

**PENNSYLVANIA INTEREST ON
LAWYERS TRUST ACCOUNT BOARD**

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2001 AND 2000

AND

INDEPENDENT AUDITOR'S REPORT

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, 2001 and 2000, 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, 2001 and 2000, 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 and 12 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.

McKooly & Asbury LLP

Harrisburg, Pennsylvania
August 15, 2001

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

BALANCE SHEETS

JUNE 30, 2001 AND 2000

ASSETS

	<u>2001</u>	<u>2000</u>
Current assets		
Cash and cash equivalents	\$ 3,341,071	\$ 1,611,150
Accounts receivable		
IOLTA interest	850,268	756,446
Legal Service Organizations	-	9,500
Other	2,061	1,946
Prepaid expenses	<u>8,539</u>	<u>9,168</u>
Total current assets	<u>4,201,939</u>	<u>2,388,210</u>
Property and equipment	101,882	104,855
Accumulated depreciation	<u>(75,681)</u>	<u>(60,200)</u>
	<u>26,201</u>	<u>44,655</u>
Total assets	<u><u>\$ 4,228,140</u></u>	<u><u>\$ 2,432,865</u></u>

LIABILITIES AND RETAINED EARNINGS

Current liabilities		
Accounts payable		
Legal Service Organizations	\$ 16,500	\$ 15,000
Other	8,454	15,623
Accrued expenses	<u>15,517</u>	<u>15,627</u>
Total current liabilities	<u>40,471</u>	<u>46,250</u>
Retained earnings		
Unrestricted		
General	4,161,468	2,341,960
Property	<u>26,201</u>	<u>44,655</u>
Total retained earnings	<u>4,187,669</u>	<u>2,386,615</u>
Total liabilities and retained earnings	<u><u>\$ 4,228,140</u></u>	<u><u>\$ 2,432,865</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, 2001 AND 2000

	General	Property	Total 2001	Total 2000
Revenue				
IOLTA interest, net of service charges of \$378,629 and \$468,537	\$ 8,384,537	\$ -	\$ 8,384,537	\$ 6,477,245
Interest, net of service charges of \$1,510 and \$13,993	99,256	-	99,256	67,885
Other	400	-	400	-
	8,484,193	-	8,484,193	6,545,130
Total revenue				
Expenses				
Program administration	358,837	26,625	385,462	348,441
Grant awards				
Legal Service Organizations	4,935,000	-	4,935,000	4,832,000
Law Schools	1,362,677	-	1,362,677	1,386,099
	6,297,677	-	6,297,677	6,218,099
Total grant awards				
Total expenses	6,656,514	26,625	6,683,139	6,566,540
Excess (deficiency) of revenue over expenses	1,827,679	(26,625)	1,801,054	(21,410)
Reclassification of retained earnings				
Acquisition of property	(8,171)	8,171	-	-
Retained earnings - beginning	2,341,960	44,655	2,386,615	2,408,025
Retained earnings - ending	\$ 4,161,468	\$ 26,201	\$ 4,187,669	\$ 2,386,615

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, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	\$ 1,801,054	\$ (21,410)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities		
Depreciation	26,513	17,843
Loss on sale of equipment	12	-
(Increase) decrease in		
Interest and other receivables	(84,437)	(168,430)
Prepaid expenses	629	(2,911)
Increase (decrease) in		
Accounts payable	(5,669)	22,439
Accrued expenses	(110)	(635)
	<u>1,737,992</u>	<u>(153,104)</u>
Net cash provided by (used in) operating activities		
	<u>1,737,992</u>	<u>(153,104)</u>
Cash flows from investing activities		
Proceeds from sale of equipment	100	-
Acquisition of property and equipment	(8,171)	(22,203)
	<u>(8,071)</u>	<u>(22,203)</u>
Net cash used in investing activities		
	<u>(8,071)</u>	<u>(22,203)</u>
Increase (decrease) in cash and cash equivalents	1,729,921	(175,307)
Cash and cash equivalents - beginning	<u>1,611,150</u>	<u>1,786,457</u>
Cash and cash equivalents - ending	<u><u>\$ 3,341,071</u></u>	<u><u>\$ 1,611,150</u></u>

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 is 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 (Cont'd)

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 generally accepted accounting principles 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 2001. 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 (Cont'd)

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, 2001 and 2000 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, 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.

At June 30, 2000, the Board had Category 1 cash and cash equivalents with a carrying value of \$160,663 and a bank balance of \$163,842. The Board also had Category 3 cash and cash equivalents with a carrying value of \$212,535 and a bank balance of \$212,535. In addition, the Treasury Management Account is

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS (Cont'd)

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Furniture	\$ 60,512	\$ 65,582
Software	37,171	35,074
Leasehold improvements	<u>4,199</u>	<u>4,199</u>
	101,882	104,855
Accumulated depreciation	<u>(75,681)</u>	<u>(60,200)</u>
Net book value	<u>\$ 26,201</u>	<u>\$ 44,655</u>

Depreciation expense for the periods ended June 30, 2001 and 2000 was \$26,513 and \$17,843.

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, 2001 and 2000, net of rescissions, amounted to \$6,297,677 and \$6,218,099.

During March 2001, the Board recommended, and the Supreme Court of Pennsylvania approved, \$8,300,000 in grants for the grant year July 1, 2001 through June 30, 2002.

5. LEASES

The Board leases office space in Harrisburg under a two year operating lease. Lease expense for the years ended June 30, 2001 and 2000 amounted to \$20,355 and \$18,443. Minimum amounts payable under the lease of \$20,355 are due during the year ending June 30, 2002.

SUPPLEMENTARY INFORMATION

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

SCHEDULE OF PROGRAM ADMINISTRATION EXPENSES AND PROPERTY ACQUISITIONS

YEAR ENDED JUNE 30, 2001

	Budget (Unaudited)	General Actual	Property Actual
Program administration expenses			
Personnel			
Wages	\$ 190,438	\$ 197,314	\$ -
Fringe benefits	75,662	64,918	-
Total personnel	266,100	262,232	-
Operating			
Advertising	500	-	-
Consultants and contract services	31,000	29,756	-
Office supplies	5,600	5,506	-
Postage	1,800	2,199	-
Printing and publications	7,800	7,559	-
Rent	20,364	20,355	-
Telephone	8,100	6,806	-
Temporary help	600	599	-
Travel - staff and board	15,000	12,739	-
Depreciation	19,000	-	26,513
Insurance	4,536	4,938	-
Equipment Maintenance	9,600	5,031	-
Other	1,000	1,117	112
Total operations	124,900	96,605	26,625
Total program administration expenses	\$ 391,000	\$ 358,837	\$ 26,625
Property acquisitions			
Equipment and software purchased	\$ 9,000	\$ 8,171	\$ -

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

SCHEDULE OF GRANT RECIPIENTS

YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000
Legal Service Organizations		
Aids Law Project	\$ 15,000	\$ 15,000
Allegheny County Bar Foundation	35,000	35,000
Allegheny County CASA Program	15,000	18,000

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

SCHEDULE OF GRANT RECIPIENTS (Cont'd)

YEARS ENDED JUNE 30, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
Law schools		
Pennsylvania State University - Dickinson School of Law	148,776	200,000
Dusquesne University	213,901	186,099
Temple University	200,000	200,000
University of Pennsylvania	200,000	200,000
University of Pittsburgh	200,000	200,000
Villanova University	200,000	200,000
Widener University	200,000	200,000
	<u>1,362,677</u>	<u>1,386,099</u>
Total law schools		
	<u>1,362,677</u>	<u>1,386,099</u>
Total grants	<u>\$ 6,297,677</u>	<u>\$ 6,218,099</u>