

**PENNSYLVANIA INTEREST ON LAWYERS  
TRUST ACCOUNT BOARD**

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2002 AND 2001

AND

INDEPENDENT AUDITOR'S REPORT



**McKONLY & ASBURY** LLP

CERTIFIED PUBLIC ACCOUNTANTS

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Pennsylvania Interest on Lawyers Trust Account Board  
Harrisburg, Pennsylvania

We have audited the accompanying general purpose financial statements of the Pennsylvania Interest on Lawyers Trust Account Board, a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Board's financial statements are intended to present the financial position, results of operations and cash flows of only that portion of enterprise funds of the Commonwealth of Pennsylvania that is attributable to the transactions of the Board.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Interest on Lawyers Trust Account Board as of June 30, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 11 through 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*McKenty & Asbury LLP*

Harrisburg, Pennsylvania  
August 15, 2002

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## BALANCE SHEETS

JUNE 30, 2002 AND 2001

### ASSETS

	<u>2002</u>	<u>2001</u>
Current assets		
Cash and cash equivalents	\$ 1,994,350	\$3,341,071
Accounts receivable		
IOLTA interest	642,129	850,268
Other	2,027	2,061
Prepaid expenses	6,133	8,539
Total current assets	<u>2,644,639</u>	<u>4,201,939</u>
Property and equipment	107,388	101,882
Accumulated depreciation	<u>(88,795)</u>	<u>(75,681)</u>
	<u>18,593</u>	<u>26,201</u>
Total assets	<u><u>\$ 2,663,232</u></u>	<u><u>\$ 4,228,140</u></u>

### LIABILITIES AND RETAINED EARNINGS

Current liabilities		
Accounts payable		
Legal Service Organizations	\$ 41,600	\$ 16,500
Other	15,581	8,454
Accrued expenses	17,535	15,517
Total current liabilities	<u>74,716</u>	<u>40,471</u>
Retained earnings		
General	2,458,368	4,161,468
Pro Bono Initiative	111,555	-
Property	18,593	26,201
Total retained earnings	<u>2,588,516</u>	<u>4,187,669</u>
Total liabilities and retained earnings	<u><u>\$ 2,663,232</u></u>	<u><u>\$ 4,228,140</u></u>

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

**PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS

YEARS ENDED JUNE 30, 2002 AND 2001

	General	Pro Bono Initiative	Property	Total 2002	Total 2001
Revenue					
IOLTA interest, net of service charges of \$344,515 and \$378,629	\$ 6,942,776	\$ -	\$ -	\$ 6,942,776	\$ 8,384,537
Interest, net of service charges of zero and \$1,510	55,761	-	-	55,761	99,256
Contributions	-	111,555	-	111,555	-
Other	-	-	-	-	400
Total revenue	6,998,537	111,555	-	7,110,092	8,484,193
Expenses					
Program administration	385,573	-	14,917	400,490	385,462
Grant awards					
Legal Service Organizations	6,537,636	-	-	6,537,636	4,935,000
Law Schools	1,771,119	-	-	1,771,119	1,362,677
Total grant awards	8,308,755	-	-	8,308,755	6,297,677
Total expenses	8,694,328	-	14,917	8,709,245	6,683,139
Excess (deficiency) of revenue over expenses	(1,695,791)	111,555	(14,917)	(1,599,153)	1,801,054
Reclassification of retained earnings					
Acquisition of property	(7,309)	-	7,309	-	-
Retained earnings - beginning	4,161,468	-	26,201	4,187,669	2,386,615
Retained earnings - ending	\$ 2,458,368	\$ 111,555	\$ 18,593	\$ 2,588,516	\$ 4,187,669

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

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	\$(1,599,153)	\$ 1,801,054
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities		
Depreciation	14,917	26,513
Loss on sale of equipment	-	12
(Increase) decrease in		
Interest and other receivables	208,173	(84,437)
Prepaid expenses	2,406	629
Increase (decrease) in		
Accounts payable	32,227	(5,669)
Accrued expenses	2,018	(110)
Net cash provided by (used in) operating activities	(1,339,412)	1,737,992
Cash flows from investing activities		
Proceeds from sale of equipment	-	100
Acquisition of property and equipment	(7,309)	(8,171)
Net cash used in investing activities	(7,309)	(8,071)
Increase (decrease) in cash and cash equivalents	(1,346,721)	1,729,921
Cash and cash equivalents - beginning	3,341,071	1,611,150
Cash and cash equivalents - ending	\$ 1,994,350	\$ 3,341,071

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

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization*

On July 17, 1996, the Supreme Court of Pennsylvania amended Rule 1.15 of the Pennsylvania Rules of Professional Conduct which governs Pennsylvania attorneys' handling of fiduciary funds. The amendment requires that substantially all Pennsylvania attorneys place all fiduciary funds they handle in interest-bearing accounts and that the interest earned inure to the benefit of clients, qualifying third parties, or is given to the IOLTA program. Effective September 1, 1996, the Pennsylvania Interest on Lawyers Trust Account Board (the Board) was established to administer this program through a nine member Board, all of whom are appointed by the Supreme Court.

#### *Reporting Entity*

The Board's financial statements present the financial position and results of operations of only that portion of enterprise funds of the Commonwealth of Pennsylvania that are attributable to the transactions of the Board. The Board does not exercise oversight responsibility for any other organization. It is a component unit of the judicial branch of the Commonwealth of Pennsylvania.

#### *Basis of Accounting*

Enterprise funds are accounted for using the economic resources measurement focus and using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Enterprise funds are used to account for activities for which the governing body has decided that the periodic determination of revenues earned, expenses incurred, and net income is desired for purposes of facilitating management control and accountability.

#### *Cash and Cash Equivalents*

For the purpose of the Statement of Cash Flows, the Board considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Grants*

The amendment to the Pennsylvania Rules of Professional Conduct requires that IOLTA interest be used for the following purposes; (1) delivery of civil legal assistance to the poor and disadvantaged in Pennsylvania by non-profit corporations described in Section 501(c)(3) of the Internal Revenue Code; (2) educational legal clinical programs and internships administered by law schools located in Pennsylvania; (3) administration and development of the IOLTA program in Pennsylvania; and (4) the administration of justice in Pennsylvania. Grants are generally awarded on an annual basis and grant payments are disbursed on a semi-annual or quarterly basis.

#### *Property and Equipment*

Property and equipment consisting of furniture, equipment, computer software and leasehold improvements are carried at cost, less accumulated depreciation. Depreciation policies reflect the use of the straight-line method with useful lives of three and five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deductions are made for retirements resulting from the renewals or betterments.

#### *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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *Accounting Standards*

Under the guidelines of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Board has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, to its activities.

#### *Risk Management*

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in fiscal year 2002. There were no significant claims in the current year or the three prior years.

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *Tax Status*

The Board is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code and from Commonwealth of Pennsylvania corporate taxes.

### 2. CASH AND CASH EQUIVALENTS

Under statute, the Board's deposits must be held in insured depositories. The Board may also invest in direct obligations of the U.S. Government and agencies thereof. The Board follows the policy of depositing cash and cash equivalents in demand deposit and money market accounts of Pennsylvania financial institutions.

The cash and cash equivalents of the Board at June 30, 2002 and 2001 have been categorized to indicate the level of credit risk assumed by the Board. Category 1 includes deposits that are insured or collateralized with securities held by the Board or the Board's agent in the Board's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. Category 3 includes deposits which are uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name.

At June 30, 2002, the Board had Category 1 cash and cash equivalents with a carrying value of \$100,000 and a bank balance of \$100,000. The Board also had Category 3 cash and cash equivalents with a carrying value of \$1,894,350 and a bank balance of \$1,911,671.

At June 30, 2001, the Board had Category 1 cash and cash equivalents with a carrying value of \$100,000 and a bank balance of \$100,000. The Board also had Category 3 cash and cash equivalents with a carrying value of \$3,241,071 and a bank balance of \$3,303,099.

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2002 and 2001:

	2002	2001
Furniture	\$ 65,244	\$ 60,512
Software	37,945	37,171
Leasehold improvements	4,199	4,199
	<u>107,388</u>	<u>101,882</u>
Accumulated depreciation	<u>(88,795)</u>	<u>(75,681)</u>
Net book value	<u>\$ 18,593</u>	<u>\$ 26,201</u>

Depreciation expense for the years ended June 30, 2002 and 2001 was \$14,917 and \$26,513.

### 4. IOLTA REVENUES AND GRANT EXPENSES

Lawyers throughout Pennsylvania have established special interest-bearing IOLTA accounts with their local depository institutions for funds received by the lawyers in a fiduciary capacity. The depository institutions transfer IOLTA interest earnings, net of service charges, to the Board. The Board uses these funds to make grants to not-for-profit corporations which operate in Pennsylvania, whose primary purpose is to provide civil legal services without charge to eligible clients. The Board can also provide grants to law schools in Pennsylvania for educational legal clinical programs and internships, and administration of justice. All of the Board's grants are directed to the provision of civil legal services for the poor and disadvantaged. The grants awarded by the Board during the years ended June 30, 2002 and 2001, net of rescissions, amounted to \$8,308,755 and \$6,297,677.

During March 2002, the Board recommended, and the Supreme Court of Pennsylvania approved, \$7,100,000 in grants for the grant year July 1, 2002 through June 30, 2003.

### 5. PRO BONO INITIATIVE CONTRIBUTIONS AND GRANT EXPENSES

In June 2001, the Chief Justice of the Supreme Court of Pennsylvania asked lawyers licensed to practice law in Pennsylvania to voluntarily contribute at least \$50 each to help fund the infrastructure necessary for organized county-based pro bono programs. The Board received contributions totaling \$111,555 as a result of the appeal during the year ended June 30, 2002.

During May 2002, the Board recommended and the Supreme Court of Pennsylvania approved \$97,735 in Pro Bono grants for the grant period July 1, 2002 through June 30, 2004.

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

### 6. LEASES

The Board leases office space in Harrisburg under a two year operating lease. Lease expense for the years ended June 30, 2002 and 2001 amounted to \$20,518 and \$20,355. Minimum amounts payable under the lease of \$21,329 are due for the year ending June 30, 2003.

**SUPPLEMENTARY INFORMATION**

**PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

SCHEDULE OF PROGRAM ADMINISTRATION EXPENSES AND PROPERTY ACQUISITIONS

YEAR ENDED JUNE 30, 2002

	Budget (Unaudited)	General Actual	Property Actual
Program administration expenses			
Personnel			
Wages	\$ 221,532	\$ 218,180	\$ -
Fringe benefits	73,418	73,304	-
Total personnel	<u>294,950</u>	<u>291,484</u>	<u>-</u>
Operating			
Advertising	250	-	-
Consultants and contract services	43,500	32,649	-
Office supplies	6,500	6,515	-
Postage	1,500	1,334	-
Printing and publications	10,000	9,783	-
Rent	22,594	20,518	-
Telephone	7,600	4,477	-
Temporary help	600	599	-
Travel - staff and board	16,000	8,967	-
Depreciation	24,000	-	14,917
Insurance	5,406	4,241	-
Equipment Maintenance	11,000	4,535	-
Other	1,100	471	-
Total operations	<u>150,050</u>	<u>94,089</u>	<u>14,917</u>
Total program administration expenses	<u>\$ 445,000</u>	<u>\$ 385,573</u>	<u>\$ 14,917</u>
Property acquisitions			
Equipment and software purchased	<u>\$ 10,000</u>	<u>\$ 7,309</u>	<u>\$ -</u>

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## SCHEDULE OF GRANT RECIPIENTS

YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
Legal Service Organizations		
Aids Law Project	\$ 17,400	\$ 15,000
Allegheny County Bar Foundation	40,000	35,000
Allegheny County CASA Program	20,000	15,000
Allegheny County Mental Health Legal Services	15,000	12,000
Bucks County Legal Aid	-	55,000
Community Legal Services	43,200	20,000
Consumer Bankruptcy Assistance Project	24,400	20,000
Disabilities Law Project	23,200	20,000
Education Law Center	23,200	20,000
Friends of Farmworkers	162,200	140,000
HIAS & Council Migration Services of Philadelphia	15,000	10,000
Homeless Advocacy Project	12,200	10,000
Juvenile Law Project	19,700	17,000
Lackawanna Pro Bono, Inc.	12,000	10,000
Laurel Legal Services	60,000	-
Legal Aid of Southeast PA	55,000	-
Legal Aid Society of Pittsburgh	65,000	30,000
Legal Clinic for the Disabled	15,000	15,000
Legal Services of Northeastern PA, Inc.	-	60,000
Lewisburg Prison Project	35,000	30,000
Mid Penn Legal Services	85,000	66,000
Neighborhood Legal Services	-	57,000
North Penn Legal Services	90,000	-
Northwestern Legal Services	1,036	40,000
PA Health Law Project	86,400	40,000
PA Immigration Resource Center	25,000	20,000
Pennsylvania Legal Services	5,394,600	4,025,000
Philadelphia Legal Assistance	6,100	5,000
Philadelphia Volunteer Lawyers for the Arts	6,100	5,000
Philadelphia Volunteers for the Indigent Program	42,600	35,000
Protection from Abuse Coordinated Services, Inc.	22,000	20,000
Public Interest Law Center of Philadelphia	23,200	20,000
Regional Housing Legal Services	11,500	5,000
Senior Citizens Judicare	18,800	15,000
Support Center Child Advocates	36,600	30,000
Westmoreland Bar Foundation	19,000	8,000
Women Against Abuse Legal Center	12,200	10,000
	<u>6,537,636</u>	<u>4,935,000</u>
Total Legal Service Organizations		

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**PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

SCHEDULE OF GRANT RECIPIENTS (Cont'd)

YEARS ENDED JUNE 30, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Law schools		
Pennsylvania State University - Dickinson School of Law	298,821	148,776
Duquesne University	250,000	213,901
Temple University	250,000	200,000
University of Pennsylvania	250,000	200,000
University of Pittsburgh	250,000	200,000
Villanova University	250,000	200,000
Widener University	<u>222,298</u>	<u>200,000</u>
Total law schools	<u>1,771,119</u>	<u>1,362,677</u>
Total grants	<u>\$ 8,308,755</u>	<u>\$ 6,297,677</u>