

CONNECTICUT BAR FOUNDATION, INC.

**Independent Auditors' Report
Financial Statements**

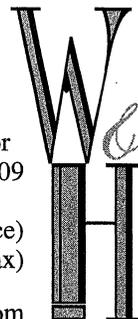
December 31, 2013 and 2012

CONNECTICUT BAR FOUNDATION, INC.

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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, 2013 and 2012, 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 combined 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 combined 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 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, 2013 and 2012, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of financial position and the schedule of expenses 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.

Whittlesey & Hardley, P. C.

April 15, 2014

CONNECTICUT BAR FOUNDATION, INC.

Statements of Financial Position

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 995,780	\$ 1,937,627
Investments, fair value	6,600,080	5,828,890
IOLTA/IOTA - receivables	192,203	255,167
Pledges receivable, short term	79,720	66,035
Accounts and loans receivable	24,200	8,706
Total current assets	<u>7,891,983</u>	<u>8,096,425</u>
Property and equipment, net	12,854	-
Other assets:		
Pledges receivable, long term, net	<u>291,682</u>	<u>224,026</u>
Total assets	<u>\$ 8,196,519</u>	<u>\$ 8,320,451</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 41,263</u>	<u>\$ 73,044</u>
Net assets:		
Unrestricted	1,376,732	1,195,584
Temporarily restricted	<u>6,778,524</u>	<u>7,051,823</u>
Total net assets	<u>8,155,256</u>	<u>8,247,407</u>
Total liabilities and net assets	<u>\$ 8,196,519</u>	<u>\$ 8,320,451</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, 2013 and 2012

	2013	2012
Changes in unrestricted net assets		
Revenues and Support:		
Contributions	\$ 46,535	\$ 92,587
Net realized and unrealized gain on investments	202,070	101,917
Dividends and interest	31,369	37,275
Other income	13,035	17,251
	293,009	249,030
Net assets released from restrictions	16,271,691	14,421,583
Total revenues and support	16,564,700	14,670,613
Expenses:		
General and administrative	656,858	613,421
Grants and program	15,726,694	14,001,204
Total expenses	16,383,552	14,614,625
Change in unrestricted net assets	181,148	55,988
Unrestricted net assets, beginning of year	1,195,584	1,139,596
Unrestricted net assets, end of year	\$ 1,376,732	\$ 1,195,584
Changes in temporarily restricted net assets		
Revenues and Support:		
Court Fees Grants-in-Aid	\$ 11,925,225	\$ 8,598,490
IOLTA/IOTA income	2,247,579	3,971,138
Judicial Branch Grants-in-Aid	1,500,000	1,375,000
Dividends and interest	114,458	165,741
Pledged contributions, Fellows program	194,722	188,435
General Foundation - Speziale Fund	-	11,557
General Foundation - Innocence Fund	6,053	26,311
General Foundation - Kravitz Symposium	39,000	67,055
General Foundation - Other Restricted Funds	10,094	344,478
Net realized and unrealized gain/(loss) on investments	(38,739)	91,711
Total revenues and support	15,998,392	14,839,916
Net assets released from restrictions	(16,271,691)	(14,421,583)
Change in temporarily restricted net assets	(273,299)	418,333
Temporarily restricted net assets, beginning of year	7,051,823	6,633,490
Temporarily restricted net assets, end of year	\$ 6,778,524	\$ 7,051,823

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ (92,151)	\$ 474,321
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	929	1,575
Bad debt	1,350	7,850
Change in allowance for doubtful accounts and discount rate for pledges receivable	3,778	29,315
Realized (gain) on investments	(898)	-
Unrealized (gain) on investments	(162,433)	(193,628)
(Increase)/decrease in operating assets:		
IOLTA/IOTA - receivables	62,964	(19,312)
Pledges receivable	(86,469)	(114,005)
Accounts receivable	(15,494)	507
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	(31,781)	27,414
Net change in cash from operating activities	<u>(320,205)</u>	<u>214,037</u>
Cash flows from investing activities:		
Purchase of property and equipment	(13,783)	-
Purchase of investments/reinvestment of income	(1,228,210)	(190,427)
Sale of investments	620,351	-
Sale of certificates of deposits	-	252,882
Net change in cash from investing activities	<u>(621,642)</u>	<u>62,455</u>
Net change in cash and cash equivalents	(941,847)	276,492
Cash and cash equivalents at beginning of year	<u>1,937,627</u>	<u>1,661,135</u>
Cash and cash equivalents at end of year	<u>\$ 995,780</u>	<u>\$ 1,937,627</u>

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

CONNECTICUT BAR FOUNDATION, INC.

Notes to Financial Statements

December 31, 2013 and 2012

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”), Judicial Branch Grants-in-Aid (“JBGIA”) and Court Fees Grants-in-Aid (“CFGIA”), as required by P. A. 09-152 and P.A. 12-89.

Basis of Preparation

The financial statements of the Foundation have been prepared on the accrual basis.

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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Foundation implemented the accounting guidance for uncertainty in income taxes using certain provisions of the Accounting Standards Codification over income taxes. Using this guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not that the position will be sustained upon examination by the tax authorities. As of December 31, 2013 and 2012, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and believes that it has appropriate support for income tax positions taken in its tax returns. Currently, the Foundation's information returns for fiscal years 2010-2012 remain open to inspection by the IRS, with 2013 to be filed in 2014.

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 statement 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 must be discounted to their net present value. The rate used for discounting is 3.5%. As of December 31, 2013 and 2012, the discounts applied were \$61,798 and \$50,091, respectively.

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. Under the Court Fees Grants-in-Aid program, the Judicial Branch transfers the revenue from the fee increases to the Foundation on a quarterly 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 73% and 57% of the Foundation's revenues for the years ended December 31, 2013 and 2012, respectively, were derived from this program.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The number of lawyers participating in the program was 10,263 and 10,409 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, there were 8,132 and 8,141 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 totaling \$2,603,638 and \$4,030,000 from IOLTA/IOTA revenues for the Foundation's fiscal years ended December 31, 2013 and 2012, respectively.

The Foundation received 96% and 92% of total revenue from JBGIA, CFGIA and IOLTA/IOTA programs for the years ended December 31, 2013 and 2012, 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 fiscal year 2013 through April 15, 2014, the date on which financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents – The Foundation maintained deposits which exceeded 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.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK (CONTINUED)

IOLTA/IOTA support – Approximately 14% and 26% of the Foundation’s total support was derived from IOLTA/IOTA income for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, income from two banks totaled 31% of total IOLTA/IOTA income, whereas for the year ended December 31, 2012, there was no concentration of income from any one bank relating to IOLTA/IOTA income.

Pledges receivable – Pledges receivable consist primarily 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.

NOTE 3 – FAIR VALUE MEASUREMENT (CONTINUED)

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

	December 31, 2013		
	Level 1	Level 2	Total
Equity, mutual funds			
Total Stock Market Index Fund	\$ 1,465,388	\$ -	\$ 1,465,388
International Stock Index Fund	361,227	-	361,227
Fixed income funds	4,773,465	-	4,773,465
Total investments	<u>\$ 6,600,080</u>	<u>\$ -</u>	<u>\$ 6,600,080</u>

	December 31, 2012		
	Level 1	Level 2	Total
Equity, mutual funds			
Total Stock Market Index Fund	\$ 603,386	\$ -	\$ 603,386
International Stock Index Fund	194,518	-	194,518
Fixed income funds	5,030,986	-	5,030,986
Total investments	<u>\$ 5,828,890</u>	<u>\$ -</u>	<u>\$ 5,828,890</u>

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 professional 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:

	2013	2012
Less than one year	\$ 79,720	\$ 66,035
One to five years	291,254	195,600
Six to ten years	93,550	117,770
Total pledges receivable	464,524	379,405
Less: allowance for uncollectible pledges	(31,324)	(39,253)
Less: 3.50% discount to net present value	(61,798)	(50,091)
Total pledges receivable, net	<u>\$ 371,402</u>	<u>\$ 290,061</u>

NOTE 5 – PROPERTY AND EQUIPMENT

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

	2013	2012
Office furniture and equipment	\$ 13,783	\$ 10,706
Less: accumulated depreciation	(929)	(10,706)
Total property and equipment	<u>\$ 12,854</u>	<u>\$ -</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
IOLTA/IOTA Program	\$ 6,219,175	\$ 6,625,765
Pledges receivable, Fellows Program	371,402	290,061
Judicial Branch Grants-in-Aid	250	195
Court Fees Grants-in-Aid	236	469
General Foundation, Speziale Fund	38,607	31,830
General Foundation, Innocence Fund	55,540	50,884
General Foundation, Kravitz Symposium Fund	90,814	48,891
General Foundation, Restricted	2,500	3,728
	<u>\$ 6,778,524</u>	<u>\$ 7,051,823</u>

NOTE 7 – COMMITMENTS

The Foundation's board of directors approved \$2,621,065 for grant awards to be disbursed in monthly payments during the 2014 grant year running from January 1 through December 31, 2014, 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, 2013 and 2012, \$24,200 and \$1,600, respectively, has been disbursed and is recorded as an account receivable on the statement 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 May 31, 2016. Expenses for parking and rent were \$34,265 and \$37,210 for 2013 and 2012, respectively.

The Foundation has entered into operating leases for various office equipment that commence and end on various dates through 2017. Expense for the leases was \$5,855 for 2013 and 2012.

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

2014	\$ 43,230
2015	43,230
2016	21,425
2017	269

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 \$37,279 and \$34,474 for the years ended December 31, 2013 and 2012, respectively.

SUPPLEMENTAL INFORMATION

CONNECTICUT BAR FOUNDATION, INC.

Schedule of Financial Position

December 31, 2013

	IOLTA	Court Fees Grants-In Aid	Judicial Branch Grants-In Aid	General Foundation	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 869,881	\$ 236	\$ 250	\$ 125,413	\$ 995,780
Investments, fair value	5,167,367	-	-	1,432,713	6,600,080
IOLTA/IOTA - receivables	192,203	-	-	-	192,203
Pledges receivable, short term	-	-	-	79,720	79,720
Accounts and loans receivable	-	-	-	24,200	24,200
Due to/(from) other programs	20,192	-	-	(20,192)	-
Total current assets	<u>6,249,643</u>	<u>236</u>	<u>250</u>	<u>1,641,854</u>	<u>7,891,983</u>
Property and equipment, net	3,714	-	-	9,140	12,854
Other assets					
Pledges receivable, long term, net	-	-	-	291,682	291,682
Total assets	<u>\$ 6,253,357</u>	<u>\$ 236</u>	<u>\$ 250</u>	<u>\$ 1,942,676</u>	<u>\$ 8,196,519</u>
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 34,182	\$ -	\$ -	\$ 7,081	\$ 41,263
Net assets:					
Unrestricted	-	-	-	1,376,732	1,376,732
Temporarily restricted	6,219,175	236	250	558,863	6,778,524
Total net assets	<u>6,219,175</u>	<u>236</u>	<u>250</u>	<u>1,935,595</u>	<u>8,155,256</u>
Total liabilities and net assets	<u>\$ 6,253,357</u>	<u>\$ 236</u>	<u>\$ 250</u>	<u>\$ 1,942,676</u>	<u>\$ 8,196,519</u>

CONNECTICUT BAR FOUNDATION, INC.

Schedule of Expenses

For the year ended December 31, 2013
(with summarized totals for the year ended December 31, 2012)

	IOLTA	Court Fee Grants-In Aid	Judicial Branch Grants-In Aid	General Foundation	2013 Total	2012 Total
General and administrative:						
Compensation and temporary help	\$ 92,719	\$ 234,006	\$ 8,000	\$ 61,873	\$ 396,598	\$ 364,891
Payroll taxes	7,205	19,316	-	5,841	32,362	28,209
Employee benefits	10,248	31,823	-	9,909	51,980	43,858
Pension	10,562	23,045	-	3,672	37,279	34,474
Occupancy costs	9,590	21,103	-	4,458	35,151	37,659
Telephone	848	2,557	-	1,135	4,540	4,441
Insurance	1,427	4,305	-	5,732	11,464	11,417
Professional services	10,362	5,202	2,000	9,464	27,028	23,529
Outside services	7,330	9,435	-	10,433	27,198	26,049
Equipment	244	-	-	1,079	1,323	3,957
Travel, meetings and dues	8,476	-	-	5,422	13,898	10,790
Office supplies and maintenance	856	2,580	-	3,776	7,212	8,445
Printing costs	899	2,712	-	2,143	5,754	1,923
Postage	555	1,672	-	-	2,227	2,188
Miscellaneous	220	-	-	345	565	2,166
Bad debt	-	-	-	1,350	1,350	7,850
Depreciation	929	-	-	-	929	1,575
Total general and administrative	<u>162,470</u>	<u>357,756</u>	<u>10,000</u>	<u>126,632</u>	<u>656,858</u>	<u>613,421</u>
Grants and program	<u>2,608,167</u>	<u>11,568,370</u>	<u>1,490,000</u>	<u>60,157</u>	<u>15,726,694</u>	<u>14,001,204</u>
Total expenses	<u>\$ 2,770,637</u>	<u>\$ 11,926,126</u>	<u>\$ 1,500,000</u>	<u>\$ 186,789</u>	<u>\$ 16,383,552</u>	<u>\$ 14,614,625</u>