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MASSACHUSETTS IOLTA COMMITTEE

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

MASSACHUSETTS IOLTA COMMITTEE

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Independent Auditors' Report

To the Members
Massachusetts IOLTA Committee

We have audited the accompanying financial statements of Massachusetts IOLTA Committee, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of Massachusetts IOLTA Committee as of December 31, 2014 were audited by other auditors, whose report dated February 6, 2015 expressed an unmodified opinion on those 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 audit. We conducted our audit in accordance with the 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 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Massachusetts IOLTA Committee as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

Boston, Massachusetts
March 29, 2016

MASSACHUSETTS IOLTA COMMITTEE

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,252,345	\$ 1,135,374
Other receivables	670	7,476
Total current assets	<u>1,253,015</u>	<u>1,142,850</u>
Total Assets	<u>\$ 1,253,015</u>	<u>\$ 1,142,850</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Entities payable	\$ 984,553	\$ 868,614
Other payables	670	7,476
Total current liabilities	<u>985,223</u>	<u>876,090</u>
Net Assets - Unrestricted	<u>267,792</u>	<u>266,760</u>
Total Liabilities and Net Assets	<u>\$ 1,253,015</u>	<u>\$ 1,142,850</u>

The accompanying notes are an integral part of the financial statements

MASSACHUSETTS IOLTA COMMITTEE

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenue		
IOLTA receipts	\$ 6,441,946	\$ 5,657,572
Bank settlement grant funds	1,985,562	-
Access to justice fee revenue	1,260,493	1,144,867
Administrative fee income	615,915	581,449
Out-of-state registration fees	204,779	193,098
Class action residual awards	56,675	64,182
Interest income	9,730	7,177
Total operating revenue	<u>10,575,100</u>	<u>7,648,345</u>
Operating Expenses		
IOLTA distributions	6,446,385	5,659,704
Bank settlement distributions	1,985,562	-
Access to justice fee distributions	1,260,493	1,144,867
Administrative fee expense	615,915	581,450
Out of state registration fees	204,779	193,098
Class action residual distributions	56,675	63,913
Bank fees	4,259	4,251
Total operating expenses	<u>10,574,068</u>	<u>7,647,283</u>
Change in Net Assets	1,032	1,062
Unrestricted Net Assets - Beginning of Year	<u>266,760</u>	<u>265,698</u>
Unrestricted Net Assets - End of Year	\$ <u><u>267,792</u></u>	\$ <u><u>266,760</u></u>

The accompanying notes are an integral part of the financial statements

MASSACHUSETTS IOLTA COMMITTEE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,032	\$ 1,062
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Increase (decrease) in cash resulting from a change in:		
Other receivables	6,806	(6,220)
Entities payable	115,939	53,052
Other payables	<u>(6,806)</u>	<u>6,220</u>
Net cash provided by operating activities	116,971	54,114
Cash and Cash Equivalents - Beginning of Year	<u>1,135,374</u>	<u>1,081,260</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,252,345</u>	<u>\$ 1,135,374</u>

The accompanying notes are in integral part of the financial statements

MASSACHUSETTS IOLTA COMMITTEE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES

The Massachusetts IOLTA Committee (the Committee) was established, and members appointed, by the Massachusetts Supreme Judicial Court to provide for the operation of the comprehensive Interest on Lawyers Trust Accounts (IOLTA) program, as adopted by the order of the Supreme Judicial Court, dated September 26, 1989.

IOLTA income is the result of interest earned on pooled client fund accounts, which are used by attorneys to hold client funds which are either so nominal in amount, or expected to be held for such a short period of time, that it would not be practical to establish individual accounts. There are currently more than 200 banks and over 20,000 attorneys participating in this program, which helps to fund improvements in the administration of justice and delivery of legal services to low income clients.

Prior to January 1, 1993, interest earned on IOLTA accounts was paid by banks to one of three charities, as designated by the attorney. Effective January 1, 1993, the court amended its rule so that the Massachusetts IOLTA Committee was the initial recipient of all IOLTA funds throughout the state. The Committee then distributes all of the available funds to the three charitable entities based on percentages set up in the Court Rule and Order as follows:

Boston Bar Foundation	7%
Massachusetts Bar Foundation	26%
Massachusetts Legal Assistance Corporation	67%

IOLTA funds are used by each of the three entities to provide grants to providers of direct legal services for the poor and other not-for-profit organizations throughout the state. Each of the three entities is required by the court order to absorb the costs of the Committee in the same proportion by which they receive funds. Monthly, the entities are charged one-twelfth of the Committee's annual operating budget. At year end, the fees are reconciled to the actual expenses and the difference between budgeted and actual expenses is either paid to or collected from the entities subsequent to year end.

On June 9, 2010, the Supreme Judicial Court added an option to the Board of Bar Overseers registration fee called the "Access to Justice Fee." This fee is \$51 and is to be used in the administration of justice and provision of civil legal services to those who cannot afford them. The Access to Justice Fee is voluntary. The receipts received by the Committee from the Access to Justice Fee payments are distributed in their entirety to the above charitable entities in the same percentages as noted above.

As of September 4, 2012, Massachusetts requires that prior to filing a motion to have out-of-state counsel admitted pro hac vice in certain appellate courts, out-of-state counsel must pay a nonrefundable pro hac vice registration fee of \$301 per case. In addition, a fee of \$101 is required per district court case. These fees are paid to the Board of Bar Overseers (the Board), which on a quarterly basis is given to the Committee. The receipts received by the Committee from the pro hac vice fee payments are distributed in their entirety to the above charitable entities in the same percentages as noted above.

MASSACHUSETTS IOLTA COMMITTEE

NOTES TO FINANCIAL STATEMENTS

In Massachusetts, unclaimed funds from class action lawsuits are distributed to appropriate not-for-profit organizations. During 2009, the Supreme Judicial Court determined that legal services and IOLTA programs are appropriate recipients of class action residual awards. The receipts received by the Committee from the class action residual awards are distributed in their entirety to the above charitable entities in the same percentages as noted above. For the years ended December 31, 2015 and 2014, class action residual awards received totaled \$56,675 and \$64,182, respectively.

In March 2015, the Committee received the first installment of funds from the Bank of America settlement with the Department of Justice. The first installment was \$485,562. In September 2015, the Committee received a one-time donation of funds from the Citi Group settlement with the Department of Justice in the amount of \$1,500,000. The funds are to be used for foreclosure prevention legal assistance and community development legal assistance. The funds were distributed in their entirety to the three charitable entities in the same percentages as noted above.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A summary of the significant accounting policies followed by the Committee in the preparation of the accompanying financial statements is set forth below:

Basis of Financial Statements

The accompanying financial statements are presented on the accrual basis of accounting in accordance with the reporting standards for not-for-profit organizations. Generally accepted accounting principles require classification of net assets and revenues, expenses, gains and losses into three categories, based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted

Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Temporarily Restricted

Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Unrestricted

Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as "net assets released from restrictions."

At December 31, 2015, the Committee did not have temporarily or permanently restricted net assets.

MASSACHUSETTS IOLTA COMMITTEE

NOTES TO FINANCIAL STATEMENTS

Use of 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, the 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 vary from the estimates that were used.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Committee considers all highly-liquid investments with an initial maturity of 90 days or less to be cash equivalents.

Basis of Presentation

Revenue from IOLTA receipts is recorded when received. All other income and expenses are recorded when incurred.

Income Taxes

The Committee is not subject to federal income taxes because it is an integral part of the Commonwealth of Massachusetts constituted under the Supreme Judicial Court. It does not require exemption under Section 501 of the Code as an exempt organization.

Subsequent Events

The Committee has evaluated subsequent events through March 29, 2016, which is the date the financial statements were available to be issued

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Committee has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount was \$250,000, which was applied per depositor, per insured bank for each account ownership category. As of December 31, 2015, the Committee had balances of \$677,832 in excess of FDIC limits. The Committee has not experienced any losses in such accounts or instruments. The Committee believes it is not exposed to any significant credit risk on cash and cash equivalents.

MASSACHUSETTS IOLTA COMMITTEE

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - RELATED PARTY

A monthly administrative fee is paid to the Massachusetts Legal Assistance Corporation (MLAC) based on one-twelfth of the annual operating budget as approved by the Committee. MLAC provides services to the Committee including payroll, purchasing, rent and other accounting and administrative services. The budget is reconciled to actual expenses at year end, and the difference between the budgeted and actual expenses is either paid to or received from MLAC subsequent to year end. The administrative fee expenses totaled \$615,915 and \$581,450 for the years ended December 31, 2015 and 2014, respectively. The amount payable to MLAC was \$7,476 as of December 31, 2014. The amount receivable from MLAC was \$670 as of December 31, 2015.

Additionally, the nine-member committee appointed by the Supreme Judicial Court that oversees the Committee is composed of three members nominated by each of the three charitable entities that are beneficiaries; Boston Bar Foundation, Massachusetts Bar Foundation and the Massachusetts Legal Assistance Corporation.