

**CONNECTICUT BAR FOUNDATION, INC.**

**Independent Auditors' Report  
Financial Statements  
Supplemental Information**

**December 31, 2016 and 2015**



INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Connecticut Bar Foundation, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Connecticut Bar Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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.

**Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Foundation'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 Foundation'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 Connecticut Bar Foundation, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of financial position as of December 31, 2016 and the schedule of expenses for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Whittlesby & Hadley, P.C.*

Hartford, Connecticut  
May 8, 2017

# CONNECTICUT BAR FOUNDATION, INC.

## Statements of Financial Position

December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 613,093	\$ 1,506,674
Investments, fair value	9,401,273	6,526,949
IOLTA/IOTA receivable	186,430	157,906
Pledges receivable, net	447,836	402,251
Accounts and loans receivable	28,000	47,388
Property and equipment, net	4,583	7,340
Total assets	<u>\$ 10,681,215</u>	<u>\$ 8,648,508</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 47,094</u>	<u>\$ 890,939</u>
Net assets:		
Unrestricted	1,499,653	1,425,692
Temporarily restricted	9,134,468	6,331,877
Total net assets	<u>10,634,121</u>	<u>7,757,569</u>
Total liabilities and net assets	<u>\$ 10,681,215</u>	<u>\$ 8,648,508</u>

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

# CONNECTICUT BAR FOUNDATION, INC.

## Statements of Activities

For the years ended December 31, 2016 and 2015

	2016	2015
<b>Changes in unrestricted net assets</b>		
Revenues and Support:		
Contributions	\$ 73,989	\$ 65,235
Net realized and unrealized gain/(loss) on investments	78,820	(38,180)
Dividends and interest	32,945	32,093
Other income	10,600	11,432
Revenues and support, less net assets released from restrictions	196,354	70,580
Net assets released from restrictions	16,387,319	17,103,589
Total revenues and support	16,583,673	17,174,169
Expenses:		
General and administrative	683,080	677,615
Grants and program	15,826,632	16,528,524
Total expenses	16,509,712	17,206,139
Change in unrestricted net assets	73,961	(31,970)
Unrestricted net assets, beginning of year	1,425,692	1,457,662
Unrestricted net assets, end of year	\$ 1,499,653	\$ 1,425,692
<b>Changes in temporarily restricted net assets</b>		
Revenues and Support:		
Court Fees Grants-in-Aid	\$ 12,289,982	\$ 12,979,990
IOLTA/IOTA income	1,946,909	2,092,137
Judicial Branch Grants-in-Aid	1,500,000	1,500,000
Dividends and interest	113,887	102,177
Pledged contributions, Fellows program	187,504	111,854
General Foundation - Innocence Fund	26,250	10,295
General Foundation - Kravitz Symposium	1,000	5,000
General Foundation - Speziale	100	4,500
General Foundation - Other Restricted Funds	2,970,470	426,114
Net realized and unrealized gain/(loss) on investments	153,808	(70,140)
Total revenues and support	19,189,910	17,161,927
Net assets released from restrictions	(16,387,319)	(17,103,589)
Change in temporarily restricted net assets	2,802,591	58,338
Temporarily restricted net assets, beginning of year	6,331,877	6,273,539
Temporarily restricted net assets, end of year	\$ 9,134,468	\$ 6,331,877

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

# CONNECTICUT BAR FOUNDATION, INC.

## Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 2,876,552	\$ 26,368
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	2,757	2,757
Bad debt	14,350	12,550
Change in allowance for uncollectible pledges and discount rate for pledges receivable	(4,454)	(18,605)
Realized (gain)/loss on investments	(22,890)	54,841
Unrealized (gain)/loss on investments	(209,738)	53,479
(Increase)/decrease in operating assets:		
IOLTA/IOTA receivable	(28,524)	12,310
Pledges receivable	(55,481)	8,902
Accounts and loans receivable	19,388	(1,778)
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	(843,845)	835,152
Net change in cash from operating activities	<u>1,748,115</u>	<u>985,976</u>
<b>Cash flows from investing activities:</b>		
Reinvestment of income	(124,794)	(129,474)
Purchase of investments, net	(2,516,902)	(22,500)
Net change in cash from investing activities	<u>(2,641,696)</u>	<u>(151,974)</u>
<b>Net change in cash and cash equivalents</b>	(893,581)	834,002
Cash and cash equivalents at beginning of year	<u>1,506,674</u>	<u>672,672</u>
Cash and cash equivalents at end of year	<u>\$ 613,093</u>	<u>\$ 1,506,674</u>

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

# CONNECTICUT BAR FOUNDATION, INC.

## Notes to Financial Statements

December 31, 2016 and 2015

---

### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Purpose of Organization

The Connecticut Bar Foundation, Inc. (the “Foundation”) was incorporated in 1952 exclusively for charitable, scientific, literary and educational purposes, primarily to improve and facilitate the administration of justice. Support and revenue of the Foundation consist of state grants, contributions, and investment earnings. The Foundation is the designated agency to receive and allocate Interest earned On Lawyers’ Trust Accounts (“IOLTA”), Interest On Trust Accounts (“IOTA”), as required by Connecticut General Statute Sec. 51-81c, Judicial Branch Grants-in-Aid (“JBGIA”) and Court Fees Grants-in-Aid (“CFGIA”), as required by P.A. 09-152, P.A. 12-89, P.A. 14-217, and P.A.16-26, issued by the State of Connecticut.

#### Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets, unrestricted net assets and temporarily restricted net assets, as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

#### Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

#### Investments

The Foundation carries investments in certificates of deposit and marketable securities at fair value in the statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

#### Property and Equipment

Property and equipment acquisitions and improvements that individually exceed \$2,500 are capitalized at cost and are depreciated over their estimated useful lives of five to seven years using the straight-line method. Repairs and maintenance that do not prolong asset life are charged to expense as incurred.

#### Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from Connecticut income taxes. Therefore, no provision has been made for federal or state income taxes.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Contributions

Unrestricted and unconditional contributions are recognized as support when received or pledged. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a restriction expires or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Under the *Accounting for Contributions Received and Contributions Made* topic of the FASB Codification, long-term promises to give are discounted to their net present value.

### Judicial Branch Grants-in-Aid Program

The Foundation acts as a pass through entity for the State of Connecticut Judicial Branch Grants-in-Aid program. The Foundation distributes these funds to current IOLTA grantees for civil legal representation for the poor. These funds are subject to reduction or termination.

### Court Fees Grants-in-Aid Program

In an effort to replace drastically reduced IOLTA/IOTA revenue, the Connecticut State Legislature passed certain court fee increases effective July 1, 2009 and other increases effective July 1, 2012. Effective July 1, 2014, additional increases in the allocation of court fee revenue to the Foundation were passed in the Legislature through Public Act No. 14-217 Section 179. Effective July 1, 2016, P.A. 16-26 made small increases to a set of court fees that had not been adjusted since 2012 and dedicated the increases to funding legal services.

Under the Court Fees Grants-in-Aid program, the Judicial Branch transfers the revenue from the fee increases to the Foundation on a monthly basis. The Foundation distributes the funds pursuant to Section 51-81c of Connecticut General Statutes to current IOLTA/IOTA grantees for the purpose of funding the delivery of legal services to the poor. Approximately 63% and 75% of the Foundation's revenues for the years ended December 31, 2016 and 2015, respectively, were derived from this program.

### IOLTA/IOTA Program

The revenue of the Program is derived from interest earned on lawyers' trust accounts and interest on trust accounts, made available by participating attorneys through financial institution remittances of interest earned on these accounts. The purpose of the program is to make funds available to provide for the delivery of legal services to the poor and for law school scholarships based on financial need. As of October 1, 1989, Connecticut state statute made participation in IOLTA/IOTA mandatory for attorney clients' funds not held in separate interest-bearing accounts for the benefit of the client. The statute was amended in 2005 to include funds from all entities having accounts established to receive loan proceeds from a mortgage lender, which implemented the interest on trust accounts program.



## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)**

The number of lawyers participating in the program was 10,116 and 10,113 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, there were 7,931 and 8,014 trust accounts in the IOLTA/IOTA Program, respectively.

The Foundation awarded grants to legal service providers and grants to law schools for scholarships based on financial need and paid other program expenses totaling \$2,330,176 and \$2,386,428 from IOLTA/IOTA revenues for the years ended December 31, 2016 and 2015, respectively.

The Foundation received 81% and 96% of total revenue from JBGIA, CFGIA and IOLTA/IOTA programs for the years ended December 31, 2016 and 2015, respectively.

### IOLTA/IOTA Receivables

IOLTA/IOTA receivables represent interest earned on lawyers' and other trust accounts during the year that is transferred by the banks to the Foundation in January of the following year. No reserves are deemed necessary, as all receivables are considered collectable.

### Subsequent Events Measurement Date

The Foundation monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended December 31, 2016 through May 8, 2017, the date on which financial statements were available to be issued.

## **NOTE 2 – CONCENTRATIONS OF CREDIT RISK**

### Cash and Cash Equivalents

The Foundation maintains deposits which exceed Federal depository insurance limits in financial institutions. Management continually reviews the financial institutions for financial stability. The Foundation has not experienced any losses and believes that its cash and cash equivalents are not exposed to significant credit risk.

### Investments

Management considers investments to be sufficiently diversified to minimize to an acceptable level the individual investment and industry concentration risks. The Foundation's investments are subject to the risks of the securities market as a whole.

### IOLTA/IOTA Support

Approximately 10% and 12% of the Foundation's total support was derived from IOLTA/IOTA income for the years ended December 31, 2016 and 2015, respectively.

For the years ended December 31, 2016 and 2015, income generated from four individual banks totaled 50% and 54%, respectively, of total IOLTA/IOTA income.

### Pledges Receivable

Pledges receivable consist of unconditional promises to give from individuals. Management has provided for potential credit losses through an allowance for doubtful accounts and charges against this allowance have been within management's expectations.

### NOTE 3 – FAIR VALUE MEASUREMENT

The Foundation adopted the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification, (FASB ASC 820) which defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. The topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels of inputs may be used to measure fair values:

Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The allocation and fair value measurements of the Foundation's investments that are reported in the accompanying statements of financial position are as follows:

	<u>2016</u>	<u>2015</u>
Equity, mutual funds:		
Total Stock Market Index Fund	\$ 2,218,817	\$ 2,017,747
International Stock Index Fund	528,617	501,046
Fixed income funds	6,653,839	4,008,156
Total investments	<u>\$ 9,401,273</u>	<u>\$ 6,526,949</u>

All investments held by the Foundation are valued using Level 1 inputs.

**NOTE 4 – PLEDGES RECEIVABLE**

The Foundation sponsors the James W. Cooper Fellows Program to promote a better understanding of the legal profession and the justice system among the citizens of Connecticut, and to address matters concerning the legal profession and administration of justice in Connecticut. Such pledges are recorded as revenue when made to the Foundation. Pledges receivable consist of these unconditional promises to give as of December 31, and are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 31,013	\$ 29,822
One to five years	391,190	358,500
Greater than five years	<u>117,500</u>	<u>110,250</u>
Total pledges receivable	539,703	498,572
Less: allowance for uncollectible pledges	(13,493)	(24,929)
Less: 3.50% discount to net present value	<u>(78,374)</u>	<u>(71,392)</u>
Total pledges receivable, net	<u><u>\$ 447,836</u></u>	<u><u>\$ 402,251</u></u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

A summary of property and equipment as of December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Office furniture and equipment	\$ 13,783	\$ 13,783
Less: accumulated depreciation	<u>(9,200)</u>	<u>(6,443)</u>
Property and equipment, net	<u><u>\$ 4,583</u></u>	<u><u>\$ 7,340</u></u>

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets will be recognized in subsequent years upon satisfaction of purpose restrictions in the following areas:

	<u>2016</u>	<u>2015</u>
IOLTA/IOTA Program	\$ 8,431,001	\$ 5,709,833
Judicial Branch Grants-in-Aid	1	374
Court Fees Grants-in-Aid	497	98
General Foundation, Fellows Program	447,836	402,251
General Foundation, Speziale Fund	41,198	38,644
General Foundation, Innocence Fund	93,326	66,420
General Foundation, Kravitz Symposium Fund	108,429	99,493
General Foundation, Restricted	<u>12,180</u>	<u>14,764</u>
Total temporarily restricted net assets	<u><u>\$ 9,134,468</u></u>	<u><u>\$ 6,331,877</u></u>

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS - (CONTINUED)**

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes specified by those donors during the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Program activity	\$ 16,259,749	\$ 16,988,887
Pledge activity	127,570	114,702
	<u>\$ 16,387,319</u>	<u>\$ 17,103,589</u>

**NOTE 7 – COMMITMENTS**

The Foundation's board of directors approved \$2,000,750 for grant awards to be disbursed in monthly payments during the 2017 grant year from January 1 through December 31, 2017, and \$30,000 for scholarships to be disbursed during the same time period.

The Foundation grants loans to newly released exonerees. As of December 31, 2016 and 2015, \$28,000 and \$47,375, respectively, has been disbursed and is recorded in accounts and loans receivable on the statements of financial position.

**NOTE 8 – OPERATING LEASES**

The Foundation has a lease agreement for office space and parking that calls for monthly payments. The lease agreement ends March 31, 2023. Expenses for parking and rent were \$31,710 and \$37,380 for 2016 and 2015, respectively.

The Foundation has entered into operating leases for various office equipment that commence and end on various dates through 2021. Expense for the leases was \$5,819 and \$5,850 for 2016 and 2015, respectively.

The following is a schedule by years of future minimum lease payments required under the operating leases as of December 31:

2017	\$	36,318
2018		37,866
2019		39,027
2020		39,544
2021		38,043
Thereafter		46,032

**NOTE 9 – PENSION PLAN**

The Foundation sponsors a simplified employee pension plan. To participate, full time employees must be 21 years of age and have been employed for any part of three consecutive calendar years. Contributions are based on ten percent of the participant's calendar year compensation. Pension expense was \$25,708 and \$27,976 for the years ended December 31, 2016 and 2015, respectively.

**SUPPLEMENTAL INFORMATION**

**CONNECTICUT BAR FOUNDATION, INC.**

Schedule of Financial Position

December 31, 2016

	<u>IOLTA/IOTA</u>	<u>Court Fees Grants-in-Aid</u>	<u>Judicial Branch Grants-in-Aid</u>	<u>General Foundation</u>	<u>Total</u>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 514,197	\$ 497	\$ 1	\$ 98,398	\$ 613,093
Investments, fair value	7,760,861	-	-	1,640,412	9,401,273
IOLTA/IOTA receivable	186,430	-	-	-	186,430
Pledges receivable, net	-	-	-	447,836	447,836
Accounts and loans receivable	-	-	-	28,000	28,000
Due to/(from) other programs	2,249	-	-	(2,249)	-
Property and equipment, net	927	-	-	3,656	4,583
	<u>8,464,664</u>	<u>497</u>	<u>1</u>	<u>2,216,053</u>	<u>10,681,215</u>
<b>Liabilities and Net Assets</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 33,663	\$ -	\$ -	\$ 13,431	\$ 47,094
Net assets:					
Unrestricted	-	-	-	1,499,653	1,499,653
Temporarily restricted	8,431,001	497	1	702,969	9,134,468
Total net assets	<u>8,431,001</u>	<u>497</u>	<u>1</u>	<u>2,202,622</u>	<u>10,634,121</u>
Total liabilities and net assets	<u>\$ 8,464,664</u>	<u>\$ 497</u>	<u>\$ 1</u>	<u>\$ 2,216,053</u>	<u>\$ 10,681,215</u>

# CONNECTICUT BAR FOUNDATION, INC.

## Schedule of Expenses

For the year ended December 31, 2016  
(with summarized totals for the year ended December 31, 2015)

	<u>IOLTA/IOTA</u>	<u>Court Fees Grants-in-Aid</u>	<u>Judicial Branch Grants-in-Aid</u>	<u>General Foundation</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>General and administrative:</b>						
Compensation and temporary help	\$ 71,168	\$ 232,394	\$ 10,000	\$ 97,262	\$ 410,824	\$ 393,518
Payroll taxes	6,501	18,321	-	7,922	32,744	32,011
Employee benefits	9,462	38,546	-	14,178	62,186	63,368
Pension	2,829	16,482	-	6,397	25,708	27,976
Occupancy costs	5,494	18,796	-	9,267	33,557	37,836
Telephone	568	2,133	-	900	3,601	4,037
Insurance	1,885	7,081	-	2,989	11,955	11,934
Professional services	3,800	15,126	-	8,369	27,295	33,475
Outside services	10,808	7,520	-	3,444	21,772	21,842
Equipment	810	3,041	-	1,172	5,023	4,756
Travel, meetings and dues	6,322	2,297	-	7,498	16,117	13,242
Office supplies and maintenance	550	2,063	-	4,857	7,470	7,358
Printing costs	699	2,624	-	1,976	5,299	6,254
Postage	360	1,351	-	-	1,711	3,948
Miscellaneous	51	190	-	470	711	753
Bad debt	-	-	-	14,350	14,350	12,550
Depreciation	195	734	-	1,828	2,757	2,757
Total general and administrative	<u>121,502</u>	<u>368,699</u>	<u>10,000</u>	<u>182,879</u>	<u>683,080</u>	<u>677,615</u>
<b>Grants and program</b>	<u>2,330,176</u>	<u>11,921,283</u>	<u>1,490,399</u>	<u>84,774</u>	<u>15,826,632</u>	<u>16,528,524</u>
<b>Total expenses</b>	<u>\$ 2,451,678</u>	<u>\$ 12,289,982</u>	<u>\$ 1,500,399</u>	<u>\$ 267,653</u>	<u>\$ 16,509,712</u>	<u>\$ 17,206,139</u>