | Level 1 | Total | Level 1 | Total |
| Money market funds | \$ 6,413 | \$ 6,413 | \$ 12,507 | \$ 12,507 |
| Collective trust funds | | | | |
| Fixed (measured at NAV) | - | 51,011 | - | 46,062 |
| Equity (measured at NAV) | - | 25,847 | - | 7,168 |
| Alternative investments | | | | |
| Equity (measured at NAV) | - | 62,814 | - | 34,574 |
| Hedge funds (measured at NAV) | - | 44 | - | 27,502 |
| Total pension plan assets | \$ 6,413 | \$ 146,129 | \$ 12,507 | \$ 127,813 |

The following table sets forth the investment strategies and redemption terms for those investments that are measured at NAV per share as of August 31:

| | 2020 | 2019 | Redemption | | Redemption period |
|-------------------------|-------------------|-------------------|--------------------|---------------------------------|-------------------|
| | Fair value | Fair value | Restrictions | Frequency | |
| Alternative investments | | | | | |
| Equity | \$ 62,814 | \$ 34,574 | No lock up | Daily | Daily |
| Hedge funds | 44 | 27,502 | 0-12 month lock up | Monthly, quarterly, or annually | 9 - 95 days |
| Collective trust funds | | | | | |
| Fixed | 51,011 | 46,062 | No lock up | Daily | 1 - 15 days |
| Equity | 25,847 | 7,168 | No lock up | Daily | 1 - 15 days |
| Total | \$ 139,716 | \$ 115,306 | | | |

Alternative investments consist of institutional funds that invests predominantly U.S. large-cap equities. These funds are valued using NAV.

Collective trust funds (fixed) are designed to protect capital with low-risk investments and include cash, bank notes, corporate notes, government bills and various short-term debt instruments. These investments are valued using the NAV provided by the administrator of the fund.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Collective trust funds (equity) are designated to protect capital with low-risk investments and include cash, global energy equities, global metals and mining equities, non-U.S. equities, commodities, and U.S. Treasury inflation protected securities. They are valued using NAV.

Hedge funds consist of investments in a diverse range of hedge funds as well as common stocks. These investments are valued using the NAV provided by the administrator of the fund as well as direct market quotes. There are currently diverse amounts of redemption restrictions depending on the fund.

To determine the expected annual long-term rate of return for the Pension Plan, the historical performance, investment community forecasts and current market conditions are analyzed to develop expected returns for each of the asset classes used by the Pension Plan. The expected returns for each asset class are then weighted by the target allocations of the Pension Plan.

Cash Flows

Expected contributions for the fiscal year ending August 31, 2021 are \$0.

Estimated future benefit payments reflecting expected future service for the fiscal years ending August 31:

| | | |
|-------------------|----|--------|
| 2021 | \$ | 10,706 |
| 2022 | | 10,447 |
| 2023 | | 10,434 |
| 2024 | | 10,411 |
| 2025 | | 10,419 |
| 2026 through 2030 | | 50,356 |

ABA Thrift Plan

The ABA's expense related to the 401(k) match of the Thrift Plan for the years ended August 31, 2020 and 2019 totaled \$1,424 and \$1,307, respectively. The ABA's expense related to the discretionary contribution of the defined contribution for the plan years ended August 31, 2020 and 2019 totaled \$1,847 and \$1,599, respectively.

NOTE G - DEBT

In May 2015, the ABA entered into a variable rate line of credit agreement with a financial institution to borrow up to \$10,000 to fund normal operating expenses. Interest charged on the loan is based on a rate of 115 basis points above the London Inter-bank Offered Rate (LIBOR) rate and interest is due and payable in the month incurred. In March 2020 the line of credit agreement was amended to allow borrowing up to \$20,000 at 125 basis points above the LIBOR rate. As of August 31, 2020, \$5,000 was outstanding on the agreement. There was no outstanding balance against the line of credit as of August 31, 2019.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

In November 2017, the ABA entered into a loan agreement with a financial institution to borrow \$44,000, which was funded on December 1, 2017. Proceeds of the loan were used to pay off the then-existing long-term debt balance of \$24,000 and to contribute \$19,998 to the Pension Plan. One half of the loan (\$22,000) bore a fixed interest rate of 3.09% per annum, and the other half (\$22,000) accrued interest at a variable rate equal to the one-month LIBOR rate plus 105 basis points. On December 21, 2018, the ABA converted the variable portion of the loan to a fixed rate of 3.89% per annum. On October 4, 2019, the ABA entered into a loan agreement with a financial institution to borrow \$48,000, which was funded on October 18, 2019. Proceeds of the loan were used to pay off the existing long-term debt balance of \$28,000 and to contribute \$19,951 to the Pension Plan. The loan bears a fixed rate of 3.22% per annum and matures on September 30, 2026. Total interest expense incurred and paid on the long-term loans was \$1,469 and \$1,067 in 2020 and 2019, respectively. Future annual principal loan repayments under the terms of the agreement as of August 31, 2020 are as follows:

| <u>Fiscal years ending August 31,</u> | <u>Term debt principal repayment</u> |
|---------------------------------------|--|
| 2021 | \$ 7,200 |
| 2022 | 7,920 |
| 2023 | 8,160 |
| 2024 | 8,160 |
| 2025 | 6,000 |
| Thereafter | <u>5,160</u> |
| Total | <u>\$ 42,600</u> |

NOTE H - COMMITMENTS AND CONTINGENCIES

Leases

The ABA leases certain facilities under non-cancelable operating leases. In August 2017, the ABA amended the current operating lease agreement for the Chicago office space (North Clark Lease). The amendment extended the current lease for an additional seven-year period through June 2031, with a renewal option for an additional five years and the payment of allocated real estate taxes and certain other expenses. The amendment also reduced the overall square footage being leased. An additional amendment executed in 2019 further reduced the square footage but did not impact the expiration date of the lease.

In November 2016, the ABA entered into a lease agreement for office space located in Harlingen, TX. The lease commenced on March 1, 2017, and terminates on February 28, 2025. A July 2019 amendment increased the square footage of the leased premises but did not impact the termination date.

In February 2012, the ABA entered into a lease agreement for office space located in Washington, D.C. (Washington Square Lease). The lease commenced on June 1, 2013, and terminates on February 29, 2028.

Additionally, the ABA has leases for office/storage space and certain office equipment in several other locations.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Future minimum payments under these leases with initial or remaining terms of one year or more and future minimum sublease rental income from related parties as of August 31, 2020 are as follows:

| <u>Fiscal years ending August 31,</u> | <u>Minimum lease payments</u> | <u>Minimum sublease rental income</u> | <u>Net minimum lease payments</u> |
|---------------------------------------|-------------------------------|---------------------------------------|-----------------------------------|
| 2021 | \$ 9,701 | \$ 312 | \$ 9,389 |
| 2022 | 9,881 | 317 | 9,564 |
| 2023 | 10,133 | 321 | 9,812 |
| 2024 | 10,389 | 286 | 10,103 |
| 2025 | 10,357 | 97 | 10,260 |
| Thereafter | 51,969 | 614 | 51,355 |
| Total minimum lease payments | <u>\$ 102,430</u> | <u>\$ 1,947</u> | <u>\$ 100,483</u> |

Certain leases contain clauses allowing the ABA to terminate the agreements. If these options are exercised, financial penalties will be incurred.

Rent expense for all operating leases totaled \$9,330 and \$8,497 for the years ended August 31, 2020 and 2019, respectively.

The ABA subleases space to several related organizations. Under these agreements, annual sublease rental income may be adjusted for increases in operating expenses. Total sublease rental income for the years ended August 31, 2020 and 2019 totaled \$326 and \$321, respectively.

Litigation

The ABA has been named as a defendant in several lawsuits arising in the ordinary course of business. It is the opinion of the ABA that these lawsuits will not have a material adverse effect on the ABA's financial position or operations.

COVID-19

The ABA has been and continues to closely monitor the COVID-19 pandemic and its impact on operations. Though the full impact of COVID-19 and the scope of any impact on the ABA's operations and financial condition cannot yet be determined, the ABA does not anticipate any potential adverse consequences that would be material to the consolidated financial statements.

NOTE I - FUNCTIONAL EXPENSES

Expenses related to program functions, grant-funded activities, membership functions, general and administrative functions, and fundraising functions are as follows for the years ended August 31:

| 2020 | <u>Program Services</u> | | <u>Supporting Services</u> | | | <u>Total</u> |
|--------------------------------|-------------------------|------------------|-----------------------------------|-------------------------------|--------------------|-------------------|
| | <u>Member programs</u> | <u>Grants</u> | <u>General and administrative</u> | <u>Membership development</u> | <u>Fundraising</u> | |
| Salaries, wages and benefits | \$ 41,318 | \$ 25,028 | \$ 16,970 | \$ 12,730 | \$ 579 | \$ 96,625 |
| Professional fees and services | 5,571 | 24,202 | (289) | 1,892 | 9 | 31,385 |
| Meetings and travel | 15,054 | 4,280 | 736 | 882 | 25 | 20,977 |
| Advertising and marketing | 398 | 33 | 31 | 2,475 | 1 | 2,938 |
| Printing and publications | 3,972 | 70 | 150 | 1,402 | 62 | 5,656 |
| Facilities | 8,472 | 3,965 | 7,283 | 1,856 | 165 | 21,741 |
| Supplies and other | 2,515 | 2,005 | 163 | 561 | 10 | 5,254 |
| | <u>\$ 77,300</u> | <u>\$ 59,583</u> | <u>\$ 25,044</u> | <u>\$ 21,798</u> | <u>\$ 851</u> | <u>\$ 184,576</u> |

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

| 2019 | Program Services | | Supporting Services | | | Total |
|--------------------------------|------------------|------------------|----------------------------|------------------------|---------------|-------------------|
| | Member programs | Grants | General and administrative | Membership development | Fundraising | |
| Salaries, wages and benefits | \$ 40,343 | \$ 22,347 | \$ 15,828 | \$ 12,754 | \$ 688 | \$ 91,960 |
| Professional fees and services | 5,918 | 22,453 | 423 | 4,610 | 11 | 33,415 |
| Meetings and travel | 27,234 | 6,027 | 1,182 | 1,842 | 71 | 36,356 |
| Advertising and marketing | 502 | 49 | 98 | 853 | - | 1,502 |
| Printing and publications | 5,262 | 90 | 139 | 2,464 | 73 | 8,028 |
| Facilities | 9,467 | 3,568 | 7,485 | 2,259 | 129 | 22,908 |
| Supplies and other | 2,908 | 2,498 | 85 | 502 | 19 | 6,012 |
| | <u>\$ 91,634</u> | <u>\$ 57,032</u> | <u>\$ 25,240</u> | <u>\$ 25,284</u> | <u>\$ 991</u> | <u>\$ 200,181</u> |

NOTE J - NET ASSETS

Net assets with and without donor restrictions at August 31, 2020 and 2019 consist of the following balances:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Amounts without donor restrictions: | | |
| Board-designated | | |
| Contingency reserve | \$ 74,915 | \$ 74,203 |
| Reserve for operations | 48,340 | 46,634 |
| Endowments | 6,694 | 6,589 |
| Undesignated | <u>10,906</u> | <u>7,559</u> |
| Net assets without donor restrictions | 140,855 | 134,985 |
| Amounts restricted by purpose: | | |
| Fund for Judicial Improvement Projects | 1,790 | 1,991 |
| HIV / AIDS impact committee settlement | 1,210 | - |
| FJE endowment fund | 777 | 735 |
| Commission on Immigration - IJP gifts and donations | 624 | 595 |
| Other | <u>2,827</u> | <u>1,658</u> |
| Net assets restricted by purpose | 7,228 | 4,979 |
| Amounts with perpetual donor restrictions: | | |
| FJE endowment fund | 3,457 | 3,457 |
| Other | <u>4,382</u> | <u>4,338</u> |
| Net assets with perpetual donor restrictions | <u>7,839</u> | <u>7,795</u> |
| Net assets with donor restrictions | 15,067 | 12,774 |
| Total net assets | <u>\$ 155,922</u> | <u>\$ 147,759</u> |

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

Net assets were released from donor restrictions by incurring expenses, the passage of time, or the occurrence of other events satisfying the restricted purposes specified by donors. Other transfers relate to a change in restriction stipulation from a donor.

| | 2020 | 2019 |
|---|----------|----------|
| Net assets released from purpose restrictions for operations: | | |
| Commission on Immigration | \$ 1,031 | \$ 1,199 |
| Center for Innovation | 329 | 535 |
| Fund for Judicial Improvement Projects | 110 | 105 |
| Fund for justice and education | 111 | 176 |
| Other | 2,390 | 2,957 |
| Total net assets released from restrictions | \$ 3,971 | \$ 4,972 |

The FJE endowment fund consists of 44 individual funds established for a variety of purposes. Its endowments are classified as donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The ABA has interpreted the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) as requiring the presentation 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 ABA classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) 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 fund is also classified within net assets with donor restrictions for purpose until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the ABA considers the following factors when making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund.
- The purposes of the ABA and the FJE, as applicable, and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the ABA.
- The investment policies of the ABA.

The ABA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the FJE must hold in perpetuity. Some of the endowment asset accounts were established by the Board or another ABA entity to be treated like endowment funds. These assets, referred to as quasi-endowment funds, follow the same protocol as endowment accounts but are classified as being without donor restrictions. Under this policy, endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% annually over the long term. Actual returns in any given year may vary from this amount.

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

To satisfy its long-term rate-of-return objectives, the ABA 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 ABA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The ABA has a policy of appropriation for distribution each year up to 3.5% of its endowment funds' rolling average fair value over the prior 36 months through the calendar year-end immediately preceding the fiscal year in which the distribution is planned. In establishing this policy, the ABA considered the long-term expected return on its endowments. Accordingly, over the long-term, the ABA expects the current spending policy to allow its endowments to grow at an average of the estimated long-term rate of inflation. This is consistent with the ABA's objective to maintain the purchasing power of endowment assets held for a specific term, as well as to provide additional real growth through new gifts and investment return.

From time to time, the ABA receives contributions subject to donor restrictions requiring their use for the specific purpose of an existing permanent endowment, but only temporarily restricting the use of those funds. These types of contributions are classified in the composition table below as without donor restriction or with donor restriction assets, depending on the intent of the donor.

Endowment net asset composition is as follows as of August 31:

| | 2020 | | |
|----------------------------|---------------------------|------------------------|------------------|
| | Without donor restriction | With donor restriction | Total |
| Donor-restricted endowment | \$ - | \$ 10,405 | \$ 10,405 |
| Quasi-endowment | 6,694 | - | 6,694 |
| Total | \$ 6,694 | \$ 10,405 | \$ 17,099 |

| | 2019 | | |
|----------------------------|---------------------------|------------------------|------------------|
| | Without donor restriction | With donor restriction | Total |
| Donor-restricted endowment | \$ - | \$ 10,573 | \$ 10,573 |
| Quasi-endowment | 6,589 | - | 6,589 |
| Total | \$ 6,589 | \$ 10,573 | \$ 17,162 |

Changes in endowment net assets are as follows:

| | Without donor restriction | With donor restriction | Total |
|--|---------------------------|------------------------|------------------|
| Endowment net assets, August 31, 2019 | \$ 6,589 | \$ 10,573 | \$ 17,162 |
| Investment return | 345 | 311 | 656 |
| Contributions | - | 44 | 44 |
| Appropriation of endowment assets for expenditures | (240) | (523) | (763) |
| Endowment net assets, August 31, 2020 | \$ 6,694 | \$ 10,405 | \$ 17,099 |

American Bar Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019
(Dollars in thousands)

| | Without donor restriction | With donor restriction | Total |
|---|------------------------------|---------------------------|-----------|
| Endowment net assets, August 31, 2018 | \$ 6,569 | \$ 10,996 | \$ 17,565 |
| Investment return | 311 | 137 | 448 |
| Contributions | - | 171 | 171 |
| Appropriation of endowment assets for expenditures | (291) | (731) | (1,022) |
| Endowment net assets, August 31, 2019 | \$ 6,589 | \$ 10,573 | \$ 17,162 |

NOTE K - LIQUIDITY

The ABA's working capital and cash flows fluctuate during the year due to the timing of dues collections and grant funding, relative to expenditures for programming and operations. To manage liquidity, ABA monitors cash balances regularly and spreads the budgeted sale of investments to fund operations throughout the year to ensure adequate cash is on hand. In addition, ABA has a committed line of credit in the amount of \$20,000, \$15,000 of which was available to draw upon as of August 31, 2020.

ABA's financial assets available for general use within one year of August 31, are as follows:

| | 2020 | 2019 |
|--|------------|------------|
| Cash and cash equivalents | \$ 7,960 | \$ 11,275 |
| Investments | 272,187 | 275,414 |
| Accounts receivable, net | 22,930 | 13,372 |
| Total | 303,077 | 300,061 |
| Less: | | |
| Net assets with perpetual donor restrictions | (7,839) | (7,795) |
| Board designated contingency reserve, net of amounts approved for spending in the subsequent year | (72,312) | (72,208) |
| Board designated endowments | (6,694) | (6,589) |
| Total financial assets available | \$ 216,232 | \$ 213,469 |

NOTE L - SUBSEQUENT EVENTS

The ABA evaluated events and transactions occurring subsequent to August 31, 2020 through February 16, 2021, the date the consolidated financial statements were available to be issued. During this period, there have been no subsequent events requiring recognition or disclosure in the consolidated financial statements.

DETAILS OF CONSOLIDATION

American Bar Association

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2020

| | <u>American Bar Association</u> | <u>ABA Fund for Justice and Education</u> | <u>Consolidated</u> |
|---|---------------------------------|---|---------------------|
| Operating | | | |
| Revenues: | | | |
| Membership dues | \$ 49,173 | \$ - | \$ 49,173 |
| Meeting fees | 13,669 | 375 | 14,044 |
| Advertising | 1,726 | - | 1,726 |
| Grants | - | 74,134 | 74,134 |
| Sponsorships | 5,883 | 51 | 5,934 |
| Gifts and Contributions | - | 12,924 | 12,924 |
| Publications | 5,039 | 90 | 5,129 |
| Royalties | 8,255 | 73 | 8,328 |
| Accreditation fees | 4,818 | 392 | 5,210 |
| Other | 2,543 | 221 | 2,764 |
| Investment income for operations | 5,969 | - | 5,969 |
| Designated reserve for operations | 11,497 | - | 11,497 |
| Total operating revenue | <u>108,572</u> | <u>88,260</u> | <u>196,832</u> |
| Expenses: | | | |
| Salaries, wages, and benefits | 61,468 | 35,157 | 96,625 |
| Professional fees and services | 5,717 | 25,668 | 31,385 |
| Meetings and travel | 15,531 | 5,446 | 20,977 |
| Advertising and marketing | 2,887 | 51 | 2,938 |
| Printing and publications | 5,125 | 531 | 5,656 |
| Facilities | 15,895 | 5,846 | 21,741 |
| Supplies and other | 1,124 | 4,130 | 5,254 |
| Total expenses | <u>107,747</u> | <u>76,829</u> | <u>184,576</u> |
| Interfund transfers | 2,136 | (2,136) | - |
| Total expenses and transfers | <u>109,883</u> | <u>74,693</u> | <u>184,576</u> |
| Excess revenues over (under) expenses after transfers | (1,311) | 13,567 | 12,256 |
| Nonoperating items: | | | |
| Investment return, net | | | |
| Endowment funds with program restrictions | - | 308 | 308 |
| Other | 10,695 | 386 | 11,081 |
| Pension changes other than net periodic pension cost | (2,153) | - | (2,153) |
| Designated reserve for operations | (11,497) | - | (11,497) |
| Other nonoperating | (1,832) | - | (1,832) |
| Total non-operating items | <u>(4,787)</u> | <u>694</u> | <u>(4,093)</u> |
| Change in assets | (6,098) | 14,261 | 8,163 |
| Net assets at beginning of year | <u>137,892</u> | <u>9,867</u> | <u>147,759</u> |
| Net assets at end of year | <u>\$ 131,794</u> | <u>\$ 24,128</u> | <u>\$ 155,922</u> |

SINGLE AUDIT REPORTS

American Bar Association
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended August 31, 2020
(in thousands)

| Federal grantor agency/program title/pass-through entity/project description | Agency Award Number | CFDA number | Pass-Through Entity Identifying Number | Provided to Subrecipients | Federal expenditures |
|---|----------------------------|--------------------|---|----------------------------------|-----------------------------|
| U.S. Department of Justice (DOJ) | | | | | |
| Services for Trafficking Victims | | | | | |
| Survivor Reentry Project | 2015-VT-BX-K030 | 16.320 | | \$ - | \$ 37 |
| OVW Technical Assistance Initiative | | | | | |
| Trial Advocacy | 2015-TA-AX-K026 | 16.526 | | - | 21 |
| LGBT Legal Capacity Building | 2015-TA-AX-K040 | 16.526 | | - | 168 |
| Improving Campus Disciplinary Protocols | 2015-TA-AX-K060 | 16.526 | | - | 1 |
| LAV Training Program | 2017-TA-AX-K020 | 16.526 | | - | 271 |
| Civil Litigation Project | 2018-TA-AX-K006 | 16.526 | | - | 124 |
| | | | | <u>-</u> | <u>585</u> |
| Total OVW Technical Assistance Initiative | | | | | |
| Judicial Training on Child Maltreatment for Court Personnel Juvenile Justice Programs | | | | | |
| Passed through National Council of Juvenile and Family Court Judges | | | | | |
| Child Abuse & Neglect Court Training 2019 | 2018-CT-FX-K001 | 16.757 | 33619-SR-1 | - | 21 |
| | | | | <u>-</u> | <u>643</u> |
| Total DOJ | | | | | |
| U.S. Department of State (DOS) | | | | | |
| International Labor Programs | | | | | |
| Riches Project | IL-31469-17-75-K-11 | 17.401 | | - | 128 |
| International Programs to Combat Human Trafficking | | | | | |
| Combating Trafficking in Persons in Sri Lanka | S-SJTIP-18-GR-0009 | 19.019 | | - | 36 |
| Supporting Tunisia's Anti-Trafficking Efforts | S-SJTIP-18-GR-0018 | 19.019 | | - | 88 |
| Supporting Implementation of Morocco's 2016 Anti-Trafficking in Persons Law | S-SJTIP-18-GR-0019 | 19.019 | | - | 222 |
| Vietnam Combating Trafficking in Persons | S-SJTIP-19-GR-0008 | 19.019 | | - | 265 |
| Jordan Building A National And International Tip Response Program | S-SJTIP-20-GR-0011 | 19.019 | | - | 152 |
| | | | | <u>-</u> | <u>763</u> |
| Total International Programs to Combat Human Trafficking | | | | | |
| Conflict and Stabilization Operations | | | | | |
| Conduct Subnational Research on the Drivers of Violent Extremism in Tajikistan | S-LMAQM-18-CA-2009 | 19.121 | | - | 96 |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

American Bar Association

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended August 31, 2020
(In thousands)

| Federal grantor agency/program title/pass-through entity/project description | Agency Award Number | CFDA number | Pass-Through Entity Identifying Number | Provided to Subrecipients | Federal expenditures |
|--|---------------------|-------------|--|---------------------------|----------------------|
| U.S. Department of State (DOS) - continued | | | | | |
| Regional Democracy Program | | | | | |
| Supporting the Legal Profession | S-NEAAC-18-CA-0015 | 19.221 | | \$ 185 | \$ 494 |
| International Programs to Support Democracy, Human Rights and Labor | | | | | |
| Passed through National Democratic Institute | | | | | |
| Uzbekistan Protecting and Enhancing the Advancement of Rights through the Legal System | S-LMAQM-16-CA-1067 | 19.345 | 16-16201-NCS.C-1427 | 59 | 190 |
| Global Fundamental Freedom Fund | S-LMAQM-16-CA-1067 | 19.345 | 16-16201-NCS.D-1427 | - | 47 |
| Tajikistan Ensure Freedom And Independence Of Lawyers (Efilit) | S-LMAQM-16-CA-1067 | 19.345 | 16-16201-NCS.E-1427 | 16 | 161 |
| Kazakhstan Defense Attorney Advocating Rights Protection | S-LMAQM-16-CA-1067 | 19.345 | 16-16201-NCS.F-1427 | - | 30 |
| Libya Countering Discrimination And Disinformation During Covid-19 | S-LMAQM-16-CA-1067 | 19.345 | 16-16201-NCS.G-1427 | - | 1 |
| Balkans Regional Rule of Law Network - Path to Sustainability | S-LMAQM-16-GR-1071 | 19.345 | | - | 31 |
| Strengthening the Global Response to LGBTI Bias Motivated Violence | S-LMAQM-16-CA-1072 | 19.345 | | 1 | 3 |
| Justice Defenders Mobilizing the Legal Community to Enable and Protect Civil Society | S-LMAQM-16-GR-1088 | 19.345 | | - | 1,576 |
| Strengthening Libyan Justice Sector Capacity to Apply International Human Rights | S-LMAQM-17-GR-1110 | 19.345 | | - | 884 |
| Strengthening Litigation and Advocacy to Promote Religious Freedom in Malaysia | S-LMAQM-17-GR-1118 | 19.345 | | 36 | 154 |
| Tunisia Justice Sector Reform | S-LMAQM-17-CA-1144 | 19.345 | | - | 132 |
| Combating Gender Based Violence in Tunisia | S-LMAQM-17-GR-1222 | 19.345 | | - | 85 |
| Combating Slavery in Mali | S-LMAQM-18-GR-2136 | 19.345 | | 24 | 422 |
| CAR Preventing Atrocities by Advancing Justice | S-LMAQM-18-GR-2325 | 19.345 | | - | 503 |
| DRC Atrocity Prevention | S-LMAQM-18-GR-2326 | 19.345 | | 20 | 406 |
| Passed through National Endowment Democracy | | | | | |
| Strengthening The Capacity of Independent Bar Associations Challenging Human Rights Violations | S-LMAQM-18-GR-2004 | 19.345 | 2018-1045 | - | 28 |
| Russia Human Rights Academy | S-LMAQM-19-GR-2014 | 19.345 | 2019-0497 | - | 33 |
| Pakistan Protecting and Promoting Children's Rights | S-LMAQM-18-GR-2223 | 19.345 | | 121 | 332 |
| Passed through International Coalition of SITES of CONSCIENCE | | | | | |
| Understanding and Addressing Violations of Economic Social and Cultural Rights in Transitional Justice | S-LMAQM-17-CA-1188 | 19.345 | 17-CA-1188 | - | 18 |
| Tanzania And Uganda Enhance Protection Of Freedom Of Expression | S-LMAQM-19-GR-2118 | 19.345 | | 280 | 514 |
| Hong Kong Strengthening Legal Actors And Civil Society To Promote Rule Of Law And Protect Human Rights | S-LMAQM-20-GR-2065 | 19.345 | | - | 14 |
| Uzbekistan Building Bridges In The Rule Of Law Community | S-LMAQM-19-GR-2092 | 19.345 | | - | 218 |
| Ukraine Internet Freedom | S-LMAQM-19-GR-2252 | 19.345 | | - | 291 |
| | | | | 557 | 6,073 |
| Total International Programs to Support Democracy, Human Rights and Labor | | | | | |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

American Bar Association

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended August 31, 2020
(In thousands)

| Federal grantor agency/program title/pass-through entity/project description | Agency Award Number | CFDA number | Pass-Through Entity Identifying Number | Provided to Subrecipients | Federal expenditures |
|---|---------------------|-------------|--|---------------------------|----------------------|
| U.S. Department of State (DOS) - continued | | | | | |
| Criminal Justice Systems | | | | | |
| Passed through International Development Law Organization (IDLO) | | | | | |
| Global International and Justice Sector Education and Training Program | S-INLEC-15-CA-1009 | 19.703 | 52-1312603 | \$ - | \$ 60 |
| Peru Justice Sector Support Project | S-INLEC-16-CA-0110 | 19.703 | | - | 929 |
| Support to the Moldova Criminal Justice Sector | S-INLEC-16-GR-0091 | 19.703 | | - | 552 |
| CAR Supporting Justice System Actors to Improve Case and Evidence Management | S-INLEC-17-CA-0009 | 19.703 | | - | 103 |
| Tajikistan Justice Sector Equality Project | S-INLEC-17-CA-0063 | 19.703 | | - | 88 |
| Increasing the Capacity of Egypt's Criminal Research and Training Institute | S-INLEC-17-CA-1015 | 19.703 | | - | 480 |
| Global Criminal Justice Collaboration and Partnership - CJ CAP | S-INLEC-17-CA-1021 | 19.703 | | - | 172 |
| Mexican Justice Program | S-INLEC-17-GR-2038 | 19.703 | | 65 | 1,455 |
| CAR Strengthening the Justice Sector and Combating Impunity | S-INLEC-18-CA-0015 | 19.703 | | - | 60 |
| Tunisia International Justice Sector Education and Training Program | S-INLEC-18-CA-2007 | 19.703 | | - | 3 |
| Support to the Liberian Judiciary | S-INLEC-18-CA-2023 | 19.703 | | - | 755 |
| Serbia International Justice Sector Education and Training Program | S-INLEC-18-CA-2041 | 19.703 | | - | 44 |
| Philippines International Justice Sector Education And Training Program | S-INLEC-18-CA-2018 | 19.703 | | - | 8 |
| Global Jus Trace Program | S-INLEC-18-CA-2069 | 19.703 | | - | 629 |
| DRC Promoting Increased Accountability In The Justice Sector | S-INLEC-18-CA-0032 | 19.703 | | - | 372 |
| Car Building Court And Legal Capacities To Prevent And Combat Atrocities | S-INLEC-18-CA-2077 | 19.703 | | - | 572 |
| Ethiopia Professionalizing African Union Staff For Rule Of Law Initiatives | S-INLEC-18-C-A0033 | 19.703 | | - | 244 |
| Passed through Strategic Capacity Group | | | | | |
| Enhancing Security Oriented Policing In The Sahel | SINLEC18CA2079 | 19.703 | INLCOPS03 | - | 117 |
| Vietnamese Criminal Justice Sector Professional An Opportunity | | | | | |
| To Develop Adversarial Trial Skills | S-INLEC-19-CA-0113 | 19.703 | | - | 275 |
| Capacity Building For The Egyptian Court Of Cassation | S-INLEC-18-CA-2075 | 19.703 | | - | 3 |
| Lebanon Justice Sector Technical Assistance Program | S-INLEC-19-GR-0085 | 19.703 | | - | 438 |
| Russia Step 2 Promote The Rule Of Law And Access To Justice | S-INLEC-18-GR-2094 | 19.703 | | - | 346 |
| Russia Step 1 Support Civil Society's Efforts To Combat Corruption | | | | | |
| And Transnational Crime | S-INLEC-18-GR-2095 | 19.703 | | - | 336 |
| Legislative Assistance To Bosnia And Herzegovina's Criminal Procedure Codes | S-INLEC-19-CA-0262 | 19.703 | | - | 165 |
| Car Professionalizing The Judicial Sector | S-INLEC-19-CA-0375 | 19.703 | | - | 986 |
| Bosnia And Herzegovina Criminal Justice Collaboration And Partnership Program | S-INLEC-20-CA-3001 | 19.703 | | - | 48 |
| Tunisia Expanding The Probation System | S-INLEC-20-CA-3049 | 19.703 | | - | 110 |
| Moldova Jessup Moot Court | S-INLEC-19-GR-0294 | 19.703 | | - | 143 |
| | | | | | |
| | | | | 65 | 9,493 |
| Total Criminal Justice Systems | | | | | |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

American Bar Association

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended August 31, 2020
(In thousands)

| Federal grantor agency/program title/pass-through entity/project description | Agency Award Number | CFDA number | Pass-Through Entity Identifying Number | Provided to Subrecipients | Federal expenditures |
|--|---------------------|-------------|--|---------------------------|----------------------|
| U.S. Department of State (DOS) - continued | | | | | |
| Public Diplomacy Programs for Afghanistan and Pakistan | | | | | |
| Pakistan Developing Business Respect for Human Rights Through US/Pakistan Cooperation's | SPK33018CA0032 | 19.501 | | \$ 87 | \$ 233 |
| Bureau of Near Eastern Affairs | | | | | |
| Combating Gender-Based Violence in Tunisia | S-NEAAC-18-CA-0023 | 19.600 | | 148 | 851 |
| Global Counterterrorism Programs | | | | | |
| Pakistan Strengthening Countering Terrorist Financing Approaches | S-LMAQM-18-GR-2272 | 19.701 | | 235 | 455 |
| Counter Narcotics | | | | | |
| Building Better Justice: Strengthening Judicial Training In Colombia | S-CO150-18-CA-004 | 19.704 | | 110 | 907 |
| The Pan American Development Foundation (PADF) | S-INLEC-19-LA-0146 | 19.704 | | - | 6 |
| Total Counter Narcotics | | | | <u>110</u> | <u>913</u> |
| Trans-National Crime | | | | | |
| Thailand Combating Corruption in the Asia-Pacific Region | S-INLEC-16-GR-1011 | 19.705 | | - | 429 |
| Passed through Wildlife Conservation Society | | | | | |
| Vietnam Combating Wildlife Trafficking | S-INLEC-18-GR-2073 | 19.705 | INL-ABA-01-18 | - | 100 |
| Combating Wildlife Trafficking In South Asia | S-INLEC-18-GR-2079 | 19.705 | INL-ABA-02-18 | - | 57 |
| Wildlife Conservation Society Program | S-INLEC-18-GR-2076 | 19.705 | INL-ABA-01-19 | - | 148 |
| Global Bolster The Role Of Financial Intelligence Units And Investigators In Combating Financial Crimes | S-INLEC-19-GR-0386 | 19.705 | | - | 38 |
| Total Trans-National Crime | | | | <u>-</u> | <u>772</u> |
| Bureau of Western Hemisphere Affairs (WHA) | | | | | |
| Panama Strengthening Legal Education In Criminal Law And Procedure | S-PM070-19-GR-0068 | 19.750 | | - | 115 |
| Office of Global Women's Issues | | | | | |
| Global Programming Consortium to Advance the Status of Women and Girls | S-LMAQM-17-CA-2059 | 19.801 | | 512 | 1,404 |
| Total DOS | | | | <u>1,899</u> | <u>21,790</u> |
| U.S. Department of Transportation (DOT) | | | | | |
| National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements | DTNH-22-16-H-00022 | 20.614 | | - | 514 |
| Total DOT | | | | <u>-</u> | <u>514</u> |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

American Bar Association

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended August 31, 2020
(in thousands)

| Federal grantor agency/program title/pass-through entity/project description | Agency Award Number | CFDA number | Pass-Through Entity Identifying Number | Provided to Subrecipients | Federal expenditures |
|---|---------------------|-------------|--|---------------------------|----------------------|
| U.S. Department of Health and Human Services (DHHS) | | | | | |
| Maternal and Child Health Federal Consolidated Programs | | | | | |
| Passed through Zero To Three | | | | | |
| Infant-Toddler Court Program Year 2 | 5U2DMC32394-02-00 | 93.110 | 2019100002 | \$ - | \$ 32 |
| Infant-Toddler Court Program Year 1 | 1U2DMC32394-01-00 | 93.110 | 2018100031 | - | 7 |
| Total Maternal and Child Health Federal Consolidated Programs | | | | <u>-</u> | <u>39</u> |
| Adoption Assistance | | | | | |
| Passed through Diakon | | | | | |
| Pennsylvania Permanency Barriers Project - Year 4 | 4100070725 | 93.659 | 23-1857015 | - | 1 |
| Pennsylvania Permanency Barriers Project - Year 5 | 4100070725 | 93.659 | 23-1857015 | - | 460 |
| Total Adoption Assistance | | | | <u>-</u> | <u>461</u> |
| Child Abuse and Neglect Discretionary Activities | | | | | |
| National Center for Legal and Judicial Excellence in Child Welfare – Year 5 | 90CZ0025-05 | 93.670 | | 830 | 2,011 |
| Total Child Abuse and Neglect Discretionary Activities | | | | <u>830</u> | <u>2,011</u> |
| Elder Abuse Prevention Interventions Program | | | | | |
| Addressing Guardianship Abuse and Avoiding Unnecessary Guardianship through Wings Court Community | 90EJIG0007-02-00 | 93.747 | | 81 | 263 |
| Total DHHS | | | | <u>911</u> | <u>2,774</u> |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

American Bar Association

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended August 31, 2020
(in thousands)

| Federal grantor agency/program title/pass-through entity/project description | Agency Award Number | CFDA number | Pass-Through Entity Identifying Number | Provided to Subrecipients | Federal expenditures |
|---|--|-------------|--|---------------------------|----------------------|
| U.S. Agency for International Development (USAID) | | | | | |
| USAID Foreign Assistance for Programs Overseas | | | | | |
| Kazakhstan Judicial Independence Program | AID-176-A-12-00011 | 98.001 | | \$ - | \$ 789 |
| Passed through IMA World Health | | | | | |
| USAID/IMA DRC Counter Gender Based Violence Activity | 72066018CA00001 | 98.001 | DRC-CGBV-PRI-ABA | - | 393 |
| Passed through World Vision | | | | | |
| El Salvador Juvenile Justice and Restoration | AID-519-A-17-00003 | 98.001 | AID-519-A-17-00003-ABA | - | 47 |
| Passed through Freedom House | | | | | |
| Libya Supporting Consensus Building for the National Dialogue, Constitution and Governing Process | AID-OAA-LA-14-00009 | 98.001 | 09Rights505 | - | 1,174 |
| Multiregional Human Rights Support Mechanism | AID-OAA-A-16-00044 | 98.001 | 17-AID056-01.A | - | 64 |
| Armenia Stronger Institutional Guarantees for Human Rights Protection | 720-111-18-LA-00001 | 98.001 | 18-H1A001-01 | 3 | 130 |
| USAID FH Southern Africa Regional Human Rights Program | AIDOAAA1600044 | 98.001 | 72067419LA00002 | - | 566 |
| Philippines Access To Justice And Support For The Rule Of Law | AIDOAAA1600044 | 98.001 | 72049218LA00002 | 773 | 2,192 |
| Maldives Strengthening Rule Of Law | AID-OAA-A-16-00044 | 98.001 | 17AID05601.C | 20 | 52 |
| Global Perceptions Of Gender And Online Violence | AID-OAA-A-16-00044/7200-AA-18-LA-00004 | 98.001 | 19-H1A002-01 | 124 | 136 |
| Burkina Faso Human Rights And Access To Justice Program | AID-OAA-A-16-00044 | 98.001 | 72068519RFA0000 | - | 130 |
| Regional Atrocity Prevention For Religious And Ethnic Minority Populations With | | | | | |
| Passed through Search for Common Ground (SFCG) | | | | | |
| Middle East And North Africa | 720-OAA-19-LA-00005 | 98.001 | 52-1257425 | - | 388 |
| Passed through International Foundation for Electoral Systems (IFES) | | | | | |
| Libya Combatting Hate Speech And Disinformation | AID-OAA-L-15-00007 | 98.001 | 7206701LA00001 | - | 5 |
| Passed through International Republican Institute (IRI) | | | | | |
| Maldives Rapid Response | AID-OAA-LA-15-00007 | 98.001 | 0046.02 | - | 176 |
| Strong and inclusive Maldives Democracy (SIMD) | AID-OAA-LA-15-00007 | 98.001 | 0094/01 | - | 4 |
| Passed through Freedom House/Pact, Inc. | | | | | |
| Colombia Conectando Caminos Por Los Derechos | AID-OAA-A-16-00044 | 98.001 | 7205/057-012983 | - | 104 |
| Federal Republic Of Somalia Expanding Access To Justice | AID-OAA-LA-15-00007/72062318LA00002 | 98.001 | 254-010131 | - | 1,709 |
| Total USAID | | | | 920 | 8,059 |
| Total Expenditures of Federal Awards | | | | \$ 3,730 | \$ 33,780 |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

American Bar Association

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

August 31, 2020

NOTE A - SCOPE OF FEDERAL AWARDS

The American Bar Association (the ABA) received federal and state funding through grants and contracts with certain federal and state agencies and subawards with various other agencies. The accompanying schedule of expenditures of federal awards includes federal grant activity of the ABA. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. The ABA has not elected to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards has been prepared on the accrual basis of accounting. Expenditures are recorded for program activities and capital purchases in accordance with the terms of the applicable award. Revenues are recognized to the extent of expenditures incurred in the consolidated financial statements of the ABA.

NOTE C - NON-CASH ASSISTANCE

The ABA did not receive any non-cash assistance from federal awards.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Governing Board
American Bar Association

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the American Bar Association (the ABA), which comprise the consolidated statement of financial position as of August 31, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 16, 2021.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered the ABA's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the ABA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the ABA's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the ABA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

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

Grant Thornton LLP

Chicago, Illinois
February 16, 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Governors and Management
American Bar Association

Report on compliance for each major federal program

We have audited the compliance of American Bar Association (the ABA) with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020. The ABA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the ABA's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for each of the ABA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ABA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the ABA's compliance.

Opinion on each major federal program

In our opinion, the ABA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

Report on internal control over compliance

Management of the ABA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the ABA's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ABA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this Report on Internal Control over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Chicago, Illinois
February 16, 2021

American Bar Association
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
August 31, 2020

SECTION 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major program:

| <i>CFDA Numbers</i> | <i>Name of Federal Program or Cluster</i> |
|---------------------|---|
| 19.345 | International Programs to Support Democracy, Human Rights and Labor |
| 19.801 | Office of Global Women's Issues |
| 93.670 | Child Abuse and Neglect Discretionary Activities |

Dollar threshold used to distinguish between type A and type B programs: \$1,013,505

Auditee qualified as low-risk auditee? X Yes _____ No

American Bar Association

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -CONTINUED

August 31, 2020

SECTION 2 - Financial Statement Findings

None identified.

SECTION 3 - Federal Award Findings and Questioned Costs

None identified.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Finding 2019-001

CFDA numbers and title: CFDA 19.019- International Programs to Combat Human Trafficking

Criteria: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated (2 CFR 200.430(i)).

Condition: We identified a lack of evidence of approval of certain personnel costs being charged to the program.

Prior-Year Corrective Action Plan: The ABA agreed to engage a third-party time-reporting/payroll processor to develop a custom report showing which employees have unapproved time and who their supervisors are. Following each time reporting cycle, payroll personnel will notify senior management which supervisors have not approved time allocations for the employees reporting to them. Senior management will then contact supervisors to alert them of the missing approvals and request approval to be documented in the time reporting system, and in coordination with Human Resources administration, ABA will develop disciplinary protocol for chronic offenders.

Current Year Update: The corrective action plan proposed by management was implemented by the expected date of June 1, 2020.