

**PENNSYLVANIA INTEREST ON LAWYERS  
TRUST ACCOUNT BOARD**

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2003

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 basic financial statements of the Pennsylvania Interest on Lawyers Trust Account Board, a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Board adopted the provisions for the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*, as of July 1, 2002.

The management's discussion and analysis on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 18 through 21 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.

*McKonly & Asbury, LLP*

Harrisburg, Pennsylvania  
July 29, 2003

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2003  
UNAUDITED

## INTRODUCTION

The following discussion and analysis of the financial performance and activity of the Pennsylvania Interest on Lawyers Trust Account Board (IOLTA Board) is to provide an introduction and understanding of the basic financial statements of the IOLTA Board for the fiscal year ending June 30, 2003 compared with financial information for the fiscal year ending June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and their notes, which follow this section.

An Interest on Lawyers Trust Account (IOLTA) Program exists in each state and the District of Columbia. In some states, the underlying authority for the program is a state statute, however, in most, it is by rule promulgated by the state's highest court. In Pennsylvania, the IOLTA Program was initially established by statute in 1989, but in 1996, the Supreme Court of Pennsylvania suspended the statute, assumed jurisdiction for the program in accordance with Pennsylvania's constitution, and made participation in the program mandatory by all licensed Pennsylvania lawyers.

The concept of the IOLTA program is simple. Clients and others frequently transfer money to lawyers to hold. When the amount is large or if the funds will be held for an extended period of time, lawyers invest them for the benefit of the client or third party. But, when the funds are small or expected to be held for a short time, they cannot practically be invested to benefit the owner. Pennsylvania Rule of Professional Conduct (RPC) 1.15 requires lawyers to maintain nominal and short term fiduciary funds in interest-bearing IOLTA accounts at financial institutions. Lawyers who infrequently handle fiduciary funds can request an exemption from the IOLTA requirements of the RPC. The lawyer's bank transfers the interest earned on IOLTA accounts to the IOLTA Board. Upon approval by the Supreme Court of Pennsylvania, the IOLTA Board distributes the IOLTA funds raised to non-profit organizations, law school administered clinical and externship programs, and administration of justice projects that provide civil legal services free of charge to poor and disadvantaged Pennsylvania residents.

Until this fiscal year, the IOLTA Board's single major source of revenue has been the collection of interest earned on IOLTA accounts. Revenue generated by IOLTA accounts is dependent on the interest rate(s) credited by financial institutions on IOLTA accounts, service charges offset against the IOLTA interest, and the principal amount of funds maintained in the IOLTA accounts. Although IOLTA revenue can also be affected by the extent of lawyer compliance with the RPC, compliance is and has been nearly 100%.

Effective November 1, 2002, a second significant revenue source was established. A statute, Act 122 of 2002, a section of which is known as the Access to Justice Act, provides for the assessment and collection of a surcharge on all civil filings, as well as the recording of deeds and mortgages and their related filings, and criminal filings where a conviction or a guilty plea is obtained (see Note 6 to the financial statements). For the period November 1, 2002 to June 30, 2003, \$2.9 million of such charges were earmarked for the IOLTA Board's grants program targeted to civil legal services provided by non-profit legal aid organizations. The amount of the surcharge that is earmarked for the IOLTA Board is scheduled for legislative review before November 1, 2007 under a sunset provision of the statute.

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2003  
UNAUDITED

## INTRODUCTION (Cont'd)

The IOLTA Board also receives some limited funding from voluntary lawyer contributions. Each year lawyers must renew their license to practice law in Pennsylvania, report information, and pay an annual assessment to the Disciplinary Board of the Supreme Court of Pennsylvania. Included in the mailing of the Annual Attorney Fee Form by the Disciplinary Board is an enclosure that requests a contribution that will be used to increase the organized pro bono representation of indigent Pennsylvania residents by lawyers in private practice. Pro bono representation is the provision of legal assistance by lawyers without the expectation of a fee for the services.

## IOLTA BOARD'S ACTIVITY HIGHLIGHTS

National and other studies have concluded that only one of five indigent persons needing civil legal assistance actually receive legal help. All of the IOLTA Board's grants are directed to maintaining and increasing the access to and provision of civil legal assistance for Pennsylvania residents who need civil legal help, but who cannot afford to pay for the assistance of a lawyer. An additional objective of its grants to law schools and pro bono programs is to instill a public service, pro bono ethic in the law students and lawyer participants of the programs.

Additionally, the IOLTA Board seeks to increase the amount of grant revenue it has available for such grants. Finally, the IOLTA Board keeps track of lawyer compliance with the IOLTA requirements of RPC 1.15.

### *Legal Services Organization Grants*

Grants totaling \$5,453,735 were awarded to thirty-five non-profit organizations that facilitate and/or provide civil legal assistance to the indigent and disadvantaged residents of Pennsylvania. The largest grant, nearly \$4.4 million was awarded to the Pennsylvania Legal Services which is an administrative and support organization that oversees a statewide system of legal aid programs (the Pennsylvania Legal Aid Network) that is staffed by professional poverty law lawyers. That grant sought to provide general and specialized civil legal assistance to nearly 17,000 indigent persons in all sixty-seven counties in Pennsylvania.

Direct grants were made to some of the organizations of the Pennsylvania Legal Aid Network, which were targeted to increase the access to civil legal help by assisting the organizations to put a region-wide telephone "help line" in place. Help lines make use of an 800 number that callers from the area served by the program can seek legal assistance. After financial eligibility for service is determined, callers requiring direct representation are routed to the appropriate service office to schedule an appointment. Clients needing legal advice are immediately transferred to lawyers staffing the telephone help line. Other grants were awarded to help remove legal barriers confronting individuals who were moving

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2003  
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## IOLTA BOARD'S ACTIVITY HIGHLIGHTS (Cont'd)

### *Legal Services Organization Grants (Cont'd)*

from public welfare to employment. Clients in such transition often need assistance with child care, health benefits, and transportation among other needs. Legal Aid programs were funded to help those individuals gain the assistance needed for a successful transition.

Grants were also awarded to civil legal service organizations that represent the disabled, victims of abuse, elderly, farmworkers, institutionalized, or to provide specialized legal help for health, immigration and other areas.

### *Law School Clinics and Internship Programs*

Grants were awarded to each of the seven Pennsylvania law schools to help fund clinical programs that provide practical, supervised representational experiences for law students, and civil legal help for the indigent. The total IOLTA grant awards to the law schools were \$1,649,861. Each school received at least a \$250,000 grant. Fourteen clinics operated by the law schools received IOLTA grant support. The IOLTA grant for a clinic usually provided 50% to 60% of the direct cost of operating the clinic. Collectively, the clinics planned to award 1,397 credits to 327 law students, and anticipated helping 4,937 individuals with civil legal problems. At one law school, the IOLTA grant helped it initiate a farmworkers' clinic, the first of its kind in the United States. Externships at poverty law offices were also planned for 87 students, who would provide civil legal representation under the supervision of experienced poverty law practitioners for a small stipend, but without receiving law school credits for it.

### *Pro Bono*

New organized pro bono programs were initiated in three counties, and were re-invigorated in five counties. The six pro bono initiative grants totaled \$97,735. The grants were expected to mobilize 1,947 lawyer volunteers over a two year period to provide civil legal assistance for the indigent.

### *Revenue Enhancement*

The Pennsylvania Bar Association established a task force to review and develop recommendations to assure indigent persons have access to justice. One of the task force's recommendations was the establishment of a dedicated pool of funds to help support professionally staffed poverty law offices. The recommendation and work to implement it, led to the establishment of the Access to Justice Act, which requires the assessment and collection of a filing fee surcharge on certain court filings (see Note 6 to the financial statements). The proceeds from the Act are distributed for their intended purposes through the IOLTA Board, which assisted with the work of the task force and the enactment of the Access to Justice statute. The IOLTA Board developed regulations which will guide the determination of persons who will be eligible for civil legal assistance provided by the new funding. The recommended regulations are pending before the Supreme Court of Pennsylvania.

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2003  
UNAUDITED

## IOLTA BOARD'S ACTIVITY HIGHLIGHTS (Cont'd)

### *Revenue Enhancement (Cont'd)*

During the fiscal year the United States Federal Reserve lowered the federal funds rate twice. The federal funds rate is the interest rate at which financial institutions lend balances at the Federal Reserve to other financial institutions overnight. The Federal Reserve lowered the federal fund rates as follows:

Rate at July 1, 2002	1.75%
November 6, 2002	1.25%
June 25, 2003	1.00%

IOLTA revenues are sensitive to interest rates. The IOLTA Board seeks to have financial institutions credit interest rates at the highest rates the financial institution pays on its other products which permit funds to be withdrawn upon request. However, financial institutions are only required by the IOLTA Board's Bank Guidelines to pay interest at N.O.W. (Negotiable Order of Withdrawal) account rates. During the fiscal year the IOLTA Board requested and receive a tiered rate bank product for IOLTA accounts at PNC Bank, which holds over 2,500 IOLTA accounts, at interest rates higher than its traditional N.O.W. account rates. Many of the largest IOLTA remitting financial institutions credit interest on IOLTA accounts at higher-than N.O.W. account rates.

### *Attorney Compliance*

Each year the IOLTA Board notifies approximately 1,500 newly licensed Pennsylvania lawyers of their IOLTA responsibilities. Additionally, each year, the IOLTA Board compares fiduciary account information lawyers report to the Disciplinary Board of the Supreme Court of Pennsylvania attempting to locate IOLTA accounts established by lawyers at their financial institutions, but which are not being reported to the IOLTA Board by the financial institutions. Contact is made with lawyers who report escrow accounts that should be established as IOLTA accounts, but which have not yet been so established by the lawyer.

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2003 UNAUDITED

### COMMENTS ON FINANCIAL STATEMENTS

Condensed financial data extracted from the basis financial statements for the year ended June 30, 2003 is as follows:

Capital assets	\$ 13,101
Other assets	<u>3,991,210</u>
Total assets	<u>\$ 4,004,311</u>
Total current liabilities	<u>\$ 106,766</u>
Invested in capital assets	13,101
Restricted net assets	3,824,872
Unrestricted net assets	<u>59,572</u>
Total net assets	<u>3,897,545</u>
Total liabilities and net assets	<u>\$ 4,004,311</u>
IOLTA interest, net of service charges	\$ 5,879,267
Access to Justice fees	<u>2,942,829</u>
Total operating revenues	<u>8,822,096</u>
Program administration	<u>464,071</u>
Grant awards	
Legal service organizations	5,356,000
Law schools	1,649,861
Pro bono grants	<u>97,735</u>
Total grant awards	<u>7,103,596</u>
Total operating expenses	<u>7,567,613</u>
Total non-operating revenues	<u>54,546</u>
Change in net assets	1,309,029
Net assets - July 1, 2002	<u>2,588,516</u>
Net assets - June 30, 2003	<u>\$ 3,897,545</u>

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2003  
UNAUDITED

## COMMENTS ON FINANCIAL STATEMENTS (Cont'd)

The IOLTA Board determines the amount of IOLTA funds that will be available for grants primarily by projecting the amount of IOLTA revenue it expects to receive during the year of the grants. The IOLTA Board maintains a one million dollar cash balance to provide for cash flow needs and deviations from projections. The grants that are awarded are conditioned upon the actual receipt of sufficient IOLTA revenues to finance the grants. This methodology is used to allow the IOLTA collections to be used for their intended purposes as quickly as is practical.

Grant awards for the 2002 - 2003 fiscal year contemplated the spending down nearly \$1 million of the nearly \$2 million of cash on hand at July 1, 2002. Additionally, IOLTA revenues were projected for the fiscal year at a time when the federal funds rate was 1.75%. By November, 2002 the federal funds rate declined by 29% to 1.25%, and by June, 2003, the rate had dropped another 20% to 1%. Interest rates on IOLTA accounts, which are sensitive to declining interest rates, likewise declined during the fiscal year and IOLTA revenue collections fell short of projections.

The lower interest rates paid on IOLTA accounts resulted in lower IOLTA revenue during the fiscal year, as well as the lower IOLTA interest receivable and lower-than-planned cash balance at June 30, 2003. The IOLTA Board's grant plans had contemplated general net assets of approximately \$1.5 million at June 30, 2003. The lower IOLTA revenues and IOLTA interest receivable resulted in the lower-than-planned general net assets position.

Several years prior, the IOLTA Board conducted a successful campaign to gain greater yields from financial institutions on IOLTA accounts. Those efforts allowed the IOLTA Board to award higher grants in the fiscal year ending June 30, 2002, and to finish that fiscal year with a higher than planned cash balance. However, even with the planned use of \$1 million of the cash balance, the projected lower interest rates resulted in lower grants this fiscal year as compared to the prior fiscal year.

As had been noted earlier, a new source of revenue, the Access to Justice Act, designates a portion of fees collected on certain courthouse filings to be earmarked for the IOLTA Board's civil legal aid grants program. That statute which was effective November 1, 2002, resulted in assessments of about \$2.9 million attributable to filings through June 30, 2003. Actual collections through June 30, 2003 amounted to about \$2.2 million (see Note 6 to the financial statements).

**PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

BALANCE SHEET

JUNE 30, 2003

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 545,252
Accounts receivable	
IOLTA interest	495,000
Access to Justice	2,942,829
Other	2,027
Prepaid expenses	6,102
	<hr/>
Total current assets	3,991,210
	<hr/>
Capital assets	105,509
Accumulated depreciation	(92,408)
	<hr/>
	13,101
	<hr/>
Total assets	\$ 4,004,311
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**LIABILITIES AND NET ASSETS**

Current liabilities	
Accounts payable	
Legal Service Organizations	\$ 65,360
Other	26,179
Accrued expenses	15,227
	<hr/>
Total current liabilities	106,766
	<hr/>
Net assets	
Invested in capital assets	13,101
Restricted to IOLTA program	897,104
Restricted to Access to Justice program	2,927,768
Unrestricted	59,572
	<hr/>
Total net assets	3,897,545
	<hr/>
Total liabilities and net assets	\$ 4,004,311
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The accompanying notes are an integral part of these financial statements.

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2003

Operating revenues	
IOLTA interest, net of service charges of \$240,315	\$ 5,879,267
Access to Justice fees	<u>2,942,829</u>
Total operating revenues	<u>8,822,096</u>
Operating expenses	
Program administration	<u>464,017</u>
Grant awards	
Legal Service Organizations	5,356,000
Law Schools	1,649,861
Pro Bono Grants	<u>97,735</u>
Total grant awards	<u>7,103,596</u>
Total operating expenses	<u>7,567,613</u>
Operating Income	<u>1,254,483</u>
Non-operating revenues	
Contributions	45,752
Interest	<u>8,794</u>
Total non-operating revenues	<u>54,546</u>
Change in net assets	1,309,029
Net assets - beginning	<u>2,588,516</u>
Net assets - ending	<u>\$ 3,897,545</u>

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

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2003

Cash flows from operating activities	
IOLTA interest received	\$ 6,026,396
Cash paid to grant recipients	(7,079,836)
Cash paid to suppliers	(190,292)
Cash paid to employees	(239,336)
Other cash payments	<u>(16,156)</u>
Net cash used in operating activities	<u>(1,499,224)</u>
Cash flows from non-capital financing activities	
Contributions	<u>45,752</u>
Net cash provided by non-capital financing activities	<u>45,752</u>
Cash flows from capital and related financing activities	
Acquisition of property and equipment	<u>(4,420)</u>
Net cash used in capital and related financing activities	<u>(4,420)</u>
Cash flows from investing activities	
Interest	<u>8,794</u>
Net cash provided by investing activities	<u>8,794</u>
Decrease in cash and cash equivalents	(1,449,098)
Cash and cash equivalents - beginning	<u>1,994,350</u>
Cash and cash equivalents - ending	<u><u>\$ 545,252</u></u>
Reconciliation of operating income to net cash used in operating activities	
Operating income	\$ 1,254,483
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation expense	9,912
Changes in assets and liabilities:	
Accounts receivable	(2,795,700)
Prepaid expenses	31
Accounts payable	34,358
Accrued expenses	<u>(2,308)</u>
Net cash used in operating activities	<u><u>\$ (1,499,224)</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 the Board only. 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.

#### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The financial statements of the Board are prepared in accordance with generally accepted accounting principles. The Board applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Board does not apply FASB pronouncements issued after November 30, 1989.

The Board's financial statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

#### *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.

#### *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.

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

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

#### Capital Assets

Capital assets consisting of furniture, equipment, computer software and leasehold improvements are recorded at cost. 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.

#### Net Assets

Net assets are classified in the following three components: invested in capital assets; restricted and unrestricted. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted consists of net assets for which constraints are placed thereon by regulations and enabling legislation, less any related liabilities.

#### 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 2003. There were no significant claims in the current year or the two prior years.

#### 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.

#### Changes in Accounting Principles

For the year ended June 30, 2003, the Board implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

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

#### *Changes in Accounting Principles (Cont'd)*

GASB Statement No. 34 creates new financial statement formats for the Board's financial activities and requires management's discussion and analysis. GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of management's discussion and analysis. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. The implementation of these changes had no effect on the Board's total fund equity as it was previously reported.

### 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, 2003 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, 2003, 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 \$445,252 and a bank balance of \$467,444.

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

### 3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Furniture	\$ 65,244	\$ 4,420	\$ (5,313)	\$ 64,351
Software	37,945	-	(986)	36,959
Leasehold improvements	4,199	-	-	4,199
<b>Total capital assets</b>	<b>107,388</b>	<b>4,420</b>	<b>(5,955)</b>	<b>105,509</b>
Less accumulated				
Depreciation for:				
Furniture	(47,876)	(9,048)	5,313	(51,611)
Software	(36,720)	(864)	986	(36,598)
Leasehold improvements	(4,199)	-	-	(4,199)
<b>Total accumulated depreciation</b>	<b>(88,795)</b>	<b>(9,912)</b>	<b>6,299</b>	<b>(92,408)</b>
<b>Capital assets, net</b>	<b>\$ 18,593</b>	<b>\$ (5,492)</b>	<b>\$ -</b>	<b>\$ 13,101</b>

Depreciation expense for the year ended June 30, 2003 was \$9,912.

### 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 which can not practically be invested to benefit the owner of the funds. 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, 2003, net of rescissions, amounted to \$7,103,596.

During May 2003, the Board recommended, and the Supreme Court of Pennsylvania approved, \$6,416,000 in grants for the grant year July 1, 2003 through June 30, 2004.

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## NOTES TO FINANCIAL STATEMENTS

### 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 \$45,346 as a result of the appeal during the year ended June 30, 2003.

During May 2003, the Board recommended and the Supreme Court of Pennsylvania approved \$26,151 in Pro Bono grants for the grant period July 1, 2003 through June 30, 2004.

### 6. ACCESS TO JUSTICE REVENUE AND GRANT EXPENSES

With the passage of Act 122 in 2002, an additional fee of \$10, starting November 1, 2002, was authorized to be charged and collected by prothonotaries, clerks of courts, clerks of orphans' courts, registers of wills, recorders of deeds, and the minor judiciary including district justices, Philadelphia Municipal Court, Philadelphia Traffic Court, and Pittsburgh Magistrates Court, on certain civil and criminal courthouse filings. In criminal matters the additional fee is collected if a conviction is obtained or a guilty plea is entered. Proceeds from the additional fees are transferred by the collecting authority to the Pennsylvania Department of Revenue for deposit into either the Judicial Computer System Augmentation Account (JCSAA) or the Access to Justice Account (AJA). The split of the collections between the two accounts is as follows:

<u>Fiscal Years Ending June 30:</u>	<u>JCSAA</u>	<u>AJA</u>
2003	90%	10%
2004	85%	15%
2005	85%	15%
2006, and thereafter	80%	20%

The AJA is scheduled to sunset on November 1, 2007. Funds in the AJA are distributed annually to the Pennsylvania Interest on Lawyers Trust Account Board for the provision of civil legal assistance for the Commonwealth's poor. The Board earned collections totaling \$2,942,829 relating to the AJA during the year ended June 30, 2003, of which \$2,237,444 was available for appropriation for the July 1, 2003 to June 30, 2004 fiscal year.

During May 2003, the Board recommended, and the Supreme Court of Pennsylvania approved, \$2,140,444 in grants to Pennsylvania Legal Services for the grant period July 1, 2003 through June 30, 2004.

### 7. LEASES

The Board leases office space in Harrisburg under a two year operating lease. Lease expense for the year ended June 30, 2003 amounted to \$21,328. Minimum amounts payable under the lease of \$17,774 are due for the year ending June 30, 2004.

**SUPPLEMENTARY INFORMATION**

**PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

**DETAILED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

YEAR ENDED JUNE 30, 2003

	General	Access to Justice	Pro Bono Initiative	Property	Total
Operating revenues					
IOLTA interest, net of service charges of \$240,315	\$ 5,879,267	\$ -	\$ -	\$ -	\$ 5,879,267
Access to Justice fees	-	2,942,829	-	-	2,942,829
Total operating revenues	5,879,267	2,942,829	-	-	8,822,096
Operating expenses					
Program administration	439,044	15,061	-	9,912	464,017
Grant awards					
Legal Service Organizations	5,356,000	-	-	-	5,356,000
Law Schools	1,649,861	-	-	-	1,649,861
Pro bono grants	-	-	97,735	-	97,735
Total grant awards	7,005,861	-	97,735	-	7,103,596
Total operating expenses	7,444,905	15,061	97,735	9,912	7,567,613
Operating income (loss)	(1,565,638)	2,927,768	(97,735)	(9,912)	1,254,483
Non-operating revenues					
Contributions	-	-	45,752	-	45,752
Interest	8,794	-	-	-	8,794
Total non-operating revenues	8,794	-	45,752	-	54,546
Change in net assets	(1,556,844)	2,927,768	(51,983)	(9,912)	1,309,029
Reclassification of net assets					
Acquisition of property	(4,420)	-	-	4,420	-
Net assets - beginning	2,458,368	-	111,555	18,593	2,588,516
Net assets - ending	\$ 897,104	\$ 2,927,768	\$ 59,572	\$ 13,101	\$ 3,897,545

**PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

**SCHEDULE OF PROGRAM ADMINISTRATION EXPENSES AND PROPERTY ACQUISITIONS - BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2003

	Budget (Unaudited)	General	Access to Justice	Property
Program administration expenses				
Personnel				
Wages	\$ 233,371	\$ 226,604	\$ 10,686	\$ -
Fringe benefits	84,279	70,447	2,510	-
Total personnel	317,650	297,051	\$ 13,196	-
Operating				
Advertising	250	-	-	-
Consultants and contract services	41,000	59,648	1,865	-
Office supplies	9,000	7,506	-	-
Postage	2,500	2,562	-	-
Printing and publications	10,000	8,135	-	-
Rent	24,000	21,328	-	-
Telephone	6,000	3,432	-	-
Temporary help	600	599	-	-
Travel - staff and board	15,000	15,500	-	-
Depreciation	11,000	-	-	9,912
Insurance	4,000	6,484	-	-
Equipment Maintenance	8,500	16,143	-	-
Other	500	656	-	-
Total operations	132,350	141,993	1,865	9,912
Total program administration expenses	\$ 450,000	\$ 439,044	\$ 15,061	\$ 9,912
Property acquisitions				
Equipment and software purchased	\$ 40,000	\$ 4,420	\$ -	\$ -

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## SCHEDULE OF GRANT RECIPIENTS

YEAR ENDED JUNE 30, 2003

Legal Service Organizations	\$	13,200
Aids Law Project		39,000
Allegheny County Bar Foundation		19,000
Allegheny County CASA Program		15,000
Allegheny County Mental Health Legal Services		25,000
Commonwealth Advocacy Project		33,000
Community Legal Services		20,000
Consumer Bankruptcy Assistance Project		17,600
Disabilities Law Project		17,600
Education Law Center		162,200
Friends of Farmworkers		13,000
HIAS & Council Migration Services of Philadelphia		10,000
Homeless Advocacy Project		14,900
Juvenile Law Project		12,000
Lackawanna Pro Bono, Inc.		34,000
Legal Aid of Southeast PA		49,000
Legal Aid Society of Pittsburgh		19,000
Legal Clinic for the Disabled		58,000
Legal Services of Southwestern PA		25,700
Lewisburg Prison Project		37,300
MidPenn Legal Services		81,000
North Penn Legal Services		23,000
Northwestern Legal Services		35,200
PA Health Law Project		25,000
PA Immigration Resource Center		4,390,000
Pennsylvania Legal Services		5,000
Philadelphia Legal Assistance		5,000
Philadelphia Volunteer Lawyers for the Arts		37,000
Philadelphia Volunteers for the Indigent Program		20,000
Protection from Abuse Coordinated Services, Inc.		15,000
Public Interest Law Center of Philadelphia		11,300
Regional Housing Legal Services		15,500
Senior Citizens Judicare		32,000
Support Center Child Advocates		19,000
Westmoreland Bar Foundation		7,500
Women Against Abuse Legal Center		
Total Legal Service Organizations		<u>5,356,000</u>

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## SCHEDULE OF GRANT RECIPIENTS (Cont'd)

YEAR ENDED JUNE 30, 2003

Law schools	
Pennsylvania State University - Dickinson School of Law	191,827
Duquesne University	250,000
Temple University	250,000
University of Pennsylvania	250,000
University of Pittsburgh	250,000
Villanova University	250,000
Widener University	208,034
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Total law schools	1,649,861
Pro Bono Grants	
Bedford County Bar Association	9,000
Lackawanna Pro Bono, Inc.	4,125
Laurel Legal Services	15,000
Legal Aid of Luzerne County	39,610
Legal Aid of Southeastern PA	20,000
Washington County Bar Association	10,000
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Total Pro Bono Grants	97,735
	<hr/>
Total grants	<u>\$ 7,103,596</u>