



Association of American Law Schools

July 31, 2019

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University of Richmond

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Harvard University

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Judith Areen

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MEMORANDUM 19-06

To: Deans of Member Schools
From: Judith Areen, Executive Director
Re: AALS Annual Report for 2018-19 and Setting of Member Dues for 2020

This was a very busy year for the Association of American Law Schools. We continued our efforts to better serve the needs of both deans and faculty at all our member schools. Deans are particularly important to us because you are the official representatives of our member schools. Faculty, in turn, are central to our serving as the learned society for the legal academy. AALS also continued our efforts to be a more effective voice on behalf of legal education and completed a research report on more than 22,000 undergraduates and 2,700 first year law students about their views of law school.

The first section of this report covers the 2018-19 activities in more detail. The final section presents the 2019-20 budget and the 2020 dues increase.

I. Annual Report for 2018-19

A. Support and Services for Deans

As part of our expanded mission, AALS is committed to providing law school deans with more opportunities to collaborate to advance excellence in legal education. Five years ago AALS established a Deans Forum. It enables deans of all member and fee-paid schools to work together on issues of mutual importance at a day-long program for deans only at the Annual Meeting. The fourth annual Deans Forum was held at the January 2019 AALS Annual Meeting in New Orleans and was built around the theme, "Being a Dean and All That Jazz." Former New Orleans Mayor Mitch Landrieu served as the kick-off speaker. Nearly 150 deans attended. The next Deans Forum is scheduled for Saturday, January 4, 2020, in Washington, DC.

AALS in 2014 also established a Deans Steering Committee to identify matters of interest to deans and to work on those issues throughout the year. The Steering Committee has undertaken such projects as meeting with the ABA

Committee on the Future of Legal Education in 2017 and 2018 and discussing recommendations for the Ninth Circuit Committee on Workplace Environment with Judge Margaret McKeown in 2018.

The 2019 Steering Committee is chaired by Vince Rougeau, Dean of Boston College School of Law and includes:

Term Expires at the end of 2019:

CRAIG BOISE, Syracuse University College of Law
ERWIN CHEMERINSKY, University of California, Berkeley, School of Law
JENNIFER L. MNOOKIN, University of California, Los Angeles School of Law
TREVOR W. MORRISON, New York University School of Law
CAMILLE NELSON, American University Washington College of Law
WENDY COLLINS PERDUE, University of Richmond School of Law

Term Expires at the end of 2020:

MARK ALEXANDER, Villanova University Charles Widger School of Law
VIKRAM AMAR, University of Illinois College of Law
JESSICA BERG, Case Western Reserve University School of Law
GREG BOWMAN, West Virginia University College of Law
GILLIAN LESTER, Columbia Law School

Term Expires at the end of 2021:

RISA L. GOLUBOFF, University of Virginia School of Law
GARRY W. JENKINS, University of Minnesota Law School
L. SONG RICHARDSON, University of California, Irvine School of Law
D. BENJAMIN BARROS, University of Toledo College of Law
DARBY DICKERSON, The John Marshall School of Law

AALS has also revamped its membership review process over the past four years to focus more on core values, including scholarship, teaching, shared governance, and diversity of both backgrounds and viewpoints. The Executive Committee also restructured the membership review process so that it relies more on peer review and less on requiring additional reports from schools. The goal has been to complement, but not duplicate, the accreditation work of the ABA Section on Legal Education and Admissions to the Bar. AALS reporters are asked to explain these changes to the deans of the schools they visit as well as the difference between the membership review process and the accreditation responsibilities of the ABA. Our goal has been to make AALS membership review both more useful, and less of a burden, to member schools.

B. Services for Faculty

1. Annual Meeting

New Orleans drew more than 2,400 law faculty, deans, professional staff, and exhibitors to the Annual Meeting on January 2-6, 2019. We are pleased to report that the number (and percentage) of registrations increased for both new tenure-track and emeritus/retired faculty. The theme of the meeting, chosen by 2018 AALS President Wendy Perdue, was “Building Bridges.”

Many of the section programs explored the important role lawyers and law schools play in helping to resolve the most pressing conflicts facing society today. The AALS President's Opening Plenary Session featured a keynote address and discussion with the Honorable Edwin Cameron from the Constitutional Court of South Africa. We held the first-ever Reception for New Law Teachers, bringing together the new law teachers who attended the New Law Teachers Workshop in the past few years as well as planning committee members and speakers. The reception was so successful that we plan hold one at future meetings.

The meeting included many different types of programs, formats and topics. Five sessions addressed aspects of sexual harassment including Title IX and the nomination hearings for Supreme Court Justice Brett Kavanaugh. Two programs highlighted oral history projects about women in the legal academy, and one of the discussion groups focused on gender inequality.

The Triennial Award for Lifetime Service to Legal Education and to the Law was presented to Michael A. Olivas, University of Houston Law, during the First Session of the House of Representatives Meeting.

For the fourth year in a row, the Workshop for Pretenured Law School Teachers of Color provided guidance, networking and encouragement to those navigating the tenure process. The Law School Admission Council (LSAC) again generously made available funds to assist faculty who could not otherwise attend the Annual Meeting.

The 2020 Annual Meeting will be held January 2-5, in Washington, DC. The theme chosen by President Vicki Jackson is "Pillars of Democracy: Law, Representation, and Knowledge. The meeting provides an opportunity to connect and collaborate with colleagues, discuss critical and emerging legal issues, and attend programs focused on fresh perspectives on law and legal education. There will be 250 sessions with 900 moderators, speakers, and discussion leaders, as well as 50 networking events.

2. Conference on Clinical Legal Education

The 42nd AALS Clinical Conference was held in May 2019; it had the highest attendance in its history. The Conference, the theme of which was "Teaching the Next Generation of Lawyer Leaders in a Time of Polarization," opened with a plenary session on "America Polarized: What Drives Us Apart? What Brings Us Together?" featuring speakers Yung-Yi Diana Pan, Sociologist, Brooklyn College; and Daniel A. Yudkin, Department of Psychology, Yale University. The conference had a new look this year with a schedule featuring shorter concurrent sessions and shorter-still "lightning" sessions, designed to spark new thoughts and ideas. The biennial Clinical and Experiential Law Program Directors Workshop preceded the Conference.

3. Workshop for New Law Teachers

The 36th Workshop for New Law School Teachers was held in June 2019. It provided an opportunity for new faculty to consider their career through multiple roles – as teacher, scholar, mentor, and institutional citizen.

4. Services to Sections

Sections are the primary contact most faculty have with AALS. Our 104 sections serve more than 9,000 law faculty and professional staff as members. Sections are intended to improve excellence in both teaching and scholarship across the legal academy.

This year, AALS made a number of improvements to the online communities and resources available to sections. Section webpages have been redesigned to make content such as newsletters, upcoming events, and announcements available to all faculty. The responsibility for leading Sections is widely shared among our membership. This year, for example, the Section chairs came from 76 different member schools. We invite you to join in this new emphasis on Sections by reaching out to your new faculty to explain AALS to them, and the value of joining a section. We also ask you to encourage your most productive faculty to become more active in the AALS Section (or Sections) in their field(s) of interest by volunteering to join the leadership of a Section.

C. Serving as a Voice for Legal Education

AALS continues to showcase the innovations and accomplishments of member and fee-paid law schools for policymakers, leaders of the bar and bench, the media, prospective law students, and the public. The homepage of the AALS website is designed to celebrate the accomplishments of colleagues such as those at the University of Buffalo School of Law who responded to the need for undergraduate initiatives that encourage a legal career by instituting a minor in law for undergraduate students; or colleagues at the University of Kansas School of Law who are strengthening the legal profession by teaching future lawyers to understand statistics, data analysis, and artificial intelligence.

We rely on your schools (and your communication directors) to submit material to be featured on the website. In addition to showcasing the accomplishments of law schools, the AALS website homepage has a calendar of upcoming symposia at law schools around the nation that is updated regularly. This fall AALS began to email the calendar on a regular basis to all law faculty as part of our effort to share new ideas and scholarly insights throughout the legal academy. The communications team also maintains a compilation of news stories that is updated on a weekly basis. You are welcome to sign up to receive a weekly email from AALS with the week's relevant news stories.

AALS maintains daily content on Twitter, LinkedIn, Instagram, Facebook and YouTube. More importantly, we retweet and report the material that showcases developments at all of your schools in order to make it accessible to a national audience.

D. The Before the JD Project Completed

This year marked the culmination of a project AALS undertook in 2016 to understand what college students think about law school and other graduate and professional programs, and what sources of advice and information they rely on in deciding whether and where to go. The project

was designed in response to the drop of more than 38% in the national applicant pool to law schools that began in 2010; it was sponsored by the American Bar Association's Section of Legal Education, the American Bar Foundation, AccessLex Institute, the Law School Admission Council (LSAC), and the National Association for Law Placement (NALP). Financial support was also provided by fourteen major national law firms.

In 2017 Gallup was selected from a field of five major research firms to partner with AALS to conduct a survey for the project. Gallup advised that in order to identify national trends, completed responses were needed from 3,000 undergraduate students from 20 four-year institutions. Because some law students only decide to attend law school after college, AALS and Gallup decided to also seek responses from 1,000 first-year law students from 30 law schools. Thanks to assistance from a number of law schools deans who helped to persuade provosts and presidents to participate, more than 22,000 undergraduates from 25 four-year institutions and more than 2,700 first-year law students from 44 law schools provided responses, resulting in a cornucopia of revealing data.

Here are three highlights from the final report, *Before the JD: Undergraduate Views on Law School* (2018):

First, public-spirited factors lead the list of reasons undergraduates provided for considering law school. The top reason given of the fifteen listed choices was to pursue a career in politics, government, or public service. It was followed by being passionate about the work, an opportunity to give back to society, and to advocate for social change. That is certainly not the stereotype held by the public about what motivates lawyers.

Second, many students first considered going to law school much earlier than many in the academy imagined. More than half of the law students first considered law school before college; one-third before high school. Law schools should keep this in mind as they design programs to reach out to and connect with prospective law students.

Finally, parental education plays a significant role. AALS and Gallup used parental education in the study as a proxy for socioeconomic status because many undergraduates do not know their family income, but most know the highest level of education achieved by their parents. According to US Census data, only twelve percent of adults age 45 to 65 (the typical age range of parents of college students) have an advanced degree (meaning a degree beyond college). By contrast, half of the undergraduates considering law school have at least one parent with an advanced degree. This reproduction of privilege means that law schools need to greatly expand their efforts to support first-generation students if they are going to reduce economic inequality. Although one-third of college students nationwide are first-generation, only one-fifth of undergraduates considering law school are. As the report concludes, "it will take deliberate effort on the part of law schools to level the playing field for qualified applicants, particularly if they are the first generation in their family to graduate from college."

As the first known study in more than 50 years of undergraduate views on law school, AALS is pleased that a number of national media outlets covered the report's findings including

Inside Higher Ed, National Law Journal, ABA Journal, and Bloomberg. In October the Association launched a second report from on other findings in the data: *Beyond the Bachelor's: Undergraduate Perspectives on Graduate and Professional Degrees* and co-hosted with LSAC and Gallup a public release in Washington, D.C. at Gallup headquarters.

It is our hope that you see value in the expanded mission AALS has pursued in recent years—a mission that now includes conducting research on topics of value to all law schools.

In April, AccessLex Institute awarded AALS a grant of \$375,000 over the next three years. Some of the grant will support the annual Deans Forum program. The largest share will be used to fund a “Study of the American Law School Dean,” which will cover such topics as how law school deans are recruited and selected, career paths to the deanship, the leadership attributes most sought after in law school deans, the selection process, and the most pressing issues you currently face. The study was inspired by the American College President Study prepared by the American Council on Education (ACE), now in its eighth edition.

A survey of all law school deans will be the cornerstone of the new report. We look forward to working with you in designing and conducting the survey in order to make the process of becoming and serving as a law dean more transparent to the benefit of legal education and higher education.

II. Budget for FY 19-20 and Member Dues for 2020

A. Budget for Fiscal Year 19-20

As you can see in the attached AALS budget, we project that the operating budget for the upcoming fiscal year (July 1, 2019 to June 30, 2020) will end in the red (Appendix A). This is the fifth year that AALS has confronted a structural deficit caused by revenue declines.

Dues are the major source of revenue for AALS. Because they are based on the size of the student bodies at member schools, and because enrollments at many law schools have decreased since 2011, the dues schools pay to AALS have also decreased. The other major source of funds for AALS is revenue from meetings. Income from registration also has decreased as schools have provided support for fewer faculty to attend. The Executive Committee understands that many member schools are still stretched financially and therefore, approved a modest increase of 4.0% in dues for 2020 even though this means the Association may need to draw down some of its reserves in order to balance the budget.

Appendix A sets out the operating budget for FY 19-20 in the context of a four-year window of budgets. The operating budget adopted by the Executive Committee for Fiscal Year 19-20 projects operating income of \$5,344,013 and expenditures of \$5,662,866. Accumulated reserves, grants, and funds raised from law firms will be used to offset the budgeted operating deficit which is projected to be \$318,853.

As at most member schools, AALS personnel costs make up the largest fraction of expenses. As is done at many other nonprofit associations, significant technology-related purchases and all equipment and furnishing costs are funded from reserve funds, not from the operating budget.

B. Dues for 2020

The chart below details how the dollar amounts of the dues increase will vary depending on the size of your student body. Most schools will experience an increase of between \$505 and \$675. Dues invoices will be sent to member schools in October.

School Enrollment	2019	2020	Increase
=<250	\$ 8,435	\$ 8,775	\$ 340
251-500	\$ 12,650	\$ 13,155	\$ 505
501-800	\$ 16,885	\$ 17,560	\$ 675
801-1100	\$ 21,060	\$ 21,905	\$ 845
1101-1400	\$ 25,295	\$ 26,310	\$ 1,015
1401-1700	\$ 29,875	\$ 31,070	\$ 1,195
>1700	\$ 33,714	\$ 35,060	\$ 1,346

At its May meeting, the AALS Executive Committee amended Executive Committee Regulation 4.1 set out below. These updates will remain in effect unless 10 or more member schools object within 60 days of the mailing of this memorandum.

ECR 4.1 Annual Dues. Each year each member school shall pay membership dues to the Association. For the calendar year 2020, the dues shall be ~~\$8,435~~ \$8775 for a school whose enrollment does not exceed 250 students; ~~\$12,650~~ \$13,155 for a school whose enrollment exceeds 250 students but does not exceed 500 students; ~~\$16,885~~ \$17,560 for a school whose enrollment exceeds 500 students but does not exceed 800 students; ~~\$21,060~~ \$21,905 for a school whose enrollment exceeds 800 students but does not exceed 1100 students; ~~\$25,295~~ \$26,310 for a school whose enrollment exceeds 1100 students but does not exceed 1400 students; ~~\$29,875~~ \$31,070 for a school whose enrollment exceeds 1400 students but does not exceed 1700 students; and ~~\$33,715~~ \$35,060 for a school whose enrollment exceeds 1700 students.

C. Audited Financial Statements

AALS audited financial statements for FY 2017-18¹ are attached. The audit revealed no material weaknesses.

* * *

¹ Because this memo is sent to you before the audited financials for FY 18-19 are completed, the fiscal year reported on is the previous year.

AALS depends heavily on volunteer law school deans, faculty, and administrators to design and conduct most of the work of the Association. Each year, more than 1,000 volunteers plan professional development programs, speak at those programs, serve as Section officers, and work on other AALS projects and initiatives. Without your support, and that of your faculty and staff, AALS, with a staff of 25, could not carry out its mission. We are very grateful for all that you do.

Please let me know if you have questions or comments about the AALS budget, the proposed dues increase, or the work of AALS.

Attachments

A. Budget

B. Audited Financial Report

Association of American Law Schools
 Summary of Operating Income and Expense
 Summary Budget Fiscal Year 2019-2020

	FY 16-17 ACTUAL	FY 17-18 ACTUAL	FY 18-19 BUDGET	FY 18-19 PROJECTIONS	FY 19-20 BUDGET
<u>OPERATING INCOME</u>					
MEMBER DUES	\$2,632,615	\$2,722,077	\$2,821,250	\$2,836,000	\$2,941,000
NON-MEMBER AND OTHER DUES	258,745	213,080	220,080	225,445	220,543
PUBLICATION INCOME	231,480	217,310	180,400	199,255	185,800
ANNUAL MEETING INCOME	1,301,230	1,305,926	1,233,260	1,217,827	1,271,690
FACULTY RECRUITMENT SERVICES	245,200	302,170	303,600	279,145	213,000
OTHER MEETING INCOME	348,143	351,278	336,940	350,340	333,980
OTHER CONTRIBUTIONS & GRANTS	386,574	180,257	146,000	217,447	53,000
INTEREST & DIVIDEND INCOME	127,656	146,420	125,000	125,000	125,000
	<u>5,531,643</u>	<u>5,438,518</u>	<u>5,366,530</u>	<u>5,450,459</u>	<u>5,344,013</u>
<u>OPERATING EXPENSE</u>					
PERSONNEL EXPENSES	2,352,784	2,250,374	2,634,815	2,589,392	2,745,743
STAFF BENEFITS, TAXES, DEVELOPMENT	570,687	559,105	744,854	683,863	749,266
OUTSIDE SERVICES	312,888	248,799	217,021	231,963	220,000
GALLUP SURVEY	38,226	214,326		122,628	
PRINTING, POSTAGE & PUBLICATIONS	300,652	276,011	271,020	277,805	251,955
OPERATIONS	698,223	704,372	758,981	715,535	733,855
HOTELS, MEALS & TRAVEL	884,645	649,679	806,234	780,609	715,132
TECHNOLOGY	149,195	212,873	223,096	201,494	229,320
OTHER MISCELLANEOUS	38,016	41,237	38,623	30,703	17,595
	<u>5,345,316</u>	<u>5,156,776</u>	<u>5,694,644</u>	<u>5,633,992</u>	<u>5,662,866</u>
<u>OPERATING BUDGET SURPLUS/DEFICIT</u>	<u><u>186,327</u></u>	<u><u>281,742</u></u>	<u><u>(328,114)</u></u>	<u><u>(183,533)</u></u>	<u><u>(318,853)</u></u>
<u>OTHER INCOME/EXPENSE</u>					
Released from Restricted Equities	176,744	303,428	10,000	22,875	130,800
Moved to Restricted Equities	(375,000)	(20,000)			
	<u>(198,256)</u>	<u>283,428</u>	<u>10,000</u>	<u>22,875</u>	<u>130,800</u>
<u>OPERATING REVENUE (DEFICIT) OVER EXPENSES</u>	<u><u>(11,929)</u></u>	<u><u>565,170</u></u>	<u><u>(318,114)</u></u>	<u><u>(160,658)</u></u>	<u><u>(188,053)</u></u>

Audited Financial Statements

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

June 30, 2018

The Association of American Law Schools, Inc.

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Independent Auditor's Report on the Financial Statements

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

We have audited the accompanying financial statements of The Association of American Law Schools, Inc. (the Association), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association of American Law Schools, Inc. as of June 30, 2018 and 2017, 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.

Washington, DC
September 27, 2018

The Association of American Law Schools, Inc.

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Cash and cash equivalents - Note B	\$ 1,846,105	\$ 1,909,980
Investments - Notes B & D	8,245,376	7,686,314
Pledges receivable	20,000	15,000
Prepaid expense and other assets	131,566	107,922
Property and equipment - Notes E & G	6,006,152	6,200,497
Total assets	\$ 16,249,199	\$ 15,919,713
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 434,144	\$ 409,792
Deferred revenue - Note F	1,479,995	1,458,150
Deferred rent - Note K	18,629	-
Note payable - Note G	2,577,162	2,779,237
Total liabilities	4,509,930	4,647,179
Commitment and contingencies - Note K	-	-
Net assets - Note H		
Without donor restrictions	11,585,563	10,969,106
With donor restrictions	153,706	303,428
Total net assets	11,739,269	11,272,534
Total liabilities and net assets	\$ 16,249,199	\$ 15,919,713

See notes to the financial statements.

The Association of American Law Schools, Inc.

Statement of Activities Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Membership dues	\$ 2,722,077	\$ -	\$ 2,722,077
Professional development	1,657,203		1,657,203
Faculty recruitment services	302,170		302,170
Contributions	83,659	155,000	238,659
Service and application fees	202,745		202,745
Publications	154,262		154,262
Interest income	146,420		146,420
Other income	14,983		14,983
	5,283,519	155,000	5,438,519
Net assets released from restrictions	304,722	(304,722)	-
Total revenue and support	5,588,241	(149,722)	5,438,519
Expense			
Program services			
Professional development	1,929,369		1,929,369
Member services	1,576,137		1,576,137
Communications	1,142,954		1,142,954
Total program services	4,648,460	-	4,648,460
Supporting services			
Management and general	553,976		553,976
Fundraising	198,515		198,515
Total supporting expense	752,491	-	752,491
Total expense	5,400,951	-	5,400,951
Change in net assets before other item	187,290	(149,722)	37,568
Net gain on investments	429,167		429,167
Change in net assets	616,457	(149,722)	466,735
Net assets, beginning of year	10,969,106	303,428	11,272,534
Net assets, end of year	\$ 11,585,563	\$ 153,706	\$ 11,739,269

See notes to the financial statements.

The Association of American Law Schools, Inc.

Statement of Activities Year Ended June 30, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Membership dues	\$ 2,632,615	\$ -	\$ 2,632,615
Professional development	1,649,372		1,649,372
Faculty recruitment services	245,200		245,200
Contributions	80,503	375,000	455,503
Service and application fees	248,525		248,525
Publications	159,113		159,113
Interest income	127,656		127,656
Other income	13,657		13,657
	5,156,641	375,000	5,531,641
Net assets released from restrictions	176,744	(176,744)	-
Total revenue and support	5,333,385	198,256	5,531,641
Expense			
Program services			
Professional development	1,910,439		1,910,439
Member services	1,395,738		1,395,738
Communications	1,253,899		1,253,899
Total program services	4,560,076	-	4,560,076
Supporting services			
Management and general	597,788		597,788
Fundraising	192,447		192,447
Total supporting expense	790,235	-	790,235
Total expense	5,350,311	-	5,350,311
Change in net assets before other items	(16,926)	198,256	181,330
Net gain on investments	686,697		686,697
Hotel cancellation fee - Note K	(257,228)		(257,228)
Change in net assets	412,543	198,256	610,799
Net assets, beginning of year	10,556,563	105,172	10,661,735
Net assets, end of year	\$ 10,969,106	\$ 303,428	\$ 11,272,534

See notes to the financial statements.

The Association of American Law Schools, Inc.

Statement of Functional Expense Year Ended June 30, 2018

	Program Services			Supporting Services			Total
	Professional Development	Member Services	Communications	Management and General	Fundraising	Total	
Personnel	\$ 840,873	\$ 886,951	\$ 700,275	\$ 229,418	\$ 150,231	\$	2,807,748
Hotel, meals, and travel	507,997	54,105	600	86,815	161	-	649,678
Occupancy	97,793	106,421	83,768	25,385	18,026	-	331,393
Depreciation and amortization	76,057	82,767	65,149	19,743	14,019	-	257,735
Consultants and outside services	38,453	85,613	1,750	106,502	964	-	233,282
Gallup survey	-	214,326	-	-	-	-	214,326
Information technology	55,967	72,318	64,678	11,643	8,268	-	212,874
Printing and postage	47,633	5,753	116,921	3,408	455	-	174,170
Audio visual	169,860	-	202	-	-	-	170,062
Journal of Legal Education	-	-	95,318	-	-	-	95,318
Office expenses	34,776	20,536	13,726	15,245	3,203	-	87,486
Credit card fees	52,837	9,318	-	-	-	-	62,155
Insurance	5,663	-	-	46,978	-	-	52,641
Memberships in other organizations	-	36,075	-	80	-	-	36,155
Other	1,460	1,954	567	8,759	3,188	-	15,928
Total expense	\$ 1,929,369	\$ 1,576,137	\$ 1,142,954	\$ 553,976	\$ 198,515	\$	\$ 5,400,951

See notes to the financial statements.

The Association of American Law Schools, Inc.

Statement of Functional Expense Year Ended June 30, 2017

	Program Services			Supporting Services			Total
	Professional Development	Member Services	Communications	Management & General	Fundraising		
Personnel	\$ 853,998	\$ 840,636	\$ 779,206	\$ 303,797	\$ 144,946	\$	2,922,583
Hotel, meals, and travel	488,966	128,544	1,239	7,970	698		627,417
Occupancy	90,802	92,710	85,876	32,067	15,985		317,440
Depreciation and amortization	79,677	81,351	75,355	28,137	14,027		278,547
Consultants and outside services	45,150	101,318	3,339	144,927	1,833		296,567
Gallup survey	-	38,226	-	-	-		38,226
Information technology	34,896	40,173	55,658	12,324	6,143		149,194
Printing and postage	46,796	9,378	125,871	4,275	1,116		187,436
Audio visual	173,855	1,656	-	-	-		175,511
Journal of Legal Education	-	-	110,718	-	-		110,718
Office expenses	36,513	21,062	14,343	16,620	2,665		91,203
Credit card fees	53,457	8,211	-	-	-		61,668
Insurance	5,895	299	-	45,035	-		51,229
Membership in other organizations	-	31,901	240	748	-		32,889
Other	434	273	2,054	1,888	5,034		9,683
Total expense	\$ 1,910,439	\$ 1,395,738	\$ 1,253,899	\$ 597,788	\$ 192,447	\$	\$ 5,350,311

See notes to the financial statements.

The Association of American Law Schools, Inc.

Statements of Cash Flows

<i>Year Ended June 30,</i>	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 466,735	\$ 610,799
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	249,427	270,239
Amortization of deferred financing costs	8,308	8,308
Loss on disposal of property and equipment	1,960	-
Net gain on investments	(429,167)	(686,697)
Changes in assets and liabilities:		
Pledges receivable	(5,000)	30,000
Prepaid expense and other assets	(23,644)	2,407
Accounts payable and accrued expenses	24,352	43,976
Deferred revenue	21,845	114,925
Deferred rent	18,629	-
Total adjustments	(133,290)	(216,842)
Net cash provided by operating activities	333,445	393,957
Cash flows from investing activities		
Proceeds from sales and maturities of investments	15,729	416,189
Purchases of investments	(145,624)	(290,464)
Purchases of property and equipment	(57,042)	(59,036)
Net cash (used in) provided by investing activities	(186,937)	66,689
Cash flows from financing activities		
Principal payments on note payable	(210,383)	(202,648)
Net (decrease) increase in cash and cash equivalents	(63,875)	257,998
Cash and cash equivalents, beginning of year	1,909,980	1,651,982
Cash and cash equivalents, end of year	\$ 1,846,105	\$ 1,909,980
Supplemental disclosure of cash flow information:		
Cash paid during the year for mortgage interest	\$ 103,868	\$ 111,603
Cash paid during the year for income taxes	3,923	-

See notes to the financial statements.

The Association of American Law Schools, Inc.

Notes to the Financial Statements

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 advance excellence in legal education. The Association is an organization of law schools who qualify according to membership criteria.

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.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expense is recognized 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 that are not included within its investment portfolio to be cash and cash equivalents.

Pledges receivable: Pledges receivable consist of unconditional promises to give from donors which have been recorded at net realizable value and are expected to be collected within the next two years. Management has reviewed the status of the pledges receivable for collectability and, based on management's knowledge of and relationship with the donors and the age of the receivables balance, management believes that the pledges receivable are fully collectible.

Contributions: Contributions, including grants that are contributions, have been recognized in the statements of activities when legally binding unconditional promises to give are made or when gifts of cash or other property are received. Contributions are classified as with donor restriction or without donor restriction depending upon the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor, or that have an implied time restriction, are reported as increases in net assets with donor restriction. Within net assets with donor restrictions, amounts are reclassified to net assets without donor restrictions when those restrictions are satisfied or expire (that is, when a purpose restriction is accomplished or a stipulated time restriction ends). Contribution support with donor restrictions, whose restrictions are met within the same period as the contributions are received, will be released as expensed.

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.

The Association of American Law Schools, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Program services: The Association's program services descriptions are as follows:

Professional development: In its role as the learned society for law professors, the Association presents an annual meeting which is the largest gathering of law faculty and deans in the world with hundreds of programs and events that focus on various subject areas. The Association also offers several educational workshops and smaller conferences for law school faculty and administrators each year.

Member services: At year end, the Association had 103 sections, which are composed of members of the faculty and administration of member schools. The sections offer a range of activities including programs at the Annual Meeting and forums for exchange of ideas about teaching and research. The Association provides extensive law school faculty recruitment services. The Association, working with other legal education groups, has undertaken a survey called "Before the J.D." in order to understand undergraduate views on law school. The Association's membership is based on compliance with membership requirements that are guided by core values.

Communications: The Association produces several publications including the Directory of Law Teachers, the Journal of Legal Education, the AALS Newsletter and the annual Handbook. The Association also uses other forms of communication, including the Association's website (www.aals.org), which focuses on audiences outside as well as inside the legal academy, and social media including Facebook, YouTube, and Twitter.

Supporting services: Supporting services descriptions are as follows:

Management and general: The management and general function includes activities which relate to the administrative processes of the Association and encompass the financial responsibilities of the Association.

Fundraising: The fundraising function includes activities that encourage and secure financial support for the Association.

Implementation of recent accounting pronouncement: In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities: *Presentation of Financial Statements of Not-for-Profit Entities*. The Association adopted the provisions of this new standard during the year ended June 30, 2018. In addition to a change in the terminology used to describe the categories of net assets throughout the financial statements, Note C was added to provide qualitative and quantitative analysis of the liquidity position of the Association; statements of functional expense were added to provide both the natural and functional classifications of expense; and investment fees have been added to the components of investment return.

Subsequent events: Subsequent events have been evaluated through September 27, 2018, which is the date the financial statements were available to be issued.

The Association of American Law Schools, Inc.

Notes to the Financial Statements

B. CONCENTRATIONS

Credit risk: The Association maintains demand deposits with a large commercial bank and money market funds with reputable financial institutions. The Association invests short-term operating funds in money market accounts at different banks in order to maximize the insurance protection available from Federal Deposit Insurance Corporation (FDIC). In this manner, the Association has minimized its exposure to credit risk. However, from time to time, certain account balances may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Association. The Association has not experienced losses on these accounts in the past and management believes the risk of loss, if any, to be minimal.

Market risk: The Association also invests in a professionally managed portfolio of equity mutual funds. 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 financial statements.

C. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statements of financial position, are comprised of the following as of June 30,:

	2018	2017
Cash and cash equivalents	\$ 1,846,105	\$ 1,909,980
Investments	8,245,376	7,686,314
Pledges receivable, due within one year	10,000	15,000
Other assets	13,764	6,919
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,115,245</u>	<u>\$ 9,618,213</u>

As described in Note H, the Association's net assets designated by the Executive Committee totaled \$11,585,563 and \$10,969,106 at June 30, 2018 and 2017. These designated funds have been established for certain purposes of the Association. If necessary, these funds may be made available by the Executive Committee to be used to meet the liquidity needs of the Association.

The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition to its checking account used for operations, the Association maintains FDIC-insured savings accounts and certificates of deposit. All disbursements are made from the Association's checking account. During the fiscal year, when excess revenue is received, funds are moved from the checking account to savings. When needed, funds are moved from savings to the checking account to cover operational expenses.

The Association of American Law Schools, Inc.

Notes to the Financial Statements

D. 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.

Investments valued using Level 1 inputs include mutual funds (equities), the values for which were based on quoted prices for identical assets in active markets. Management believes the estimated fair values to be a reasonable approximation of the exit price for these investments.

Investments recorded at cost include cash, money market funds, and certificates of deposit. Investments recorded at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

Investments consisted of the following at June 30,:

	2018	2017
Investments at fair value		
Mutual funds - equities	\$ 4,275,692	\$ 4,698,869
Investments at cost		
Cash and money market funds	2,990,684	2,007,445
Certificates of deposit	979,000	980,000
	<u>3,969,684</u>	<u>2,987,445</u>
	<u>\$ 8,245,376</u>	<u>\$ 7,686,314</u>

The Association of American Law Schools, Inc.

Notes to the Financial Statements

E. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$2,000 are recorded at cost. Depreciation of property and equipment, other than land, is calculated using the straight-line method over the following estimated useful lives:

Building	39 years
Building improvements	15 - 27 years
Office furniture	10 - 15 years
Office equipment	3 - 5 years
Computer software and equipment	3 - 4 years

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

	2018	2017
Land	\$ 1,338,480	\$ 1,338,480
Building	4,861,520	4,861,520
Building improvements	119,013	119,013
Computer software and equipment	896,850	839,810
Office furniture and equipment	<u>185,322</u>	<u>189,445</u>
	7,401,185	7,348,268
Less: accumulated depreciation and amortization	<u>(1,395,033)</u>	<u>(1,147,771)</u>
	<u>\$ 6,006,152</u>	<u>\$ 6,200,497</u>

F. 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 member renewal or service period.

Deferred revenue consisted of the following at June 30,:

	2018	2017
Membership dues	\$ 1,376,915	\$ 1,337,045
Faculty recruitment services	75,905	58,090
Service and other fees	<u>27,175</u>	<u>63,015</u>
	<u>\$ 1,479,995</u>	<u>\$ 1,458,150</u>

The Association of American Law Schools, Inc.

Notes to the Financial Statements

G. NOTE PAYABLE

In August 2013, the Association obtained a \$3,600,000 promissory note from a bank and used the proceeds to purchase its headquarters office building. The note bears interest at a fixed rate of 3.7% per annum and matures September 1, 2028. Monthly principal and interest payments of \$26,188 started October 1, 2013. The note is secured by the Association's headquarters office building and land.

The terms of the note require that the Association maintain a debt coverage ratio of not less than 1.0 to 1.0 measured at June 30th each year through the maturity date of the note. The debt coverage ratio is equal to the ratio of cash flow, as defined in the loan document, to prior year maturities of principal and interest payments. The terms of the note also require that the Association maintain liquid assets, such as cash or investments, equal to \$3,000,000 measured at June 30th each year through the maturity date of the note. The Association was in compliance with these financial covenants at June 30, 2018 and 2017.

The note requires the following future payments of principal,:

Year Ending June 30,	Amount
2019	\$ 218,422
2020	226,519
2021	235,404
2022	244,388
2023	253,715
Thereafter	<u>1,474,878</u>
	<u>\$ 2,653,326</u>

The Association incurred financing costs of \$116,323 related to the purchase of its headquarters office building. The financing costs are being amortized on a straight-line basis over the 15 year term of the note. Deferred financing costs are presented net of accumulated amortization which totaled \$40,159 and \$31,850 at June 30, 2018 and 2017, respectively.

The statement of financial position presents the note payable and debt financing costs as follows as of June 30,:

	2018	2017
Note payable	\$ 2,653,326	\$ 2,863,710
Less: net deferred financing costs	<u>(76,164)</u>	<u>(84,473)</u>
	<u>\$ 2,577,162</u>	<u>\$ 2,779,237</u>

The Association of American Law Schools, Inc.

Notes to the Financial Statements

H. NET ASSETS

Net assets without donor restriction: Net assets without donor restriction include those net assets whose use has not been restricted by donors, even though their use may be limited in other respects, such as by Executive Committee designation.

Net assets without donor restriction consisted of the following categories designated by the Executive Committee at June 30,:

	2018	2017
General Reserves	\$ 3,500,000	\$ 3,500,000
Net Building Assets	3,149,118	3,077,029
Operating Reserves	2,909,738	2,369,247
Strategic Technology & Communication Reserves	1,000,000	1,000,000
Building Maintenance Reserves	750,000	750,000
Replacement Reserves	250,000	250,000
Section Funds	26,707	22,830
	\$ 11,585,563	\$ 10,969,106

Net assets with donor restrictions: Net assets with donor restrictions include those net assets whose use has been donor restricted either for a particular purpose or by an implied time restriction.

Net assets with donor restrictions consisted of the following at June 30,:

	2018	2017
Subject to expenditure for specified purpose:		
Support of American Legal Education	\$ 132,999	\$ 110,788
Annual meeting - PFOC	707	-
Before the Juris Doctor	-	177,640
Subject to the passage of time:		
Pledges receivable	20,000	15,000
	\$ 153,706	\$ 303,428

The Association of American Law Schools, Inc.

Notes to the Financial Statements

I. IN-KIND CONTRIBUTIONS

The Association receives in-kind contributions of printing and lanyards. In accordance with generally accepted accounting principles, in-kind contributions are recorded in equal amounts as both revenue and expense within the functions to which they relate.

In-kind gifts were included in the following functional activities for the year ended June 30,:

	2018	2017
Communications	\$ 63,049	\$ 72,366
Professional development	-	5,486
	<u>\$ 63,049</u>	<u>\$ 77,852</u>

J. RETIREMENT PLANS

The Association's retirement plan is available to all employees who meet the minimum age and length of service requirements as stipulated in the plan document. The Association's contributions to the retirement plan, as defined in the plan document, equal 8% of participant compensation. In addition, the Association matches 100% of employee contributions between 1% and 3% of their compensation, and matches 50% of contributions greater than 3% up to 5% of compensation. The Association's retirement plan contributions totaled \$198,368 and \$214,070 for the years ended June 30, 2018 and 2017, respectively.

K. COMMITMENT AND CONTINGENCIES

Office lease: The Association has an operating lease for additional office space through October 2022. The lease agreement contains a rent abatement of three months' rent and annual rent escalations. Accounting principles generally accepted in the United States of America (GAAP) require that the cost of tenant improvements be capitalized and depreciated as property and equipment. As of June 30, 2018, the Association had not utilized any of the tenant improvement allowance. GAAP also requires rent abatements and scheduled rent increases be recorded as a liability and amortized ratably so as to record rent expense on a straight-line basis over the term of the operating lease agreement. The accrued portion of these items totaled \$18,629 as of June 30, 2018 and is presented as a component of deferred rent on the statements of financial position.

Rent expense for the operating leases totaled \$56,443 and \$48,990 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under the terms of the operating lease agreement are as follows:

Year Ending June 30,	Amount
2019	\$ 61,400
2020	63,200
2021	65,100
2022	67,100
2023	<u>22,600</u>
	<u>\$ 279,400</u>

The Association of American Law Schools, Inc.

Notes to the Financial Statements

K. COMMITMENT AND CONTINGENCIES - CONTINUED

Hotel cancellations: The Association has entered into several agreements with hotels for room accommodations and services at future meetings and conferences. A few of the agreements contain a clause whereby the Association is liable for liquidated damages in the event of cancellation as calculated in accordance with the terms of the agreements.

On June 16, 2017, the Association cancelled an existing hotel contract for its 2018 clinical conference in Austin, Texas. The contract contained a cancellation clause whereby the Association paid liquidated damages of \$257,228.

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.