



Association of American Law Schools

October 30, 2012

President  
Lauren K. Robel  
Indiana University -  
Bloomington

**Memorandum 12-18**

To: Deans of Member Schools  
From: Susan Westerberg Prager *Susan*  
Subject: Annual Financial Report to Members and  
Setting of Member Dues for Calendar Year 2013

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This annual memorandum provides an overview of the Association’s budget and finances and reports the Executive Committee’s action in setting member school dues for calendar 2013. It provides narrative information that bears on budget and finance and that frames the Executive Committee’s thinking and decisions about the dues levels. With the uncertainty many of our member schools are facing and the concerns we all share about cost to students, the Committee found this year’s budget discussions all the more difficult. The Executive Committee approved a dues increase for 2013 of 3.0%<sup>1</sup> which ranges from \$200 to \$800 depending on your student body size. The context for the increase is discussed in some detail throughout this memorandum starting on page 2.

**Dues for 2013**

As detailed in the following chart, the dollar amounts of the increase depend on the size of your law school’s student body. A large majority of our members will experience an increase of \$300, \$400 or \$500. However, with enrollment declines occurring in a number of schools, some of you may experience a decline in your law school’s dues amount.

FTE Student Enrollment	2012	2013
up to 250 students	\$6,660	\$6,860
251-500 students	\$9,985	\$10,285
501-800	\$13,330	\$13,730
801-1100	\$16,630	\$17,130
1101 – 1400	\$19,975	\$20,575
1401- 1700	\$23,290	\$23,990
over 1700	\$26,630	\$27,430

Executive Director  
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<sup>1</sup> However, there is a 0% increase in registration fees for the 2014 Annual Meeting and for the 2014 AALS professional development programs. There have been no registration fee increases for the Annual Meeting for five years.

AALS member law schools will be sent dues invoices in November. The technical execution of this change amends Executive Committee Regulation 3.1 which sets member school dues; the change appears in the footnote.<sup>2</sup> Unless objection is received from at least ten member schools within 60 days of mailing a copy of this regulation, Executive Committee Regulation 3.1, as amended, will continue in effect.

**Budget for Fiscal Year (FY) 12-13:** Appendix A sets out the approved operating budget for FY 12-13<sup>3</sup> in context of a five-year window. The operating budget adopted by the Executive Committee for Fiscal Year 12-13 contemplates operating income of \$5,379,365 and expenditures of \$5,887,644, using accumulated reserves to offset the budgeted deficit of approximately \$500,000. We do not expect the deficit to be this large, in significant part because it will take time to effectuate recruitments to the staff.

Appendix A also presents a multi-year picture of Income and Expense. This helps convey the impact of severe market fluctuations. (See the “Other Income/Expense” line, which shows investment gain or loss and depreciation expense.) Appendix A also quantifies the results of our concerted effort to grow our reserves in recent years. (See the Operating Budget Gain/Loss line.) Changes to reserves will be discussed in more detail on Pages 3-4 of this memorandum. Appendix A also illustrates that even in a period of general economic instability; operating income has been quite stable. We caution however, that we would be unwise to depend on this stability given the conditions law schools are facing.

#### **Key Features of AALS Finances**

- AALS has two main revenue sources: Dues income<sup>4</sup> and Registration Fees.
- Like our member schools, AALS personnel costs make up a large fraction of expenses.<sup>5</sup>
- AALS has no endowment or funds functioning as endowment.
- AALS does have income from its reserves, mainly from those reserves invested in long-term investments.
- Expenses such as technology, office rent, health insurance, hotel and meal costs continue to rise.

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#### <sup>2</sup> **Executive Committee Regulation 3.1**

**3.1 Annual Dues.** Each year each member school shall pay membership dues to the Association. For the calendar year 2013, the dues shall be \$6,860 for a school whose enrollment does not exceed 250 students; \$10,285 for a school whose enrollment exceeds 250 students but does not exceed 500 students; \$13,730 for a school whose enrollment exceeds 500 students but does not exceed 800 students; \$17,130 for a school whose enrollment exceeds 800 students but does not exceed 1100 students; \$20,575 for a school whose enrollment exceeds 1100 students but does not exceed 1400 students; \$23,990 for a school whose enrollment exceeds 1400 students but does not exceed 1700 students; and \$27,430 for a school whose enrollment exceeds 1700 students.

<sup>3</sup> The budget was approved at the May 2012 Executive Committee meeting.

<sup>4</sup> The term “dues” is used in this memo to include member school dues and fees paid by non-member law schools. The latter are set at the same rate as member school dues. Thus, when a school paying the fee becomes a member school there is no change in revenue.

<sup>5</sup> The AALS staff is small given the functions it supports. There is no downtime. There is no fat and staff work hard and intensely. Longevity in key staff positions has created knowledge and efficiency particularly in the central functions of meetings, membership review, budgeting and financial controls. Four staff members have served more than 20 years, two of them more than 30 years. In AALS’ case, retirements would mean more, not less, staff costs because new employees would need time to gain necessary knowledge and organization-specific expertise.

- Unlike most of our association peers, AALS is a renter not an owner.
- Consistent with many other associations, significant technology related purchases and all equipment and furnishing costs are funded from reserve funds, not the operating budget.
- AALS practice is to budget conservatively, and also to avoid large increases in dues.

### **AALS Reserve Funds**

AALS Reserve Funds serve more than one purpose. Historically, the needs supported by reserves have included:

- The ability to fund continuing operations should there be a sharp decline in revenue. Organizations like AALS generally work to hold reserves in the range of 65-95% of annual expenditures for this purpose alone.
- A source of funds to handle non-recurring large expenditures, to satisfy needs that do not occur evenly or predictably over time.<sup>6</sup>
- Funds that enable the organization to operate during the months where expenditures continue but exceed monthly revenues (which is about 9 months of the fiscal year).
- In recent years, the purchase of office space became a priority for AALS. Through efforts to identify appropriate property, it became clear that greater reserves would need to be accumulated so that the AALS could fund key elements required by such a transition.

The AALS Audit and Investment Policy Committee recommended and the Executive Committee approved the creation of a framework designed to help AALS define and analyze its purposes and needs relating to reserves. The first iteration of the framework became effective with FY 10-11. Reserves are now divided into various purposes. (See Note F on Page 9 of Appendix B for a list of the reserve funds.) This new strategic objective caused us to become more purposeful about reserves and the varied needs they serve. In addition to recognizing their main purpose, the new reserves framework should help the organization's leadership evaluate and prioritize the needs of the AALS.

### **Why Is the Purchase of Office Space a Strategic Priority?**

Washington, DC, is a unique real estate market, and we have concluded that it is a critical strategic priority for the Association to position itself to control its space costs over time. The demand for space in Washington, DC, seems ever growing; the small land mass and the building height restrictions in the District contribute to rising rents. Our volunteers are critical to the work of AALS. Deans and faculty can often accomplish more than their AALS work by connecting with alumni, government lawyers, former colleagues and other contacts when in DC. In addition, DC has the largest number of non-profit associations in the country. We benefit because of connections made with other associations (e.g. higher education and learned and professional societies) and because we can take advantage of a number of businesses (e.g., banks, auditors, software companies) that focus their services to the particular needs of the large community of associations located here. If real estate is purchased, once the mortgage is paid, ownership should enable the AALS to devote a larger proportion of its income to services or to limit fees for members as evolving conditions warrant. Maintaining the space should be more

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<sup>6</sup> Examples include new web site development and execution, strategic technology investments designed to improve services to members, and facilities maintenance such as recarpeting. (Both the balance sheet and a walk through of the AALS office demonstrate that most of AALS's assets have been largely depreciated, providing evidence of their age and declining utility. With more than two decades in the current space, the "deferred maintenance" is significant.)

economical than uncontrollable rental payments that will soon reach one half million dollars a year. Purchase will build the Association's equity; in contrast, rental payments once paid are gone.

**Audited Financial Statements:** Attached as Appendix B are the AALS audited financial statements for FY 2010-11<sup>7</sup>. The audit revealed no material weaknesses. As you will see in Note F on Page 9 of Appendix B, during FY 2010-11 AALS was able to add to its reserves (net assets) significantly. The AALS has been growing its reserves in recent years for the following reasons: (1) To build the capacity to purchase office space in a suitable location in Washington, D.C., so that the organization can, over the long term, control its costs associated with office space and make an investment rather than expending sizeable rent costs each year, (2) To create a larger operating cushion to enable operations should we experience further disruptive economic events, and (3) To ensure the adequacy of our reserves, taking into account the different purposes they serve, including technology advances which require episodic large capital expenditures.

Referring again to Appendix A (which presents a five-year window), we want to note the fluctuation in the value of our investments. In 2007-08, AALS had an unrealized loss in the market value of our investments. In 2008-09 the loss was even greater. (The fact that all investors experienced large losses during this period is no comfort.) In these two years taken together, AALS had an unrealized loss of over \$2 million, a fact which underscores the importance of maintaining significant reserves. (Putting this loss in context, AALS net assets at June 30, 2007 were just \$5,464,670 and our annual budget about \$5 million). We are happy to be able to report that AALS has added significantly to its reserves in more recent years. Some of that growth is the market recovery experienced from the drastic declines. But some of the growth is a planned growth in reserves through actions we have taken to forgo or defer expenditures.

When we discuss the AALS reserves, we are referring to the *net* assets (the amount of assets that remain after subtracting the liabilities on the Statements of Financial Position [Page 2 of the audited financial statements]). One hard-to-understand feature of our accounting deserves explicit explanation. In the audited financial statements (Appendix B), on the Statements of Financial Position (Page 2), at June 30 half of the 2011 dues are included as an asset (in cash and cash equivalents), and as a liability (in deferred revenue). The concept is that the second half of the dues will be available to fund expenses in July through December (the first half of the new fiscal year). This occurs because dues are charged for the calendar year but the Association operates on a July 1-June 30 fiscal year. To illustrate this point, the dues your school pays for 2013 will be accounted for and deployed in two fiscal years: The first 6-month component will appear in the last half of the 2012-13 fiscal year which ends June 30, 2013, and the second 6-month component will appear in the first half of the 2013-14 fiscal year which begins July 1, 2013. We note this, because on June 30 by definition we always have an inflated sense of our assets (to the tune of one half the dues income), and we then rapidly deplete those assets as we move through the low income producing months early in the new fiscal year.

As mentioned above, the *net assets* (total assets less total liabilities) are considered as reserves by AALS. Reserves grow in two quite different ways: (1) market recovery, and (2) purposeful

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<sup>7</sup> This memo is traditionally sent to you in June or July, and the year reported on is the last audited year. (In summer 2013 we will report to you on the 2011-12 fiscal year.)

management actions to temporarily forgo full staffing in order to build the reserves. In order to re-evaluate the structure and capacity of our staff, we left some positions unfilled so that we could assess and in significant part upgrade positions. Operating without a full complement of staff was not without costs, including further strains on existing staff and a growing array of projects delayed or deferred.

We entered fall 2011 with the smallest permanent staff in the AALS's past two decades. Over the past fiscal year we filled reconfigured positions and brought the staff up to 18 full-time staff by the spring, but still two short of the number AALS had when I arrived four years ago. Over the past year we added two recent law school graduates to the staff and filled the rotating position reserved for a faculty member from a member law school. (For more than 30 years the only law trained staff have been the two of us who are faculty members.) We expect to regain the previous staffing level with the goal of modestly exceeding it by the end of Fiscal Year 2012-13. However, if we succeed in completing recruitments that return us closer to historic staffing levels, our operating revenues will decline to the point that we will be challenged to maintain reserves at a suitable size for an organization of our complexity. But currently, it is our judgment that AALS' ability to serve the needs of member schools and to treat its staff fairly requires that tradeoff.<sup>8</sup> Nonetheless, we are concerned about the level of the deficit projected for the budget year we have now entered, and are working to reduce it this year and considering other changes that would positively impact successive years.

#### **Background and Brief Comments on AALS Activities**

The Association of American Law Schools is the academic society for law faculty and provides a number of services and resources to its member schools and their faculty and professional staff. These services for FY 2012-2013 will include publication of the annual *Directory of Law Teachers*; more than 90 AALS Sections; Faculty Recruitment Services (including the Faculty Appointments Register, Faculty Recruitment Conference, Placement Bulletin, Visiting, Foreign Visiting and Retiring Faculty Registers); the Annual Meeting; professional development programs for faculty and administrators; and the services of the Resource Corps which is most commonly used to assist deans and faculties in planning.<sup>9</sup> The evaluative process associated with AALS membership is often regarded as a critical element in supporting the overall quality of U.S. legal education. It provides peer commentary (much of it informal) to assist schools in achieving their goals, and often brings good ideas into wider appreciation. It sometimes works meaningful interventions when the internal climate within a school has deteriorated. And AALS good practices statements can help further some order and collegiality in an increasingly competitive world.

The AALS also continues to represent legal education in a variety of settings. These include other higher education organizations, the government, scholarly interdisciplinary societies, international law school/faculty associations, and the public. On occasion the AALS files amicus briefs; in recent years we have done so in three cases. We have spoken forcefully to

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<sup>8</sup> As noted earlier, AALS staff are always overextended and work intensely and often with long hours. They have not faltered even when a large percentage of them have had insultingly small or no pay increases, beginning with FY 09-10. AALS does need to ensure that it retains its staff, and that it is able to continue to recruit staff who will help the organization provide key services important to our member schools.

<sup>9</sup> Requests for Resource Corps assistance are increasing as deans and faculties consider how to move forward at a time when cost to students is a major and pressing concern.

counter attempts in the political process which are designed to deter clinical programs from using particular cases or subject matters to teach their students.

As most of you know, the AALS depends heavily on volunteer law school faculty and administrators to design and conduct much of the work of the Association. Each year over 1,000 volunteers plan programs, speak at programs, serve on AALS committees, serve as Section officers, and work on other AALS projects and initiatives. Our staff is small relative to its accomplishments and the widely varying programs and efforts it executes and assists our volunteers in presenting each year.

### **Conclusion**

The current climate of hostility to legal education, the very real problem of costs to students on the one hand, and, on the other, the value of a legal education and the commitment of our faculties, weigh heavily on us all.

I encourage you to call me with any questions, thoughts, or comments about the subjects discussed in this memo, or any other aspect of the AALS or the climate we are facing.

cc: Members of the 2012 AALS House of Representatives

Enclosures:

- Appendix A: Operating Budget for FY 2012-13 with history of previous years
- Appendix B: AALS Audited Financial Statements for FY 2010-11

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Association of American Law Schools  
 Summary of Operating Income and Expense  
 and  
 Summary Budget Fiscal Year 2012-13

Appendix A

	Actual FY 07-08	Actual FY 08-09	Actual FY 09-10	Actual FY 10-11	Budget FY 11-12	Projected Actual FY 11-12	Budget FY 12-13
OPERATING INCOME							
DUES, SERVICE AND APPLICATION FEES	2,365,810	2,461,612	2,591,553	2,737,149	2,759,558	2,772,100	2,917,000
PUBLICATION INCOME	472,798	355,916	420,128	362,068	351,300	342,500	301,500
ANNUAL MEETING INCOME	1,874,456	1,555,406	1,449,932	1,541,682	1,497,000	1,542,175	1,434,000
OTHER MEETING INCOME	752,828	702,350	906,421	876,537	752,450	745,497	726,865
<b>TOTAL OPERATING INCOME</b>	<b>5,465,892</b>	<b>5,075,284</b>	<b>5,368,034</b>	<b>5,517,435</b>	<b>5,360,308</b>	<b>5,402,272</b>	<b>5,379,365</b>
OPERATING EXPENSES							
PERSONNEL EXPENSES (See note)	2,550,036	2,551,446	2,210,952 *	2,054,225 *	2,751,240	2,589,988	3,174,000
OUTSIDE SERVICES	155,843	235,253	90,791	158,932	169,380	229,868	262,000
PRINTING, POSTAGE & PUBLICATIONS	493,427	390,988	446,007	478,853	552,500	489,000	538,500
OPERATIONS	580,988	640,907	605,345	670,805	675,400	686,000	715,144
CREDIT CARD & BANK FEES	110,368	87,018	103,535	84,999	89,000	84,000	84,000
TECHNOLOGY	60,568	106,924	118,233	117,019	116,000	114,000	113,000
HOTELS, MEALS & TRANSPORTATION	950,086	618,616	630,822	758,403	895,000	811,000	969,000
OTHER MISCELLANEOUS	35,521	27,228	31,856	27,308	33,000	29,660	32,000
SUPPORT OF IALS	111,706	24,121	236,113	217,700	3,000	3,000	0
<b>TOTAL OPERATING EXPENSES</b>	<b>5,048,543</b>	<b>4,682,502</b>	<b>4,473,653</b>	<b>4,568,245</b>	<b>5,284,520</b>	<b>5,036,516</b>	<b>5,887,644</b>
<b>OPERATING BUDGET GAIN/LOSS</b>	<b>417,349</b>	<b>392,782</b>	<b>894,381</b>	<b>949,190</b>	<b>75,788</b>	<b>365,756</b>	<b>(508,279)</b>
OTHER INCOME/EXPENSE (Including investment gain/loss and depreciation)							
	(457,517)	(1,255,587)	591,803	976,644	(27,000)	(10,100)	22,500
<b>REVENUE (DEFICIT) OVER EXPENSES</b>	<b>(40,168)</b>	<b>(862,805)</b>	<b>5,959,837</b>	<b>6,494,079</b>	<b>48,788</b>	<b>355,656</b>	<b>(485,779)</b>

\*Note re Personnel Expenses: There is a decrease in Personnel Expenses because the auditors required that, beginning in FY 09-10, AALS allocate the cost of staff time spent on IALS to "Support of IALS" rather than to the Personnel category. Without that auditor-drive change, the personnel category for FY 09-10 would have been \$2,445,952 and for FY 10-11 would have been \$2,269,225. We ended staff support for IALS effective November 30, 2011.





**Audited Financial Statements  
& Other Financial Information**

**THE ASSOCIATION OF AMERICAN  
LAW SCHOOLS, INC.**

*June 30, 2011*

# The Association of American Law Schools, Inc.

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## Independent Auditor's Report on the Financial Statements

To the Committee on Audit and Investment Policy  
The Association of American Law Schools, Inc.

We have audited the accompanying statement of financial position of The Association of American Law Schools, Inc. (the Association) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association as of June 30, 2010, were audited by other auditors whose report, dated October 19, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of The Association of American Law Schools, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC  
September 12, 2011

# The Association of American Law Schools, Inc.

## Statements of Financial Position

<b>June 30,</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents - Note B	\$ 2,722,025	\$ 1,677,580
Investments - Notes B & C	6,790,430	5,692,508
Prepaid expense and other assets	271,080	299,973
Property and equipment - Note D	255,727	338,095
<b>Total assets</b>	<b>\$ 10,039,262</b>	<b>\$ 8,008,156</b>
 <b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 669,292	\$ 543,417
Deferred revenue - Note E	1,395,144	1,415,746
Total liabilities	2,064,436	1,959,163
Commitment and contingencies - Note I	-	-
Net assets - unrestricted - Note F	7,974,826	6,048,993
<b>Total liabilities and net assets</b>	<b>\$ 10,039,262</b>	<b>\$ 8,008,156</b>

*See notes to the financial statements.  
Certain 2010 amounts have been reclassified for comparative purposes.*

# The Association of American Law Schools, Inc.

## Statements of Activities

<b>Year Ended June 30,</b>	<b>2011</b>	<b>2010</b>
<b>Revenue and support</b>		
Membership dues and service fees	\$ 2,737,149	\$ 2,591,552
Professional development	2,061,324	1,958,504
Publications	354,740	414,002
Faculty recruitment services	339,775	348,510
Interest income	131,155	157,640
Contributions	17,118	49,339
Royalties and other income	9,964	10,587
Total revenue and support	5,651,225	5,530,134
<b>Expense</b>		
Program services - Note G		
Professional development	2,198,846	2,029,763
Member services	1,569,197	1,649,229
Publications	592,809	617,947
Total program services	4,360,852	4,296,939
Supporting services		
Management and general	352,240	302,702
Total expense	4,713,092	4,599,641
Change in net assets before other item	938,133	930,493
Net gain on investments	987,700	556,806
<b>Change in net assets</b>	<b>1,925,833</b>	<b>1,487,299</b>
Net assets, beginning of year	6,048,993	4,561,694
<b>Net assets, end of year</b>	<b>\$ 7,974,826</b>	<b>\$ 6,048,993</b>

See notes to the financial statements.

Certain 2010 amounts have been reclassified for comparative purposes.

# The Association of American Law Schools, Inc.

## Statements of Cash Flows

<b>Year Ended June 30,</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,925,833	\$ 1,487,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	144,932	134,871
Net gain on investments	(987,700)	(556,806)
Changes in assets and liabilities:		
Prepaid expense and other assets	28,893	(148,876)
Accounts payable and accrued expenses	125,875	(194,677)
Deferred revenue	(20,602)	163,815
Total adjustments	(708,602)	(601,673)
Net cash provided by operating activities	1,217,231	885,626
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	263,790	3,072,260
Purchases of investments	(374,012)	(3,217,995)
Purchases of property and equipment	(62,564)	(113,952)
Net cash used in investing activities	(172,786)	(259,687)
<b>Net increase in cash and cash equivalents</b>	<b>1,044,445</b>	<b>625,939</b>
Cash and cash equivalents, beginning of year	1,677,580	1,051,641
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,722,025</b>	<b>\$ 1,677,580</b>

See notes to the financial statements.

Certain 2010 amounts have been reclassified for comparative purposes.

# The Association of American Law Schools, Inc.

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Association of American Law Schools, Inc. (the Association) was founded in 1900 and incorporated in 1971 to improve the legal profession through legal education. The Association's members include law schools and the Association serves as the learned society for law professors.

Income taxes: The Association is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation within the meaning of Section 509(a)(2) of the Internal Revenue Code.

However, the Association may be subject to tax on its net unrelated business income activities such as advertising. The Association believes that it has appropriate support for any material income tax positions taken. Therefore, management has not identified any material uncertain income tax positions. The Association's income tax returns are subject to examination by the Internal Revenue Service for three years once they have been filed.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, the Association considers demand deposits and money market funds which are not included within its investment portfolio to be cash and cash equivalents.

Contributions: Contributions are recognized when unconditionally promised to, or received by, the Association. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when the time restriction expires or when the purpose restriction is satisfied.

Program services: Program services include the following activities, the descriptions for each of which follow.

*Professional development:* The Association sponsors an annual meeting which is the largest gathering of law faculty and deans in the world with hundreds of programs and events which focus on various subject areas. The Association also offers several educational workshops and smaller conferences for law faculty each year.

*Member services:* The Association represents U.S. legal education and the law professoriate. Law school faculty recruitment services include the annual Faculty Recruitment Conference, an on-line registry of faculty candidates, and a Placement Bulletin that lists faculty openings at law schools. The Association's membership is based on compliance with membership requirements which are guided by core values.

*Publications:* The Association is the learned society for law professors and produces several publications including *Directory of Law Teachers* and *Journal of Legal Education*.

# The Association of American Law Schools, Inc.

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Supporting services: Supporting services include the following activities, the descriptions for each of which follow:

*Management and general:* Management and general activities are necessary for the administrative processes of the Association and include managing the financial responsibilities of the Association.

Functional allocation of expense: The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited based on estimated level of effort.

Subsequent events: Subsequent events have been evaluated through September 12, 2011, which is the date the financial statements were available to be issued.

### B. CONCENTRATIONS

Credit risk: The maximum limit insured by the FDIC is \$250,000 per depositor at a financial institution and the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act made the \$250,000 FDIC limit permanent.

The Association maintains several demand deposit accounts and money market funds. At times, certain balances held within these accounts may not be fully guaranteed or insured by FDIC. The uninsured portions of these accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution may result in financial loss for the Association. However, the Association attempts to reduce its exposure to credit risk through maintaining a balance of \$250,000 or less in many of its accounts.

Market risk: The Association also invests funds in a professionally managed portfolio of investments. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks could materially affect investment balances and the amounts reported in the consolidated financial statements.



# The Association of American Law Schools, Inc.

## Notes to the Financial Statements

### C. INVESTMENTS

In accordance with generally accepted accounting principles, the Association uses the following prioritized input levels to measure fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

The following is a summary of the fair values of assets, measured on a recurring basis using Level 1 inputs at June 30,:

	2011	2010
Investments		
Money market funds	\$ 1,112,341	\$ 869,132
Mutual funds - equities	4,234,598	3,297,666
Mutual funds - fixed income	<u>1,419,621</u>	<u>1,502,452</u>
	6,766,560	5,669,250
Deferred compensation investments		
Money market funds	17,937	17,937
Mutual funds - equities	2,512	2,030
Mutual funds - fixed income	<u>3,421</u>	<u>3,291</u>
	<u>23,870</u>	<u>23,258</u>
	<u>\$ 6,790,430</u>	<u>\$ 5,692,508</u>

# The Association of American Law Schools, Inc.

## Notes to the Financial Statements

### D. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 are recorded at cost. Depreciation of computer software, furniture and equipment is calculated using the straight-line method over estimated useful lives of 3 to 10 years. Amortization of leasehold improvements is calculated using the straight-line method over the lesser of the remaining term of the office lease or the estimated useful life of the improvements.

Property and equipment consisted of the following at June 30,:

	2011	2010
Computer software and equipment	\$ 868,645	\$ 806,715
Office furniture and equipment	405,734	405,184
Leasehold improvements	<u>58,477</u>	<u>58,477</u>
	1,332,856	1,270,376
Less accumulated depreciation and amortization	<u>(1,077,129)</u>	<u>(932,281)</u>
	<u>\$ 255,727</u>	<u>\$ 338,095</u>

### E. DEFERRED REVENUE

Revenue received in advance of the period in which it will be earned is reported as deferred revenue. Membership dues and service fees are recognized as revenue over the applicable period. Professional development includes registration fees, exhibit fees, and sponsorships which are recognized in the year in which the event occurs. Publications include subscription income which is recognized ratably over the period of the subscription.

Deferred revenue consists of the following at June 30,:

	2011	2010
Membership dues and service fees	\$ 1,337,874	\$ 1,335,531
Professional development	42,520	58,145
Publications	<u>14,750</u>	<u>22,070</u>
	<u>\$ 1,395,144</u>	<u>\$ 1,415,746</u>

# The Association of American Law Schools, Inc.

## Notes to the Financial Statements

### F. NET ASSETS

Net assets are unrestricted. In other words, the Association has no funds which have been restricted by outside donors who provided contributions for a particular purpose. However, the Association's unrestricted net assets may be limited in other respects, such as by designation.

Net assets consisted of the following at June 30,:

	2011	2010
General Reserves	\$ 4,000,000	\$ -
Strategic Real Estate	2,000,000	869,132
Operating Reserves	796,286	5,179,861
Strategic Technology Reserves	750,000	-
Replacement Reserves	400,000	-
Section Funds	28,540	-
	<u>\$ 7,974,826</u>	<u>\$ 6,048,993</u>

### G. IN-KIND CONTRIBUTIONS

The Association receives in-kind contributions of printing services, badges, and lanyards in support of its publications, professional development, and member services functions. In-kind contributions are recorded in equal amounts within the revenue and expense functions to which they relate.

In-kind contributions consisted of the following for the year ended June 30,:

	2011	2010
Publications	\$ 111,947	\$ 109,540
Professional development	17,048	14,930
Member services	3,340	3,791
	<u>\$ 132,335</u>	<u>\$ 128,261</u>

IALS support: The Association provided in-kind contributions to International Association of Law Schools (IALS), an unrelated non-profit organization exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code. Employees of the Association provided administrative support services of \$215,000 and \$235,000 to IALS at no charge during the years ended June 30, 2011 and 2010, respectively. The administrative support services provided by the Association exclude both indirect expenses and time spent by the Association's Executive Director. In addition to the administrative support services, the Association also provided an in-kind contribution of a dinner for the IALS Governing Board amounting to \$2,700 and \$1,112 during the years ended June 30, 2011, and 2010, respectively.

# The Association of American Law Schools, Inc.

## Notes to the Financial Statements

### H. RETIREMENT PLANS

Defined contribution plan: The Association sponsors a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code for all eligible employees as stipulated by the plan document. The Association's contributions under the plan total \$184,410 and \$227,548 for the years ended June 30, 2011 and 2010, respectively.

Tax deferred annuity plan: The Association also sponsors a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code. The plan is an employee elective deferral retirement plan, which covers all eligible participants as stipulated by the plan document. Therefore, the Association makes no contributions under the plan.

Deferred compensation plan: The Association established a deferred compensation plan under Section 457(b) of the Internal Revenue Code. The plan is funded by investments in mutual funds which are recorded at fair value primarily using Level 1 inputs (see Note C). The deferred compensation asset and corresponding liability amounted to \$23,870 and \$23,258 at June 30, 2011 and 2010, respectively.

### I. COMMITMENTS AND CONTINGENCIES

Office lease: The Association has an operating lease for office space which expires January 2014. The lease contains an escalation clause that adjusts annual base rentals. Generally accepted accounting principles require that scheduled rent increases resulting from the escalation of base rentals be recorded as a liability and amortized ratably over the term of the lease. Accordingly, the Association has recorded a liability for deferred rent totaling \$11,649 at June 30, 2011, which is included in accounts payable and accrued expenses in the statements of financial position. Rent expense amounted to \$472,666 and \$419,768 for the years ended June 30, 2011 and 2010, respectively.

Future minimum rental payments for the office lease are as follows:

Year Ending June 30,	Amount
2012	\$ 450,105
2013	462,280
2014	<u>268,631</u>
	<u>\$ 1,181,016</u>

Employment agreement: The Association has an employment agreement with a key executive. Under the terms of the agreement, should the Association terminate the executive without cause, it would be obligated to pay severance, the terms of which are stipulated in the employment agreement.

T A T E



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## Independent Auditor's Report on the Other Financial Information

To the Committee on Audit and Investment Policy  
The Association of American Law Schools, Inc.

Our report on our audit of the basic financial statements of The Association of American Law Schools, Inc. (the Association) as of and for the year ended June 30, 2011 appears on page one. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information presented on the following page is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Washington, DC  
September 12, 2011

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# The Association of American Law Schools, Inc.

## Schedule of Revenue and Expense

<b>Year Ended June 30,</b>	<b>2011</b>	<b>2010</b>
<b>Revenue and support</b>		
Membership dues	\$ 2,360,916	\$ 2,265,634
Annual meeting	1,541,680	1,449,931
Workshops and conference	519,644	508,573
Faculty recruitment services	339,775	348,510
Non-member schools service fees	316,233	305,918
Publications	242,793	304,462
Interest income	131,155	157,640
Publication subsidies	111,947	109,540
Application fees	60,000	20,000
Contributions	17,118	49,339
Royalties and other income	9,964	10,587
Total revenue and support	5,651,225	5,530,134
<b>Expense</b>		
Salaries	1,513,957	1,656,319
Hotels and meals	613,474	495,952
Office rent	472,666	419,768
Payroll taxes and employee benefits	376,468	451,703
Professional fees	355,141	233,103
Printing	247,085	210,653
IALS support	217,700	236,112
Travel	144,932	134,871
Depreciation and amortization	144,848	127,105
Postage and delivery	126,350	140,959
Equipment rental and maintenance	119,097	118,934
Journal of Legal Education	102,917	92,973
Bank charges and fees	99,950	103,350
Insurance	54,324	59,586
Supplies	49,524	52,788
Communication	41,246	32,570
Dues, subscriptions, and training	29,807	32,315
Other	3,606	580
Total expense	4,713,092	4,599,641
Change in net assets before other item	938,133	930,493
Net gain on investments	987,700	556,806
<b>Change in net assets</b>	<b>\$ 1,925,833</b>	<b>\$ 1,487,299</b>

*Certain 2010 amounts have been reclassified for comparative purposes.*