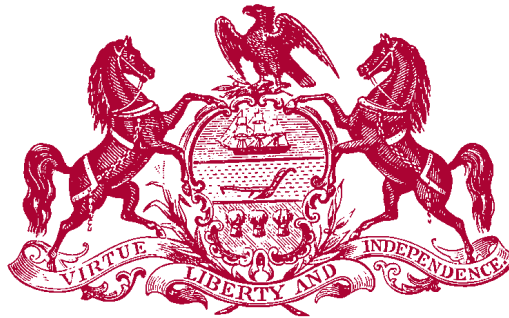


# IOLTA

## ANNUAL REPORT 2011



Supreme Court of Pennsylvania  
Pennsylvania Interest on  
Lawyers Trust Account Board

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# WHO IS HELPED

The Pennsylvania IOLTA Board awards grants to legal services organizations, pro bono programs, and law schools which in turn provide a wide variety of civil legal assistance to those without the financial means to retain legal counsel. Below are glimpses into the type of help that is provided by those organizations and programs.

Mr. J came to Legal Aid after an ejection notice had been served on him by the bank which had recently purchased his home at a sheriff's sale after a judgment in foreclosure had been granted by the court. Legal Aid reviewed the foreclosure records and discovered that the attorney in the foreclosure proceeding failed to provide the client with the required notice of the County Court's Mortgage Diversion Program. Legal Aid filed a motion to set aside the sheriff's sale and the bank agreed to vacate the judgment. When the client went to the Diversion Counseling session he qualified for mortgage assistance which refinanced his loan into an affordable monthly payment, enabling him to keep his home.

Miss B, a mother of two minor children ages 6 years and 2 years, lived with the children's father. The father punched Miss B in the face several times, pulled her hair, kicked her with his steel-toed boots, then forced her and the two minor children into his car. Father sped off at a high rate of speed and told Miss B he was going to kill her. Father pulled the car over when he saw police lights, got out and began running. Miss B was then able to drive to safety. Father, who had been recently released from prison and on bail, had been charged with several crimes. Legal Aid helped Miss B get an Order protecting her and the children as well as evicting father from the home. Miss B reports that the children are just starting to feel safe again.

Mr. A, a disabled single man with a severe heart condition, went without natural gas service for more than 16 months (which was necessary for heat, hot water and cooking) due to inability to pay, and was forced to abandon his home. After his fourth heart attack, he contacted Legal Aid, which negotiated with the utility company, helped Mr. A obtain a medical certificate, obtain a hardship fund grant from LIHEAP, and entry into the utility company's customer assistance program. Mr. A's gas service was restored, he returned home, and his outstanding balance and future monthly gas payments were greatly reduced.

Ms. H, a cleaner at a college dormitory building, had not been paid for three weeks before she came to Legal Aid which successfully applied pressure on her employer, a subcontractor to the college, until Ms. H was paid her back wages owed to her plus a penalty of \$300.

Mrs. M, a 46-year-old woman, who despite recently having had surgery, chemotherapy, and radiation because of breast cancer, was without health insurance. She had recently separated from her husband, who removed her from his employer-based health insurance. Legal Aid initially advised Mrs. M on how to apply for Medical Assistance under a special eligibility program for persons with breast cancer. After learning a month later that the Welfare Department had not correctly processed Mrs. M's application and was requesting she provide them with irrelevant information, Legal Aid made multiple phone calls to the state and county assistance offices, ensuring Mrs. M was finally approved for Medical Assistance and mailed the insurance card she needed.

# THE PENNSYLVANIA IOLTA BOARD

The Pennsylvania IOLTA Board operates under the jurisdiction of the Supreme Court of Pennsylvania. Primarily, it collects and manages funds from several sources, and annually awards grants to non-profit organizations, law school clinical and internship programs, and pro bono programs that provide civil legal assistance to persons who cannot afford to engage private legal counsel. Pro bono is the provision of legal assistance for the public good, that is, the provision of service by the attorney without the expectation of a fee.

On July 17, 1996, the Supreme Court of Pennsylvania issued a directive that replaced the voluntary IOLTA program, which had been created by Act 59 of 1988, with its own mandatory IOLTA program. The Court's Pennsylvania Interest on Lawyers Trust Account Board (IOLTA Board) is governed by a nine member Board of Directors. All nine members are appointed by the Supreme Court of Pennsylvania. Each member is appointed to a three year term and no member may serve more than two consecutive three year terms. The Supreme Court appoints the Chairman. Members of the IOLTA Board at June 30, 2011 were:

William T. Hangley, Esquire  
Philadelphia, PA  
Chair

Penina Kessler Lieber, Esquire  
Pittsburgh, PA  
Vice-Chair

Michele Goldfarb, Esquire  
Philadelphia, PA

James C. Schwartzman, Esquire  
Philadelphia, PA

Justin M. Johnson, Esquire  
Pittsburgh, PA

Andrew Susko, Esquire  
Philadelphia, PA

Kathy M. Manderino, Esquire  
Philadelphia, PA

Hon. Margherita Patti Worthington  
Stroudsburg, PA

Bryan S. Neft, Esquire  
Pittsburgh, PA

# GRANTS

## LEGAL SERVICES ORGANIZATIONS.

**Pennsylvania Legal Aid Network.** The Pennsylvania IOLTA Board distributed \$12,510,958 or about 86% of the grant funds it had available for legal services organizations to the Pennsylvania Legal Aid Network (PLAN, Inc.), formerly Pennsylvania Legal Services, to supplement the funding of civil legal aid throughout the state. Of this amount, \$10,770,080 is derived from the Access to Justice Act, and \$1,740,878 from other IOLTA administered funds. PLAN, Inc. is an administrative and support agency that also receives annually-appropriated Commonwealth and federal block grant funding through a contract with the Pennsylvania Department of Welfare. Except for funds to cover its own administrative and support budget, the PLAN, Inc. subcontracts all the funding to eight legal aid organizations that provide a full range of civil legal aid for the indigent and abused, and to six projects focused on specialized areas of the law, or on clients with special needs. This statewide network of organizations is referred to as the Pennsylvania Legal Aid Network (PLAN). For the fiscal year ended June 30, 2011, the PLAN, Inc. handled 104,329 cases, maintained 73 offices, employed 276 attorneys and 111 paralegals, and from all sources was funded at about \$53.6 million dollars (and additionally received in kind and pro bono support valued at \$5.2 million). The PA IOLTA Board's funding administered through the PLAN, Inc. provided about 23% of the total annual financial funding for the PLAN.

**Zone Grants.** The unmet civil legal needs of the poor are addressed not only by the PLAN, Inc. funded organizations described above, but also by other independent legal services organizations. These other organizations, which are located primarily in the urban areas of the Commonwealth, often target specific areas of the law, help particularly vulnerable client populations, or provide civil legal assistance which the PLAN organizations are restricted from providing because of governmental regulations. Because of their special focus, the organization leaders and supporters exhibit a unique passion for the missions of the organizations. Surveys of the American Bar Association have determined that only 20% of the civil legal needs of the poor are being addressed by legal services organizations and pro bono efforts of attorneys. The IOLTA Board's focus is to attract more support, financial and pro bono volunteers, to help close this gap. The uniqueness of the non-PLAN organizations attract additional support by rallying interest around their special issues or client populations.

Since the Board seeks to assure its grants are geographically disbursed, it provides project or special initiative grants to the PLAN organizations in the rural areas of the Commonwealth to balance the grants made to the non-PLAN organizations in the urban areas.

The Board has a "statewide" zone since some of the non-PLAN organizations offer their services to clients throughout the state. Some of the organizations use statewide toll free

*(continued)*

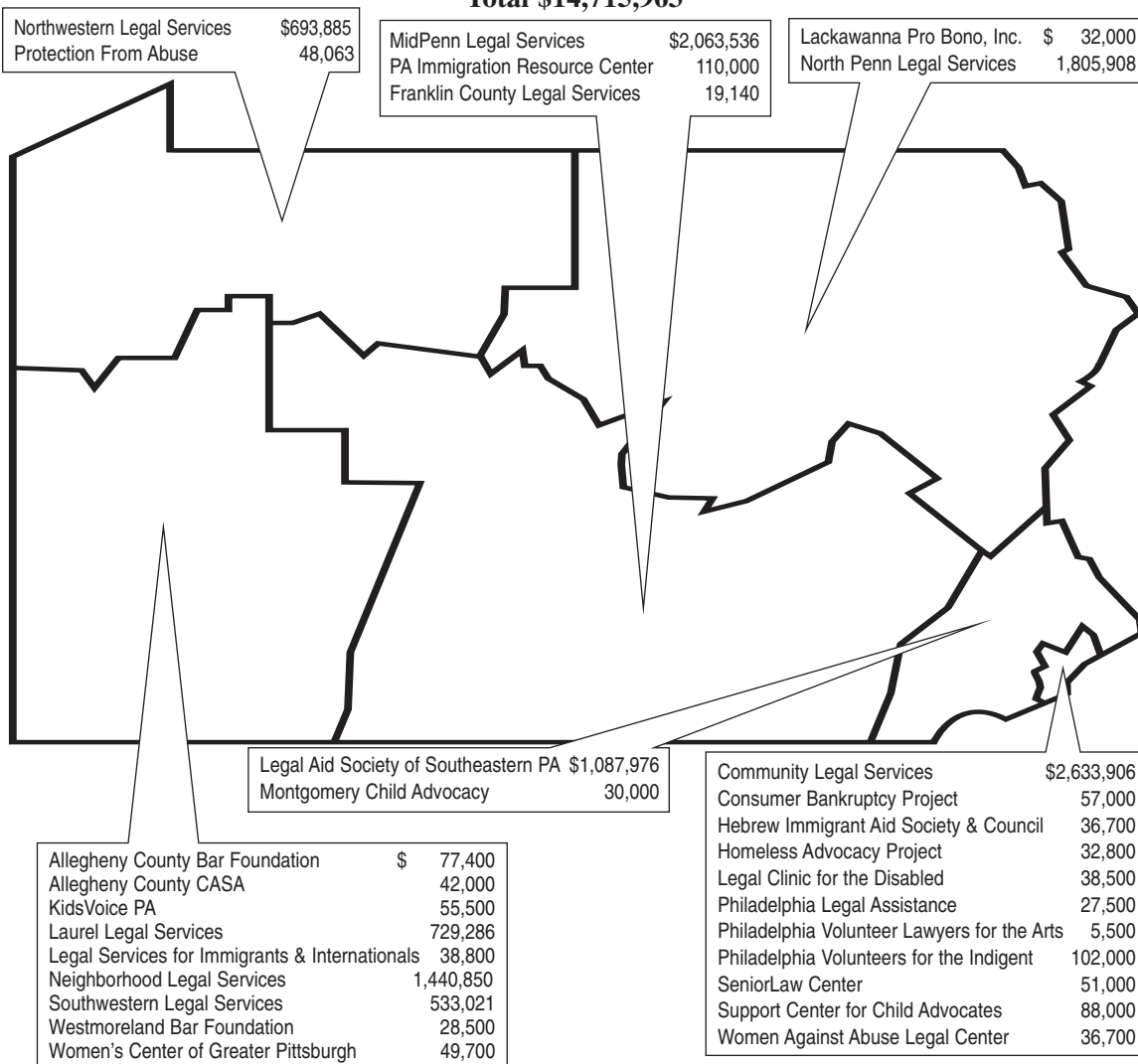
help-lines. Often, advice and counsel can be provided to callers, and if the particular issues of the caller meet the case acceptance criteria of the organization, the client will receive representation on their case, no matter where the caller lives, or where the organization is located.

In addition to general operational support of the non-PLAN organizations, the IOLTA Board's zone grants supported specialized legal service delivery efforts to targeted groups of people such as those most affected by the recession, non-English speaking communities, and victims of domestic violence. Zone grants for the fiscal year ended June 30, 2011 totaled \$2,213,164.

*(continued)*

# “Legal Services Organization Grants”

**Total \$14,715,963**



## STATEWIDE

AIDS Law Project	\$ 36,700	Juvenile Law Center	44,100
Community Justice Project	314,577	PA Health Law Project	243,073
Community Legal Services	143,824	PA Institutional Law Project	450,526
Disability Rights Network PA	51,300	PA Legal Aid Network	594,067
Education Law Center-PA	51,300	Public Interest Law Center	44,100
Friends of Farmworkers	258,073	Regional Housing Legal Services	489,152

(continued)



**Law Schools.** Grants were made to each of the eight law schools operating in Pennsylvania to support clinical and/or internship programs that provided practical skills training for the law student, while also providing civil legal assistance to indigent persons. This allows the students to experience first-hand the dire circumstances many low income persons confront which can often be lessened by civil legal intervention. The exposure helps the students understand the special position attorneys hold in the justice system, and the necessity for all lawyers to provide pro bono services. Law schools must demonstrate that the grant funds are used to address a current civil legal need of the poor and for live-client or other real-life practice experience. The law school must also consult with local area programs that provide free or low-fee civil legal services to the poor, and demonstrate their own financial commitment to the programs funded by the IOLTA grant. Law school grants for the year totaled \$1,599,478.

### Law Schools Grants

School of Law	<u>I O L T A F U N D E D</u>	
	Student Hours in Client Representation	Staff/Faculty Hours in Rep. & Supervision
<b>Pennsylvania State University, Dickinson</b>		
Family Law Clinic	177	35
Elderly Law Clinic	588	612
IOLTA Fellowships	6,996	475
<b>Drexel University</b>		
Civil Litigation Clinics	1,952	594
Pro Bono Projects	3,793	1,455
<b>Duquesne University</b>		
Unemployment Compensation Clinic	952	652
Civil and Family Justice Law Clinic	2,951	1,282
Summer Public Interest Fellowships	1,977	731
<b>University of Pennsylvania</b>		
Sparer Summer Fellowship Program	581	0
Civil Practice Clinic	2,357	2,302
<b>University of Pittsburgh</b>		
Elderly Law Clinic	1,313	147
Health Law Clinic	1,409	204
NLSA Practicum	1,426	880
SPLAS Practicum	834	213
<b>Temple University</b>		
Immigration Law Externship	788	432
Family Law Litigation	1,066	568
Elderly Law Project	389	470
Legal Advocacy of Patients	631	438
<b>Villanova University</b>		
Civil Justice & Farmworkers Clinic	4,690	1,356
Legal Aid Externships	146	0
<b>Widener University</b>		
Civil Law Clinic	2,280	1,678
	<b>37,295</b>	<b>14,525</b>

(continued)

**Pro Bono Initiative.** Pro Bono, as envisioned by this initiative, means the provision of legal assistance to indigent clients without the expectation of any fee for any service rendered by the attorney. Pro bono initiative grants were awarded to support non-profit organizations that provide the administrative and support structure for efforts to mobilize pro bono volunteer attorneys. Pro bono initiative grants for the year totaled \$50,000.

### Pro Bono Initiative Grants

	Grant Amount	Projected Volunteers
Beaver County - NLSA Initiated a pro bono project to offer free legal advice by attorney volunteers in an afternoon clinic setting in partnership with the Neighborhood Legal Services Association office in Bridgewater. NLSA staff attorneys served as resources for the pro bono volunteers.	\$ 6,000	26
Chester County Bar Association Enhanced an existing pro bono program by providing volunteer attorneys with flash drives containing necessary forms and instructions to assist with family law cases in the area of custody and protection from abuse.	\$ 2,500	145
Crawford County Bar Association Developed a collaborative program amongst the county court, bar association and legal aid to serve persons seeking pro bono assistance within the courthouse. Referrals were made to Northwestern Legal Services for representation or to the Bar Association for assignment of a pro bono attorney.	\$ 10,000	25
Cumberland County Bar Association Hired a part-time Pro Bono Coordinator to administer a new pro bono program, which included outreach to attorneys and law firms, coordinating a referral system, developing CLE programs for volunteers, and recognizing pro bono service. The effort included collaboration with MidPenn Legal Services and Penn State Dickinson School of Law.	\$ 12,000	86
Montgomery Child Advocacy Project The Montgomery Pro Bono Committee traveled to 10 counties throughout the state and to conduct half day seminars to educate other counties on launching a pro bono advocacy program for abused and neglected children. Technical assistance was provided to those counties that adopted the special pro bono program.	\$ 10,000	200
Washington County Bar Association Increased the number of participating attorneys in the pro bono and reduced-fee program that provides legal representation for clients involving conflict-of-interest situations for Southwestern Pennsylvania Legal Services.	\$ 9,500,	60

(continued)

**Loan Repayment Assistance Program (LRAP).** The LRAP is administered by the Pennsylvania Bar Foundation (PBF) under a three year grant funded by pro hac vice admission fees. Attorneys employed in good standing with IOLTA funded legal services organizations, who are also in good standing with lenders of their student loans, and who earn annual compensation of \$60,000 or less, are eligible for a LRAP loan. The loans are provided on a calendar year basis, and if the attorney remains in qualified employment through the end of the calendar year, the loan will be forgiven. In the initial year of the LRAP, qualified attorneys could receive a LRAP loan of up to \$3,500.

	<u>2011</u>
Number of Applicants	80
Number of Loans	75
Average Compensation	\$47,553
Average Student Debt	\$90,106
Number of Organizations	25

*(continued)*

# DEPOSITORY INSTITUTION HONOR ROLL

(As of December, 2011)

The **HIGHLIGHTED FINANCIAL INSTITUTIONS** are PLATINUM LEADER BANKS — institutions that go above and beyond eligibility requirements to foster the goals of the IOLTA Program. These institutions pay a net yield of the higher of 1 percent or 75 percent of the Federal Funds Target Rate. They are committed to ensuring the success of the IOLTA program and increased funding for legal aid.

ACNB

**AFFINITY BANK OF PENNSYLVANIA**

Allegent Com. Federal Credit Union

Allegheny Valley Bank of Pittsburgh

Alliance Bank of North America

Alliance Bank

Altoona First Savings Bank

Ambler Savings Bank

**AMERICAN BANK**

**AMERISERV FINANCIAL**

Apollo Trust Co.

Arc Federal Credit Union

Bancorp Bank (The)

Bank of America

Bank of Landisburg

Beaver Valley Federal Credit Union

BELCO Community Credit Union

**BENEFICIAL BANK**

Berkshire Bank

BNY Mellon, N.A.

**BRENTWOOD BANK**

Bryn Mawr Trust Co.

Bucks County Bank

C & G Savings Bank

Capital Bank

Centra Bank

**CENTRIC BANK**

**CHARLEROI FEDERAL SAVINGS BANK**

Chemung Canal Trust Co.

Citibank, N.A.

Citizens and Northern Bank

Citizens Bank of Pennsylvania

Citizens National Bank - Myersdale

**CITY NAT. BANK OF NEW JERSEY**

Clarion County Community Bank

**CLEARFIELD BANK & TRUST CO.**

Clearview Federal Credit Union

CNB Bank

Commercial Bank and Trust of Pennsylvania

Community Bank, N.A.

Community First Bank

Community National Bank of Northwestern PA

Community State Bank of Orbisonia

**CONESTOGA BANK**

Continental Bank

Cresson Community Bank

Customers Bank

Dime Bank (The)

DNB First, N.A.

Dollar Bank

Eagle National Bank

**EAST RIVER BANK**

East Stroudsburg Savings Assoc.

Elderton State Bank

Embassy Bank

Enterprise Bank

Ephrata National Bank (The)

**ESB BANK, F.S.B.**

**ESQUIRE BANK**

Eureka Bank

Farmers & Merchants Trust

Farmers & Merchants Bank of Western PA

Farmers National Bank of Emlenton

Fidelity Bank

Fidelity Deposit & Discount Bank

**FIFTH THIRD BANK**

First Citizens National Bank

First Columbia Bank & Trust Co.

First Commonwealth Bank

First Cornerstone Bank

First Federal of Bucks County

First Federal Savings & Loan Assoc.

of Greene County

**FIRST FEDERAL SAVINGS BANK**

# DEPOSITORY INSTITUTION HONOR ROLL

(As of December, 2011)

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**FIRST KEYSTONE COMMUNITY BANK**  
**FIRST LIBERTY BANK & TRUST**

First Merit Bank, N.A.  
First National Bank & Trust Co. of Newtown  
First National Bank of Fredericksburg  
First National Bank of Mercersburg (The)  
First National Bank of Mifflintown (The)

**FIRST NATIONAL BANK OF**

**MINERSVILLE (THE)**

First National Bank of Palmerton (The)  
First National Bank of Pennsylvania  
First National Bank of Port Allegheny (The)  
First National Community Bank  
First National Community Bank - Midland

First Niagara Bank  
First Priority Bank

**FIRST RESOURCE BANK**

First Savings Bank of Perkasio

**FIRST STAR SAVINGS BANK**

First Summit Bank  
First United National Bank  
Firstrust Bank

Fleetwood Bank

**FNB BANK, N.A.**

Fox Chase Bank  
Franklin Mint Federal Credit Union

**FRANKLIN SECURITY BANK**

**FULTON BANK**

Gateway Bank of Pennsylvania  
Gratz National Bank (The)

**GRAYSTONE TOWER BANK**

Greenville Savings Bank

**HALIFAX BANK**

Hamlin Bank and Trust Co.  
Harleysville Savings Bank  
Home Savings & Loan Co.  
Hometown Bank of PA

Honesdale National Bank (The)  
HSBC Bank of USA

**HUNTINGDON VALLEY BANK**

Huntingdon National Bank

**HYPERION BANK**

Indiana First Savings Bank  
Integrity Bank

**INVESTMENT SAVINGS BANK**

Iron Workers Bank  
Jersey Shore State Bank  
Jim Thorpe National Bank

Jonestown Bank and Trust Co.

**JUNIATA VALLEY BANK (THE)**

Kish Bank

**LAFAYETTE AMBASSADOR BANK**

Landmark Community Bank  
Luzerne National Bank  
M & T Bank

Mainline National Bank

Malvern Federal Savings Bank

Marion Center Bank

Marquette Savings Bank

Mars National Bank (The)

**MARYSVILLE BANK**

Mauch Chunk Trust Co.

MCS Bank

Mercer County State Bank

Merchants Bank of Bangor (The)

Meridian Bank

Metro Bank

Mid Penn Bank

**MIFFLINBURG BANK & TRUST CO.**

Milestone Bank

Milton Savings Bank

Miners Bank

**MORE BANK**

**MUNCY BANK & TRUST CO.**

# DEPOSITORY INSTITUTION HONOR ROLL

(As of December, 2011)

The **HIGHLIGHTED FINANCIAL INSTITUTIONS** are PLATINUM LEADER BANKS — institutions that go above and beyond eligibility requirements to foster the goals of the IOLTA Program. These institutions pay a net yield of the higher of 1 percent or 75 percent of the Federal Funds Target Rate. They are committed to ensuring the success of the IOLTA program and increased funding for legal aid.

National Penn Bank  
Neffs National Bank (The)  
New Tripoli Bank  
NextTier Bank  
**NORTHUMBERLAND NATIONAL BANK**  
Northwest Savings Bank  
**NOVA BANK**  
OMEGA Federal Credit Union  
Orrstown Bank  
**PARKE BANK**  
Parkvale Bank  
Parkview Community Federal Credit Union  
**PENN LIBERTY BANK**  
Penn Security Bank & Trust Co.  
Pennstar Bank  
PeoplesBank, A Codorus Valley Co.  
Peoples Neighborhood Bank  
Peoples State Bank (The)  
Philadelphia Federal Credit Union  
Phoenixville Federal Bank & Trust  
PNC Bank, N.A.  
Polonia Bank  
Prudential Savings Bank  
QNB Bank  
**RELIANCE BANK**  
Republic First Bank  
Royal Bank America  
S & T Bank  
Scottdale Bank & Trust Co. (The)  
Sharon Savings Bank  
Slovenian Savings & Loan Assoc. of Franklin  
Somerset Trust Co.  
Sovereign Bank, FSB  
**ST. EDMONDS FEDERAL SAVINGS BANK**  
**STANDARD BANK, PASB**  
Stonebridge Bank  
Sun National Bank

SunTrust  
Susquehanna Bank  
**SWINEFORD NATIONAL BANK**  
TD Bank  
**TEAM CAPITAL BANK**  
Third Federal Bank  
Union Bank and Trust Co.  
**UNION NATIONAL BANK**  
**OF MOUNT CARMEL (THE)**  
Union National Community Bank  
United Bank of Philadelphia  
United Savings Bank  
Unity Bank  
Univest National Bank & Trust Co.  
Valley Green Bank  
**VANTAGE POINT BANK**  
Victory Bank  
VIST Financial  
Washington Financial Bank  
Wayne Bank  
Wells Fargo  
WesBanco Bank  
**WEST MILTON STATE BANK**  
West View Savings Bank  
William Penn Bank  
WSFS Bank, FSB  
Woodlands Bank  
Woori America Bank  
York Traditions Bank

# IOLTA FACTS AND FIGURES

	<u>6/30/11</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/07</u>
<b>Attorney Participation</b>					
Attorneys Licensed to Practice in Pennsylvania	62,801	62,257	61,100	60,678	60,530
Estimated Number of Attorneys Eligible to Participate	35,129	34,572	34,874	34,838	34,335
Attorneys Participating	31,318	30,846	31,083	30,732	30,148
Rate of Participation	89%	89%	89%	88%	88%
Compliant Non-participating Attys	2,977	3,085	3,220	3,551	3,730
Rate of Compliance	98%	98%	98%	98%	99%
Estimated Eligible Non- Compliant Attorneys	834	641	571	600	457
<b>Depository Institutions</b>					
Participating Depository Institutions	210	214	216	219(c)	221
Bank Charges as a Percent of IOLTA Revenues	5%	5%	4%	3%	2%
Bank Reported Accounts	13,941	13,658	13,246	12,946	12,781
	<u>7/1/10 -</u>	<u>7/1/09 -</u>	<u>7/1/08 -</u>	<u>7/1/07 -</u>	<u>7/1/06 -</u>
	<u>6/30/11</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/07</u>
<b>Financial</b>					
<b>Revenues</b>					
IOLTA	\$4,084,341	\$4,091,718	\$5,283,264	\$9,998,166	\$12,179,121
Access to Justice Act	\$10,760,087	\$9,368,177	\$8,858,922	\$9,413,589	\$9,690,273
Pro Bono Contributions	\$48,526	\$49,537	\$35,711	\$62,811	\$86,284
Pro Hac Vice	\$413,000	\$260,300	\$203,400	\$119,501	-
Attorney Assesment	\$1,696,400	\$1,507,300	-	-	-
Other	\$28,217	\$37,208	\$101,497	\$517,248	\$625,357
<b>Grant Awards</b>					
Legal Services Organizations	\$14,715,963	\$13,591,131	\$14,581,900	\$22,010,202	\$18,711,550
Law Schools	\$1,599,478	\$1,630,251	\$1,634,847	\$1,195,993	\$1,410,212
Pro Bono Initiative	\$50,000	\$36,393	\$66,700	\$58,468	\$101,374
Loan Repayment Assistance	\$510,000	-	-	-	-
Administrative Expenses	\$696,098	\$633,544	\$685,396	\$575,566	\$471,966
<b>Eligible Clients Served *</b>					
New Cases	19,538	16,565	22,072	30,372	27,224
Handled Cases	27,556	23,878	31,307	40,916	35,783

\* Reflects the case data funded through the PLAN statewide system. Other services also funded by IOLTA are not reflected in the data.

(c) Corrected from original Reporting in 2008 Report.

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities of the Pennsylvania Interest on Lawyers Trust Account Board, a component unit of the Supreme Court of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Pennsylvania Interest on Lawyers Trust Account Board as of June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information on pages 17, 19 and 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary 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, except for the portion marked "unaudited," on which we express no opinion or provide any assurance on, 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.

September 14, 2011

Mechanicsburg, Pennsylvania



**HAMILTON & MUSSER, P.C.**

*Certified Public Accountants • Consultants to Management*



# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

## **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, 2011 with selected comparative information for the fiscal year ending June 30, 2010. This discussion which has been prepared by management, is not audited; 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 eligible 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. However, 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 funds of clients in interest-bearing IOLTA accounts at approved financial institutions. Lawyers who infrequently handle clients' funds can request an exemption from the IOLTA requirements of the RPC 1.15. 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 all of which provide civil legal services free of charge to low-income and disadvantaged Pennsylvania residents.

Until the fiscal year ended June 30, 2003, the IOLTA Board's single major source of revenue had 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 1.15, compliance is and has been nearly 100%.

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# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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 (AJA), 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 5 to the financial statements). The amount of the surcharge that is earmarked for the IOLTA Board is scheduled for legislative review before November 1, 2012 under a sunset provision of the statute. On October 9, 2009, the governor signed into law a temporary increase in the AJA filing fee surcharge. An additional \$1 was added to the existing surcharge on all civil filings, as well as the recording of deeds and mortgages and their related filings, and criminal filings where a conviction, guilty plea or Accelerated Rehabilitative Disposition (ARD) is obtained. However, unlike the regular AJA surcharge, the \$1 additional temporary surcharge is not applied to traffic citations. The temporary fee was implemented December 9, 2009 and was scheduled to expire on January 8, 2012. On July 7, 2011 the expiration date of the temporary surcharge was extended to December 31, 2014. The combined regular plus the temporary surcharges raised \$10.8 million during the fiscal year ending June 30, 2011.

Effective February 1, 2005, the Supreme Court of Pennsylvania required judicial officials of the Minor Judiciary to establish IOLTA-like accounts for their custodial accounts. The program is referred to as the Minor Judiciary Interest on Trust Accounts (MJ-IOTA) program. The MJ-IOTA program is similar to the IOLTA program. Judicial officials maintain custodial accounts to hold the collection of fees and fines, collateral and cash bonds, restitution for victims of crime and other similar amounts, until the funds are ultimately transferred to the owners. Essentially, all of the funds handled by the minor judiciary are qualified funds, that is, funds which are nominal in amount or will be held for a short period of time.

Effective September 4, 2007, an admission fee of \$100 per case applicable to each out-of-state attorney who wished to appear in a Pennsylvania Court was established. The pro hac vice admission fee was increased to \$200 per case, per attorney effective September 24, 2010. The admission fee proceeds averaged about \$34,400 monthly for the fiscal year ending June 30, 2011, and are used to fund a Loan Repayment Assistance Program (LRAP) that provides forgivable loans to eligible attorneys employed by qualified legal services organizations. The loans are forgiven annually if the attorney remains in qualified employment.

Effective April 2, 2009, Rule of Professional Conduct 1.15 was amended to increase the annual attorney registration fee assessment by \$25, with the increased amount

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# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

dedicated to help fund the mission of the IOLTA Board. The increase was implemented with the 2009-2010 assessment year, and raises approximately \$1.5 million annually. The funding is available to the IOLTA Board until further order of the Court directs otherwise.

The IOLTA Board also receives some limited annual funding from voluntary contributions from lawyers. A solicitation is made for contributions to support the establishment or expansion of organized pro bono representation for indigent Pennsylvania residents by lawyers in private practice. Pro bono representation is the provision of legal assistance for the public good 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 receives the needed legal help. As a result, legal assistance is often rationed to those whose needs are determined the greatest, such as victims of domestic violence, tenants and homeowners facing the loss of housing, and families facing the loss of income.

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.

The IOLTA Board also seeks to increase the amount of revenue it has available for such grants. Finally, the IOLTA Board monitors lawyer and financial institution compliance with the IOLTA requirements of RPC 1.15.

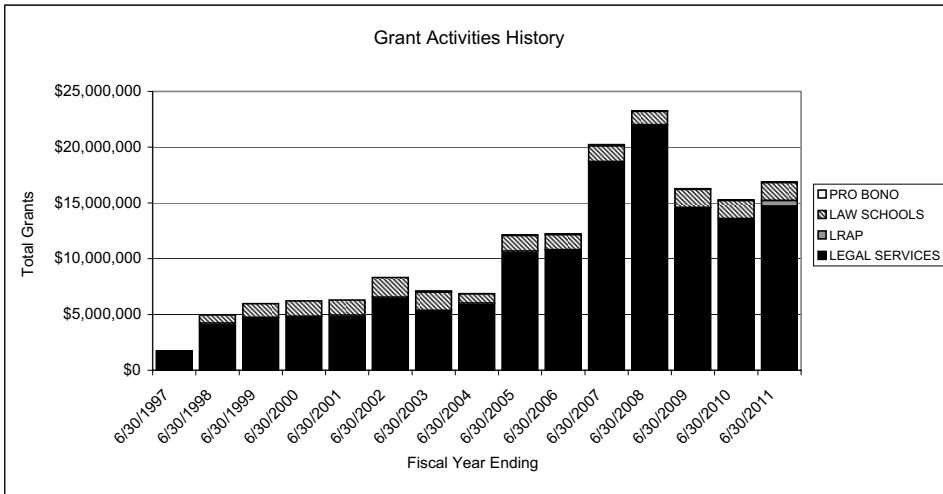
#### ***Overall Grant Activities***

Since the inception of the IOLTA Board in Pennsylvania through June 30, 2011, about \$179.4 million of grants have been awarded (about \$163.7 million of which was awarded while the IOLTA Board was under the jurisdiction of the Supreme Court). As can be observed from the graph displaying the grant funding history, while the IOLTA Board was under the jurisdiction of the Supreme Court, grants have generally increased over the years. Significantly reduced interest rates as a result of the "great recession of 2008" however, have caused a significant reduction in grants in recent years.

*(continued)*

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010



Since the IOLTA Board came under the jurisdiction of the Supreme Court of PA, most grants, \$143.4 million, have gone to legal services organizations, almost \$19.2 million to law school clinical and externship programs, and about \$541,100 to establish or expand pro bono efforts.

These grants over the years have been funded \$91.1 million from the IOLTA funding stream, \$66.9 million from the AJA fees, \$4.6 million from Court funding, and \$.5 million from private contributions (see Grant Funding History graph).

## Revenue Enhancement

The Pennsylvania legislature passed, and the governor signed, an extension of the expiration of the temporary increase in the filing fee surcharge which helps fund civil legal assistance. The temporary fee which was implemented December 9, 2009, was extended in July, 2011 and will now expire on December 31, 2014.

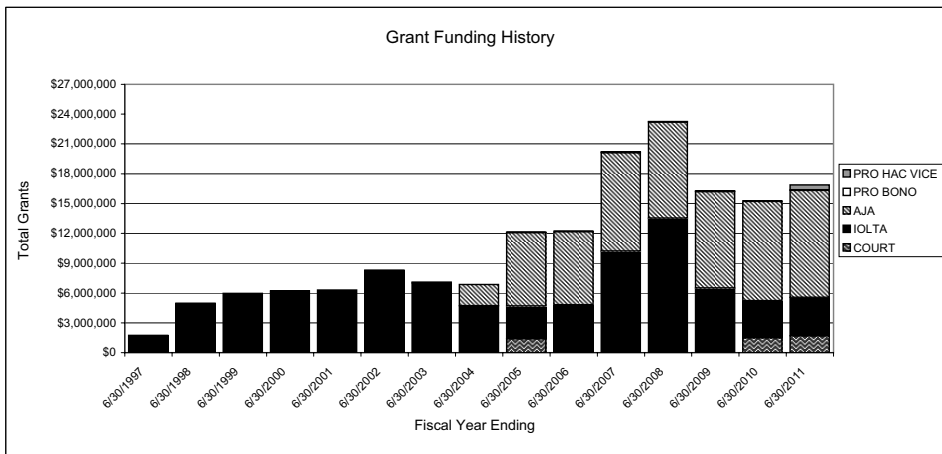
## Performance Audit

The Access to Justice Act required that a performance audit be conducted by the Pennsylvania Legislative Budget and Finance Committee (LB&FC) to develop findings and recommendations regarding the continuing justification for the activities and financial support provided by the act. The LB&FC conducted its audit and released its report in May, 2011. The full

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010



report is posted on the IOLTA Board's website at [www.paiolta.org](http://www.paiolta.org). Its two recommendations were that the General Assembly consider making the Access to Justice fee and surcharge permanent to provide a more stable funding stream for civil legal aid, and the IOLTA Board and PLAN Inc. develop a follow-up process to determine whether the legal assistance provided by telephone has been effective. It is anticipated the General Assembly will consider the first recommendation during its next legislative session. Plans are being developed by the IOLTA Board and PLAN Inc. to review the effectiveness of legal assistance provided by telephone and a report on those findings is anticipated in the spring of 2012.

## *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 reviews trust account information lawyers report to the Disciplinary Board of the Supreme Court of Pennsylvania to locate IOLTA accounts established by lawyers at their financial institutions but not being reported to the IOLTA Board by the financial institutions. Contact also is made with lawyers who report trust accounts that should be established as IOLTA accounts, but which have not yet been so established by the lawyer.

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

## COMMENTS ON FINANCIAL STATEMENTS

Condensed financial data extracted from the basic financial statements for the fiscal years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Capital assets	\$ 141,072	\$ 92,280
Other assets	<u>14,700,745</u>	<u>14,934,157</u>
Total assets	<u>\$ 14,841,817</u>	<u>\$15,026,437</u>
Total current liabilities	\$ 626,408	\$ 270,060
Invested in capital assets	141,072	92,280
Restricted net assets	9,092,897	9,256,665
Unrestricted net assets	<u>4,981,440</u>	<u>5,407,432</u>
Total net assets	<u>14,215,409</u>	<u>14,756,377</u>
Total liabilities and net assets	<u>\$ 14,841,817</u>	<u>\$15,026,437</u>
IOLTA interest, net of service charges	\$ 4,084,341	\$ 4,091,718
Access to Justice fees	<u>10,760,087</u>	<u>9,368,177</u>
Total operating revenues	<u>14,844,428</u>	<u>13,459,895</u>
Program administration	<u>696,098</u>	<u>633,544</u>
Grant awards		
Legal service organizations	14,715,963	13,591,131
Loan Repayment Assistance Program	510,000	—
Law schools	1,599,478	1,630,251
Pro bono grants	<u>50,000</u>	<u>36,393</u>
Total grant awards	<u>16,875,441</u>	<u>15,257,775</u>
Total operating expenses	<u>17,571,539</u>	<u>15,891,319</u>
Total non-operating revenues	<u>2,186,143</u>	<u>1,854,345</u>
Change in net assets	(540,968)	(577,079)
Net assets - July 1	<u>14,756,377</u>	<u>15,333,456</u>
Net assets - June 30	<u>\$ 14,215,409</u>	<u>\$14,756,377</u>

*(continued)*

# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

## ***Financial Statement Overview***

As between the reported years, grants were increased by about \$1.6 million, or about 11%. The increase resulted because of the award of prior and current year *pro hac vice* admission fees which were used to establish the Loan Repayment Assistance Program, and the award of an additional one half year's filing fee surcharges collected this year as compared to last year.

## ***Legal Services Organization Grants***

Grants totaling \$14,715,963 and \$13,591,131 were awarded in fiscal years ended June 30, 2011 and 2010 to thirty-seven non-profit organizations that facilitate and/or provide civil legal assistance to the indigent and disadvantaged residents in Pennsylvania. The largest grant this past year, \$12,510,958, was awarded to the Pennsylvania Legal Aid Network, Inc. which is an administrative and support organization that oversees a statewide system of legal aid programs (the Pennsylvania Legal Aid Network) which is staffed by poverty law lawyers. That grant sought to provide general and specialized civil legal assistance in over 23,448 cases for indigent persons in Pennsylvania.

Direct grants were made to some of the organizations of the Pennsylvania Legal Aid Network for special projects aimed at increasing access to legal assistance in targeted legal areas. For example, a state-wide Manufactured Home Park Resident Protection Project helped manufactured home park residents, most of whom live in rural areas and have lower incomes, buy their parks when they are being sold or closed, thus avoiding the possible loss of their homes due to park closures or conversions to other uses. A healthcare focused initiative provided direct representation, community education and advocacy on behalf of 320,000 residents in a 20-county service area enrolled in Medicaid who needed legal assistance when eligibility for this benefit was threatened or when an insurer turned down a prescription from their doctor or refused to pay for medical equipment, therapy or other services.

Grants were also awarded to civil legal service organizations that are specially organized to represent the homeless, disabled, victims of abuse, elderly, or to provide specialized legal help for education, immigration, bankruptcy and other areas.

## ***Law School Clinics and Internship Programs***

Grants were awarded to each of the eight Pennsylvania law schools to help fund clinical programs that provide practical, supervised representational experiences for law students, as well as, civil legal help for the indigent. The total IOLTA grant awards to the law

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# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

schools, net of refunds of grant under-spending from prior years, were \$1,599,478 and \$1,630,251 in fiscal years ended June 30, 2011 and 2010. Each of the Pennsylvania law schools received a grant of \$200,000. Fifteen clinics operated by the law schools received IOLTA grant support. IOLTA support for each clinic ranges from 2% to 99% of the total cost of operating the clinic. Many of the law schools offer externships at poverty law offices for students to provide civil legal representation under the supervision of experienced poverty law practitioners. IOLTA funding supports these externship opportunities, as well. One law school uses the IOLTA grant to fund pro bono projects that support the school's requirement that all students complete at least 50 hours of pro bono service before graduation. At another school, the IOLTA funding supports an award winning unemployment compensation clinic. The law students spent about 37,000 hours in the direct representation of indigent clients in the fiscal year ending June 30, 2011.

## ***Pro Bono Initiative***

This year organized pro bono programs were funded in five counties and one statewide effort at the level of \$50,000, net of refunds of grant under-spending from prior years. The grants were expected to help mobilize nearly 542 lawyer volunteers to provide civil legal assistance for the indigent.

## ***Loan Repayment Assistance Program***

The IOLTA Board awarded a three-year, \$510,000 grant to the Pennsylvania Bar Foundation to administer the IOLTA Loan Repayment Assistance Program (LRAP). The program is funded by admission fees paid by out-of-state attorneys who will petition a Pennsylvania court to enter their appearance pro hac vice. The goal of the LRAP is to assist IOLTA-funded legal services organizations in recruiting and retaining the best and brightest attorneys to serve the civil legal needs of poor Pennsylvanians. In the initial year of operation, 75 legal aid lawyers received a loan which will be forgiven when the lawyer completes a full year of legal aid employment. Eligible lawyers may participate in the LRAP for up to 10 years.



# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

STATEMENTS OF NET ASSETS  
JUNE 30, 2011 AND 2010

## ASSETS

	2011	2010
Current Assets		
Cash and Cash Equivalents		
Restricted to Access to Justice Program	\$ 7,233,047	\$ 7,083,197
Unrestricted	4,882,219	5,170,868
Deferred Compensation Asset (Note 9)	140,804	87,886
Accounts Receivable		
IOLTA Interest	374,311	409,897
Access to Justice	2,062,824	2,171,615
Other	250	6,076
Prepaid Expenses	7,290	4,618
Total Current Assets	14,700,745	14,934,157
Capital Assets (Note 3)	288,353	204,894
Less – Accumulated Depreciation (Note 3)	(147,281)	(112,614)
Total Capital Assets	141,072	92,280
Total Assets	\$ 14,841,817	\$ 15,026,437

## LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 312,020	\$ 24,180
Accrued Expenses	173,484	157,994
Deferred Compensation Liability (Note 9)	140,804	87,886
Deferred Revenue	100	-
Total Current Liabilities	626,408	270,060
Net Assets		
Unrestricted to IOLTA Program	4,378,128	4,705,646
Invested in Capital Assets	141,072	92,280
Restricted to Access to Justice Program	9,092,897	9,256,665
Unrestricted to Pro Bono	117,111	118,585
Unrestricted to Pro Hac Vice	486,201	583,201
Total Net Assets	\$ 14,215,409	\$ 14,756,377
Total Liabilities and Net Assets	\$ 14,841,817	\$ 15,026,437

The Accompanying Notes are an Integral Part of the Financial Statements

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Statements of Revenue, Expenses, and Changes in Net Assets  
For the Years Ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Operating Revenue		
IOLTA Interest, Net of Service Charges of \$219,831 and \$215,053	\$ 4,084,341	\$ 4,091,718
Access to Justice Fees	10,760,087	9,368,177
Total Operating Revenue	14,844,428	13,459,895
Operating Expenses		
Program Administration	696,098	633,544
Grant Awards		
Legal Service Organizations	14,715,963	13,591,131
Law Schools	1,599,478	1,630,251
Pro Bono Grants	50,000	36,393
Loan Repayment Assistance Program	510,000	-
Total Grant Awards	16,875,441	15,257,775
Total Operating Expenses	17,571,539	15,891,319
Operating Income (Loss)	(2,727,111)	(2,431,424)
Non-Operating Revenue		
Pro Bono Initiative Contributions	48,526	49,537
Pro Hac Vice	413,000	260,300
Lawyers Assessment Fees	1,696,400	1,507,300
Other Interest and Service Charges, Net	28,217	37,208
Total Non-Operating Revenue	2,186,143	1,854,345
Change in Net Assets	(540,968)	(577,079)
Net Assets, Beginning of Year	14,756,377	15,333,456
Net Assets, End of Year	\$ 14,215,409	\$ 14,756,377

The Accompanying Notes are an Integral Part of the Financial Statements

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Statements of Cash Flows  
For the Years Ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Cash Flows from Operating Activities		
IOLTA Interest Received	\$ 4,119,927	\$ 4,123,547
Access to Justice Fees Received	10,868,878	17,157,866
Other Cash Receipts	5,926	31,179
Cash Paid to Grant Recipients	(16,626,466)	(15,510,100)
Cash Paid to Suppliers	(181,760)	(273,558)
Cash Paid to Employees	(375,070)	(312,664)
Net Cash and Cash Equivalents Used by Operating Activities	(2,188,565)	5,216,270
Cash Flows from Non-Capital Financing Activities		
Pro Bono Initiative Contributions	48,526	49,537
Pro Hac Vice	413,000	260,300
Lawyers Investment Fees	1,696,400	1,507,300
Other Interest and Service Charges, Net	28,217	37,208
Net Cash and Cash Equivalents Provided by Non-Operating Activities	2,186,143	1,854,345
Cash Flows from Investing Activities		
Purchase of Investments for Deferred Compensation Asset	(52,918)	(31,775)
Acquisitions of Capital Assets	(83,459)	(21,938)
Net Cash and Cash Equivalents Used by Investing Activities	(136,377)	(53,713)
Increase (Decrease) in Cash and Cash Equivalents	(138,799)	7,016,902
Cash and Cash Equivalents, Beginning of Year	12,254,065	5,237,163
Cash and Cash Equivalents, End of Year	\$ 12,115,266	\$ 12,254,065
Reconciliation of Operating Income to Net Cash and Cash Equivalents Used by Operating Activities		
Operating Income	\$ (2,727,111)	\$ (2,431,424)
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Used by Operating Activities		
Depreciation Expense	34,667	30,956
Changes in Assets and Liabilities:		
Accounts Receivable	203,072	7,846,623
Prepaid Expenses	(2,672)	6,270
Accounts Payable	287,840	(280,589)
Accrued Expenses	15,539	44,434
Deferred Revenue	100	-
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	\$ (2,188,565)	\$ 5,216,270

The Accompanying Notes are an Integral Part of the Financial Statements

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2011 and 2010

## 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

### *Organization*

The IOLTA program was established by statute (P.L. 373, No. 59) on April 29, 1988. The statute permitted attorneys to establish IOLTA accounts for qualified funds they handled. On July 17, 1996, the Supreme Court of Pennsylvania suspended the statute and 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 use the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

### *Restricted Resources*

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

### *Accounts Receivable*

Consistent with industry practice among governmental finance entities, the Board uses the reserve method of accounting for bad debts. Under this method, all uncollectible accounts are charged to the allowance account, and bad debt expense is determined by adjusting the balance in the allowance account to a reserve considered reasonable by management.

*(continued)*

# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

## **NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2011 and 2010**

Management determined that all outstanding balances owed at June 30, 2011 and 2010 are collectible and therefore have not established an allowance account.

### ***Estimates***

The preparation of financial statements under the accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### ***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. Grants are expensed at the inception of the specified grant period.

### ***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, five, or seven 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. Unrestricted consists of the net assets of the Board, which are not restricted for any project or other purpose.

### ***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.

*(continued)*

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2011 and 2010

Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverage in fiscal years 2011 or 2010. There were no significant claims in the current year or the two prior years.

## *Revenues and Expenses*

The Board distinguishes between operating and non-operating revenues and expenses. Operating revenues of the Board consist of interest earned on client funds held by Pennsylvania attorneys and fees charged to all Pennsylvania attorneys. Operating expenses include grants to other organizations and program administration expenses, including depreciation. All other revenues and expenses are reported as non-operating.

## *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.

The Board's applicable federal returns for the years ended June 30, 2008, 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after being filed.

## **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 holding cash deposits in demand deposit and money market accounts of Pennsylvania financial institutions.

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to them. The Board does not have a deposit policy for custodial credit risk. Protection of Board cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledged by the institution holding the assets.

The carrying amounts of the Board's deposits were \$12,115,266 and \$12,254,065, and the bank balances were \$12,150,533 and \$12,259,866, for the years ended June 30, 2011 and 2010, respectively.

Total balances are covered by federal depository insurance or by the pledge of securities which provide adequate collateral under the provisions of Act. No. 72.

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# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2011 and 2010

### 3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>6/30/10</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>6/30/11</u>
Furniture and Equipment	\$ 71,322	\$ 4,034	\$ -	\$ 75,356
Software	<u>133,572</u>	<u>79,425</u>	<u>-</u>	<u>212,997</u>
	<u>\$ 204,894</u>	<u>\$ 83,459</u>	<u>\$ -</u>	<u>288,353</u>
Less: Accumulated Depreciation				<u>(147,281)</u>
Capital Assets, Net				<u>\$ 141,072</u>

Capital assets activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>6/30/09</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>6/30/10</u>
Furniture and Equipment	\$ 117,521	\$ -	\$ (46,199)	\$ 71,322
Software	112,016	21,938	(382)	133,572
Leasehold Improvements	<u>4,199</u>	<u>-</u>	<u>(4,199)</u>	<u>-</u>
	<u>\$ 233,736</u>	<u>\$ 21,938</u>	<u>\$ (50,780)</u>	<u>\$ 204,894</u>
Less: Accumulated Depreciation				<u>(112,614)</u>
Capital Assets, Net				<u>\$ 92,280</u>

The useful lives for purposes of computing depreciation are as follows:

Furniture and Equipment	3-7
YearsSoftware	3-5
YearsLeasehold Improvements	5-7 Years

Depreciation expense of \$34,667 and \$30,956 was recorded for the years ended June 30, 2011 and 2010, respectively.

*(continued)*

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2011 and 2010

## 4. IOLTA REVENUE 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. Total grants awarded by the Board, net of rescissions, amounted to \$16,875,441 and \$15,257,775, during the years ended June 30, 2011 and 2010, respectively.

During March 2011, the Board recommended, and during June 2011, the Supreme Court of Pennsylvania approved, a total of \$5,484,217 in grants for the grant year July 1, 2011 through June 30, 2012, which included \$3,884,217 in grants to Pennsylvania legal services organizations and \$1,600,000 in grants to Pennsylvania law school clinical and internship programs.

## 5. 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>
2004	85%	15%
2005	85%	15%
2006	80%	20%
2007 and Thereafter	80%	20%

(continued)



# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2011 and 2010

## **5. ACCESS TO JUSTICE REVENUE AND GRANT EXPENSES *(continued)***

The AJA is scheduled to sunset on November 1, 2012. 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 \$10,760,087 and \$9,368,177 relating to the AJA during the years ended June 30, 2011 and 2010, respectively, of which \$10,733,455 and \$9,247,580 was available for appropriation for the years ended June 30, 2011 and 2010, respectively.

During March 2011, the Board recommended, and during June 2011, the Supreme Court of Pennsylvania approved, \$9,477,000 in grants to Pennsylvania Legal Aid Network, Inc. for the grant period July 1, 2011 through June 30, 2012.

## **6. 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 \$48,526 and \$49,537 as a result of the appeal during the years ended June 30, 2011 and 2010, respectively. Grants to pro bono programs (included in amounts in Note 4) by the Board totaled \$50,000 and \$36,393 during the years ended June 30, 2011 and 2010, respectively.

During March 2011, the Board recommended, and during June 2011, the Supreme Court of Pennsylvania approved \$47,500 in Pro Bono grants for the grant period July 1, 2011 through June 30, 2012.

## **7. LEASES**

The Board entered into an operating lease for its former office space. Rent expenditures were \$0 and \$5,145 for the years ended June 30, 2011 and 2010, respectively. The Board relocated to the Pennsylvania Judicial Center in September 2009. The Board was assessed shared occupancy costs totaling \$34,901 for the year ending June 30, 2011.

## **8. RETIREMENT PLAN**

The Board sponsors a 403(b) retirement plan for employees. There were employer contributions of \$48,068 and \$40,635 to the plan for the years ended June 30, 2011 and 2010, respectively.

## **9. DEFERRED COMPENSATION PLAN**

During the year ended June 30, 2004, the Board entered into a deferred compensation agreement with the Executive Director. The deferred compensation is to be paid to the Executive Director or his heirs in three substantially equal annual installments equal to the

# **PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD**

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2011 and 2010

## **9. DEFERRED COMPENSATION PLAN *(continued)***

fair market value of the assets in the Rabbi Trust as of that date. The Board has funded \$140,804 and \$87,886 for the agreement as of June 30, 2011 and 2010, respectively.

## **10. PRO HAC VICE ADMISSIONS AND GRANTS**

On June 29, 2007, the Supreme Court of Pennsylvania established an admission fee for out-of-state attorneys who wished to make an appearance in a Pennsylvania court. The out-of-state attorneys are not licensed to practice in Pennsylvania, and pro hac vice (PHV) admission allows them to make a limited appearance. PHV is a Latin term meaning “for this particular occasion.” The regulations of the IOLTA Board require each attorney to pay \$200 for each case for which pro hac vice admission is sought. The admission fee covers the attorney for the case of its proceedings in Pennsylvania courts, including through appeals. The PHV proceeds are used to cover the costs of administering the PHV admission process and to supplement the funding of non-profit organizations that provide civil legal assistance to the indigent and disadvantaged, or for similar purposes as authorized by the Supreme Court of Pennsylvania.

During March 2010, the Board recommended, and during June 2010, the Supreme Court of Pennsylvania approved a three-year \$510,000 grant to The Pennsylvania Bar Foundation to be used for a Loan Repayment Assistance Program (LRAP) for the grant period July 1, 2010 through June 30, 2013.

## **11. ADVERTISING**

The Board expenses advertising costs when incurred. Advertising costs totaled \$0 and \$1,608 for the years ended June 30, 2011 and 2010, respectively

## **12. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 14, 2011, which is the date the financial statements were available to be issued.

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

DETAILED SCHEDULE OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	General	Access to Justice	Pro Bono Initiative	Pro Hac Vice	Property	Total 2011	Total 2010
Operating Revenue							
IOLTA Interest, Net of Service Charges of \$221,094 and \$219,831	\$ 4,084,341	\$ -	\$ -	\$ -	\$ -	\$ 4,084,341	\$ 4,091,718
Access to Justice Fees	-	10,760,087	-	-	-	10,760,087	9,368,177
Total Operating Revenue	4,084,341	10,760,087	-	-	-	14,844,428	13,459,895
Operating Expenses							
Program Administration	508,811	152,620	-	-	34,667	696,098	633,544
Grant Awards							
Legal Service Organizations	3,945,883	10,770,080	-	-	-	14,715,963	13,591,131
Law Schools	1599,478	-	-	-	-	1,599,478	1,630,251
Pro Bono Grants	-	-	50,000	-	-	50,000	36,393
Loan Repayment Assistance Program	-	-	-	510,000	-	510,000	-
Total Grant Awards	5,545,361	10,770,080	50,000	510,000	-	16,875,441	15,257,775
Total Operating Expenses	6,054,172	10,922,700	50,000	510,000	34,667	17,571,539	15,891,319
Operating Income (Loss)	(1,969,831)	(162,613)	(50,000)	(510,000)	(34,667)	(2,727,111)	(2,431,424)
Non-Operating Revenue							
Pro Bono Initiative Contributions	-	-	48,526	-	-	48,526	49,537
Pro Hac Vice	-	-	-	413,000	-	413,000	260,300
Lawyers Assessment Fees	1,696,400	-	-	-	-	1,696,400	1,507,300
Other Interest and Service Charges, Net	10,175	18,042	-	-	-	28,217	37,208
Total Non-Operating Revenue	1,706,575	18,042	48,526	413,000	-	2,186,143	1,854,345
Change in Net Assets	(263,256)	(144,571)	(1,474)	(97,000)	(34,667)	(540,968)	(577,079)
Reclassification of Net Assets							
Acquisition of Property	(64,262)	(19,197)	-	-	83,459	-	-
Net Assets, Beginning of Year	4,705,646	9,256,665	118,585	583,201	92,280	14,756,377	15,333,456
Net Assets, End of Year	\$ 4,378,128	\$ 9,092,897	\$ 117,111	\$ 486,201	\$ 141,072	\$ 14,215,409	\$ 14,756,377

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

## SCHEDULE OF PROGRAM ADMINISTRATION EXPENSES AND PROPERTY ACQUISITIONS – BUDGET & ACTUAL

FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Access to Justice</u>	<u>Property</u>	<u>Total</u>	<u>Budget (Unaudited)</u>
Program Administration Expenses					
Personnel					
Wages	\$ 297,999	\$ 91,936	\$ -	\$ 389,935	\$ 389,230
Fringe Benefits	<u>96,828</u>	<u>27,231</u>	<u>-</u>	<u>124,059</u>	<u>118,018</u>
Total Personnel	<u>394,827</u>	<u>119,167</u>	<u>-</u>	<u>513,994</u>	<u>507,248</u>
Operating Expenses					
Advertising	-	-	-	-	2,000
Consultants & Contract Services	31,317	9,355	-	40,672	45,810
Office Supplies	6,632	1,981	-	8,613	14,880
Postage	3,906	1,166	-	5,072	4,800
Printing and Promotion	5,308	992	-	6,300	16,000
Rent	26,874	8,027	-	34,901	36,880
Telephone	3,606	1,078	-	4,684	7,200
Travel & Meetings	24,496	7,317	-	31,813	30,100
Depreciation	-	-	34,667	34,667	45,000
Insurance	6,003	1,793	-	7,796	12,166
Other	<u>5,842</u>	<u>1,744</u>	<u>-</u>	<u>7,586</u>	<u>4,700</u>
Total Operating Expenses	<u>113,984</u>	<u>33,453</u>	<u>34,667</u>	<u>182,104</u>	<u>219,536</u>
Total Program Administration Expenses	<u>\$ 508,811</u>	<u>\$ 152,620</u>	<u>\$ 34,667</u>	<u>\$ 696,098</u>	<u>\$ 726,784</u>
Property Acquisitions					
Furniture, Equipment & Leaseholds Purchased	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,459</u>	<u>\$ 83,459</u>	<u>\$ 130,000</u>

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

SCHEDULES OF GRANT RECIPIENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Legal Service Organizations		
Aids Law Project	\$ 36,700	\$ 35,300
Allegheny County Bar Foundation	77,400	42,200
CASA of Allegheny County	42,000	36,100
Community Impact Legal Services	-	21,000
Community Justice Project	36,910	-
Community Legal Services of Philadelphia	59,500	57,900
Consumer Bankruptcy Assistance Project	57,000	45,000
Disability Rights Network of PA	51,300	49,300
Education Law Center	51,300	49,300
Equality Advocates Pennsylvania	-	5,300
Franklin County Legal Services	19,140	17,400
HIAS & Council Migration Services of Philadelphia	36,700	32,200
Homeless Advocacy Project	32,800	27,400
Juvenile Law Center	44,100	42,400
Kids Voice Pennsylvania, Inc.	55,500	48,100
Lackawanna Pro Bono, Inc.	32,000	27,600
Laurel Legal Services, Inc.	60,000	57,700
Legal Aid of Southeastern PA	145,000	107,000
Legal Clinic for the Disabled, Inc.	38,500	33,800
Legal Services for Immigrants and Internationals	38,800	34,300
Mid-Penn Legal Services	177,450	150,600
Montgomery Child Advocacy Project	30,000	21,000
Neighborhood Legal Services Association	60,000	57,700
North Penn Legal Services	260,000	262,500
Northwestern Legal Services	61,842	61,564
PA Immigration Resource Center	110,000	86,600
Pennsylvania Legal Aid Network, Inc.	12,510,958	11,707,667
Philadelphia Legal Assistance Center, Inc.	27,500	24,100
Philadelphia Volunteer Lawyers for the Arts	5,500	4,800
Philadelphia Volunteers for the Indigent Program	102,000	85,200
Protection from Abuse Coordinated Services, Inc.	48,063	38,800
Public Interest Law Center of Philadelphia	44,100	42,400
Regional Housing Legal Services	50,000	-
Senior Law Center	51,000	43,500
Southwestern Pennsylvania Legal Services, Inc.	60,000	57,700
Support Center Child Advocates	88,000	77,100
Westmoreland Bar Foundation	28,500	25,600
Women Against Abuse Legal Center	36,700	32,200
Women's Center & Shelter Civil Law Project	49,700	42,800
Total Legal Services Organizations	\$ 14,715,963	\$ 13,591,131

(continued)

# PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

SCHEDULES OF GRANT RECIPIENTS – CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<b>2011</b>	<b>2010</b>
<b>Law Schools</b>		
Pennsylvania State University, Dickinson School of Law	\$ 200,000	\$ 200,000
Drexel University, Earle Mack School of Law	200,000	233,036
Duquesne University School of Law	199,478	197,215
Temple University, Beasley School of Law	200,000	200,000
University of Pennsylvania School of Law	200,000	200,000
University of Pittsburgh School of Law	200,000	200,000
Villanova University School of Law	200,000	200,000
Widener University School of Law	200,000	200,000
Total Law Schools	\$ 1,599,478	\$ 1,630,251
<b>Pro Bono Grants</b>		
Beaver County – NLSA	\$ 6,000	\$ -
Blair County Bar Association	-	(5,157)
Chester County Bar Association	2,500	5,000
Crawford County Bar Association	10,000	-
Cumberland County Bar Association	12,000	-
Monroe County Bar Association	-	2,500
Montgomery Child Advocacy Project	10,000	-
Neysa C. Adams Pro Se Assistance and Mediation Clinic	-	15,000
Pennsylvania Bar Association	-	22,050
Susquehanna University	-	(15,000)
Washington County Bar Association	9,500	12,000
Total Pro Bono Grants	\$ 50,000	\$ 36,393
Loan Repayment Assistance Program	\$ 510,000	\$ -
Total Grant Awards	\$ 16,875,441	\$ 15,257,775







