

IOLTA

ANNUAL REPORT 2012



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.

Jacob was nine when police responded to an anonymous call about a little boy wandering alone in a Wal-Mart parking lot. His mother and her boyfriend were not home at the run-down trailer where they had been living with Jacob, so police took him to the local County Children & Youth Services (“CYS”). An attorney from North Penn Legal Services (“NPLS”) served as Guardian Ad Litem for Jacob. Jacob knew his father lived in Ohio, but he had lost track of him because Jacob and his mother moved constantly. Jacob’s father turned out to be a ready, willing and able parent. Jacob was bright and energetic, but lacked simple skills like telling time and counting. A psychological educational evaluation demonstrated that Jacob’s only learning disability was his inconsistency in education. He had attended ten schools in six different states. An Individualized Education Program (“IEP”) and extra help would get him back on track. Thanks to his advocate at NPLS, Jacob now lives in Ohio with his father, stepmother and biological sister and will get extra help in reading and writing during third grade.

Mrs. B worked as a secretary at the daycare run by a Reverend from her church. When he instructed her to sign forms for “a loan for the daycare,” Mrs. B was completely unaware that he had tricked her into signing for a \$112,000 mortgage on her own home. Her home went into foreclosure, and the Reverend forged bankruptcy documents in order to hide the default judgment set against her and to delay a sheriff’s sale. Creditors revealed that he used Mrs. B’s money to buy a new car, among other luxuries. By the time Mrs. B began to receive sheriff’s sale notices and came to Community Legal Services (“CLS”) for help, she was three years post-judgment— too late for most courts. CLS fought a near-impossible “uphill” battle and got Mrs. B’s previous judgment set aside, ultimately had the foreclosure dismissed and saved Mrs. B’s house from sheriff’s sale. CLS is still working to eliminate the unbearable mortgage, but Mrs. B no longer lives in fear of being homeless.

A MidPenn Legal Services attorney spoke with a woman from Chambersburg whose electric service had been terminated by the Borough of Chambersburg. According to the client’s lease, she is responsible to pay for the electric, and the client had been making payments for the electric usage to her landlord at his request, but he had not made any payments to the Borough since December, which caused them to terminate the client’s electric service. The client has 3-month-old twins with breathing difficulties and needed the electricity restored quickly as she needed to use a machine that provides breathing treatments for the children. The MPLS attorney contacted the Borough office and got them to agree that the Utility Service Tenants Rights Act applied and that the client could pay for the last 30 days of usage (\$191.56) and have service restored, which she did.

Mr. R was an elderly client with renal cancer and several other medical problems. He was having trouble with nutrition as all his extra money was going into paying his co-pays for medical expenses. When he applied for food stamps, he was notified that he would receive only \$16.00 a month, based on his income. He appealed and came to Legal Aid of Southeastern Pennsylvania (“LASP”) for help. A LASP advocate was able to intervene in the appeal. By providing proof of all of Mr. R’s medical expenses to the county assistance case workers, his food stamps were raised to \$106.00 and he was given 3 months back coverage, enabling him to purchase more nutritious food, and taking away his worry of how to make ends meet.

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, 2012 were:

Penina Kessler Lieber, Esquire
Pittsburgh, PA
Chair

Andrew F. Susko, Esquire
Philadelphia, PA
Vice-Chair

Hon. Justin M. Johnson
Pittsburgh, PA

James C. Schwartzman, Esquire
Philadelphia, PA

Hon. Kathy M. Manderino
Philadelphia, PA

Hon. Margherita Patti Worthington
Stroudsburg, PA

Bryan S. Neft, Esquire
Pittsburgh, PA

Ourania Papademetriou, Esquire
Philadelphia, PA

(one vacancy)

* Alfred J. Azen
Executive Director

** Mr. Azen served as Executive Director from the inception of the statutory IOLTA program which began January 1989. He retired December, 2012.*

GRANTS

LEGAL SERVICES ORGANIZATIONS.

Pennsylvania Legal Aid Network. The Pennsylvania IOLTA Board distributed \$12,543,471 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, \$10,593,054 is derived from the Access to Justice Act, and \$1,950,417 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, 2012, the PLAN handled 84,253 cases, maintained 67 offices, employed 256 attorneys and 94 paralegals, and from all sources was funded at about \$50.7 million dollars (and additionally received in kind and pro bono support valued at \$4.9 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

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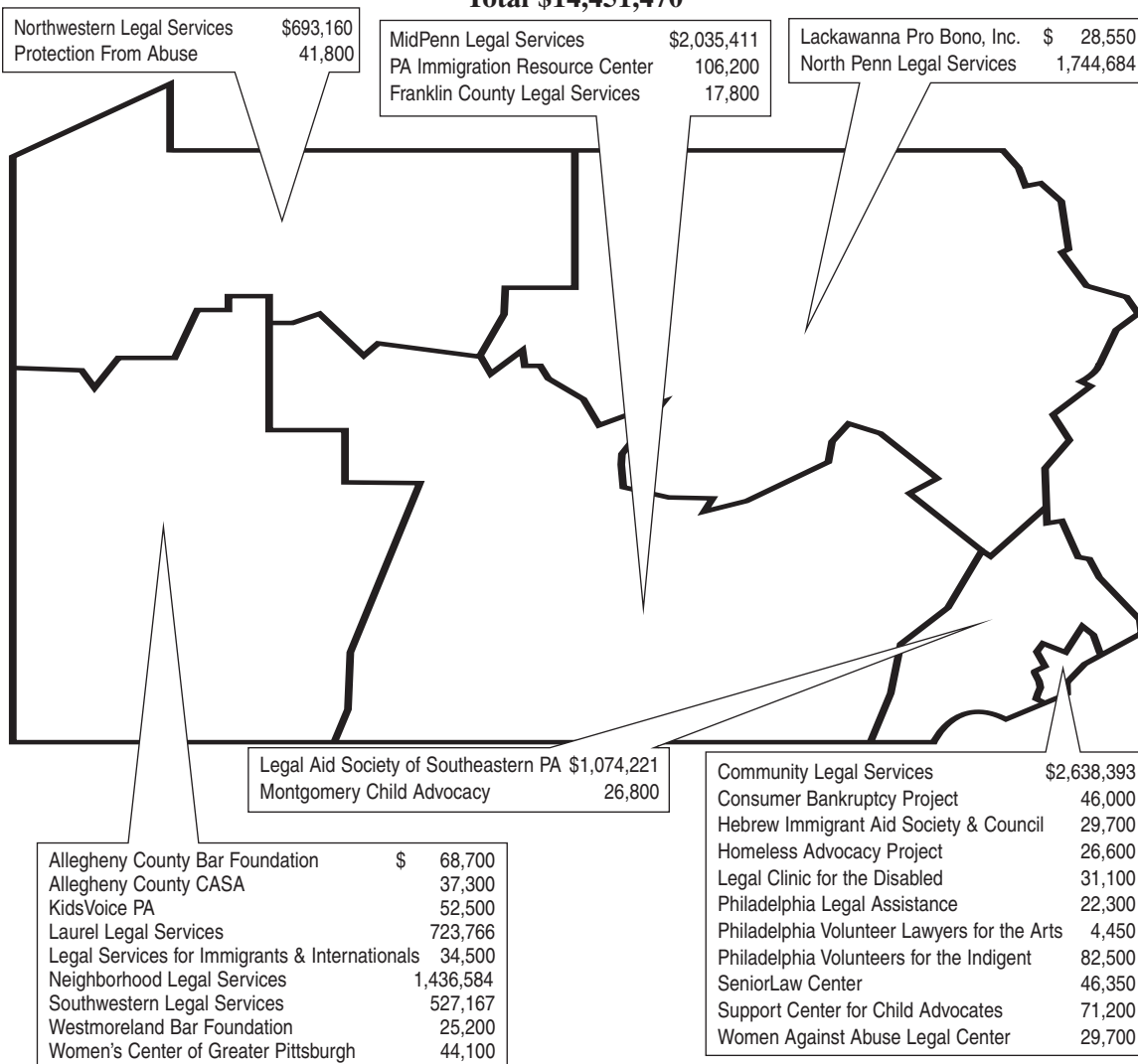
services to clients throughout the state. Some of the organizations use statewide toll free help-lines. Often, advice and counsel can be provided to callers, and if the particular issues of the caller meet the case acceptance criteria of the organization, the client will receive representation on their 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 the disabled, non-English speaking communities, and victims of domestic violence. Zone grants for the fiscal year ended June 30, 2012 totaled \$1,933,800.

(continued)

“Legal Services Organization Grants”

Total \$14,451,470



STATEWIDE

AIDS Law Project	\$ 32,100	Juvenile Law Center	38,500
Community Justice Project	355,561	PA Health Law Project	243,509
Community Legal Services	136,382	PA Institutional Law Project	451,367
Disability Rights Network PA	44,800	PA Legal Aid Network	605,653
Education Law Center-PA	44,800	Public Interest Law Center	35,700
Friends of Farmworkers	258,509	Regional Housing Legal Services	483,654

(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 \$1,600,000.

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
Pennsylvania State University, Dickinson		
Family Law Clinic	122	62
Elderly Law Clinic	136	581
IOLTA Fellowships	6,345	470
Drexel University		
Civil Litigation Clinics	2,119	586
Pro Bono Projects	3,163	1,467
Duquesne University		
Unemployment Compensation Clinic	706	776
Civil and Family Justice Law Clinic	2,695	1,232
Summer Public Interest Fellowships	1,779	297
University of Pennsylvania		
Sparer Summer Fellowship Program	3,745	0
Civil Practice Clinic	1,892	2,081
University of Pittsburgh		
Elderly Law Clinic	1,140	226
Health Law Clinic	1,376	307
NLSA Practicum	1,830	1,264
SPLAS Practicum	791	238
Temple University		
Immigration Law Externship	710	204
Family Law Litigation	629	629
Elderly Law Project	357	441
Legal Advocacy of Patients	461	432
Villanova University		
Civil Justice & Farmworkers Clinic	4,189	1,047
Legal Aid Externships	252	0
Widener University		
Civil Law Clinic	633	623
	35,069	12,963

(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 \$47,500.

Pro Bono Initiative Grants

	Grant Amount	Projected Volunteers
Butler County Bar Association Hired a Pro Bono Coordinator to assist with the communication and coordination of needs associated with the Butler County Consumer Credit and Mortgage Foreclosure Diversion Program, and to facilitate the activities of the pro bono lawyers and law students who provide debtor representation at semi-monthly credit conciliation conferences of the Butler County Court of Common Pleas.	\$ 12,000	30
Cumberland County Bar Association Hired a Pro Bono Coordinator to administer the CCBA Pro Bono Program. The CCBA membership participates in pro bono representation for financially eligible residents of Cumberland County. MidPenn Legal Services initially interviews all clients and determines financial eligibility. The Pro Bono Coordinator arranges for representation to be provided by a volunteer attorney. Penn State University Dickinson School of Law's Miller Center for Public Interest Advocacy provides pro bono student research assistance to volunteer attorneys as needed.	\$ 13,000	130
Face-to-Face Legal Center (Philadelphia) The Legal Center Director increased the number of volunteer pro bono lawyers, and thus increased the number of matters that the Legal Center handled, handled cases and supervised the volunteer pro bono lawyers.	\$ 10,000	20
Washington County Bar Association WCBA increased the number of active pro bono panelists, trained additional attorney-volunteers in family law and civil law areas through CLE/seminar development, administered and monitored the Direct Service Pro Bono program and initiated a new Referral Program for Military Veterans.	\$ 9,500	40
Westmoreland Bar Foundation WBF held an educational program titled: "A Primer in Landlord/Tenant Representation - Representing the indigent in tenant issues." Attorneys who attended the one-hour session received one free CLE in exchange for their promise to handle at least one tenant issue by way of brief advice or through the hearing before the Magisterial District Judge.	\$ 3,000	50

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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 \$62,000 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. In the second year of LRAP participation, qualified attorneys could receive a LRAP loan of up to \$4,500.

	<u>2012</u>	<u>2011</u>
Number of Applicants	90	80
Number of Loans	84	75
Average Compensation	\$48,504	\$47,553
Average Student Debt	\$90,729	\$90,106
Number of Organizations	29	25

(continued)

DEPOSITORY INSTITUTION HONOR ROLL

(As of December, 2012)

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

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

BNY Mellon, N.A.

Brentwood Bank

Bryn Mawr Trust Co.

Bucks County Bank

C & G Savings Bank

Capital 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

Coatesville Savings 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 Bank of Western PA

Farmers & Merchants Trust

Farmers National Bank of Emlenton

Fidelity Bank

Fidelity Deposit & Discount Bank

FIFTH THIRD BANK

First Citizens Community 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

FIRST KEYSTONE COMMUNITY BANK

FIRST LIBERTY BANK & TRUST

DEPOSITORY INSTITUTION HONOR ROLL

(As of December, 2012)

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

First Niagara Bank

First Northern Bank & Trust

First Priority Bank

FIRST RESOURCE BANK

First Savings Bank of Perkasio

FIRST STAR SAVINGS BANK

First Summit Bank

First United National Bank

Firsttrust 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 Bank (The)

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

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

Monument Bank

MORE BANK

MUNCY BANK & TRUST CO.

National Penn Bank

Neffs National Bank (The)

New Tripoli Bank

DEPOSITORY INSTITUTION HONOR ROLL

(As of December, 2012)

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NexTier Bank
Northumberland National Bank
Northwest Savings Bank
OMEGA Federal Credit Union
Orrstown Bank
PARKE 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 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
STANDARD BANK, PASB
Stonebridge Bank
SUN NATIONAL BANK
SunTrust Bank
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
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 Federal Savings Bank
Wayne Bank
Wells Fargo
WesBanco Bank
WEST MILTON STATE BANK
West View Savings Bank
William Penn Bank
Woodlands Bank
WOORI AMERICA BANK
WSFS Bank, FSB
York Traditions Bank

IOLTA FACTS AND FIGURES

	<u>6/30/12</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/08</u>
Attorney Participation					
Attorneys Licensed to Practice in Pennsylvania	63,830	62,801	62,257	61,100	60,678
Estimated Number of Attorneys Eligible to Participate	34,849	35,129	34,572	34,874	34,838
Attorneys Participating	31,095	31,318	30,846	31,083	30,732
Rate of Participation	89%	89%	89%	89%	88%
Compliant Non-participating Attys	2,834	2,977	3,085	3,220	3,551
Rate of Compliance	97%	98%	98%	98%	98%
Estimated Eligible Non- Compliant Attorneys	920	834	641	571	600
Depository Institutions					
Participating Depository Institutions	204	210	214	216	219(c)
Bank Charges as a Percent of IOLTA Revenues	6%	5%	5%	4%	3%
Bank Reported Accounts	14,271	13,941	13,658	13,246	12,946
	<u>7/1/11 -</u> <u>6/30/12</u>	<u>7/1/10 -</u> <u>6/30/11</u>	<u>7/1/09 -</u> <u>6/30/10</u>	<u>7/1/08 -</u> <u>6/30/09</u>	<u>7/1/07 -</u> <u>6/30/08</u>
Financial					
Revenues					
IOLTA	\$3,484,675	\$4,084,341	\$4,091,718	\$5,283,264	\$9,998,166
Access to Justice Act	\$10,314,545	\$10,760,087	\$9,368,177	\$8,858,922	\$9,413,589
Pro Bono Contributions	\$44,282	\$48,526	\$49,537	\$35,711	\$62,811
Pro Hac Vice	\$370,800	\$413,000	\$260,300	\$203,400	\$119,501
Attorney Assesment	\$1,777,905	\$1,696,400	\$1,507,300	-00	-00
Other	\$27,621	\$28,217	\$37,208	\$101,497	\$517,248
Grant Awards					
Legal Services Organizations	\$14,451,470	\$14,715,963	\$13,591,131	\$14,581,900	\$22,010,202
Law Schools	\$1,600,000	\$1,599,478	\$1,630,251	\$1,634,847	\$1,195,993
Pro Bono Initiative	\$47,500	\$50,000	\$36,393	\$66,700	\$58,468
Loan Repayment Assistance	\$564,430	\$510,000	-00	-00	-00
Administrative Expenses	\$838,004	\$696,098	\$633,544	\$685,396	\$575,566
Eligible Clients Served *					
New Cases	18,751	19,538	16,565	22,072	30,372
Handled Cases	25,882	27,556	23,878	31,307	40,916

* 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, 2012 and 2011, 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, 2012 and 2011, 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 6 and 16 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 through 19 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 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 6, 2012

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, 2012 AND 2011

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, 2012 with selected comparative information for the fiscal year ending June 30, 2011. 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 interest collected 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%.

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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 underwent a legislative review and on June 30, 2012 the governor signed House Bill 1026 of 2011 into law extending the sunset date of Act 122 until November 1, 2017.

On October 9, 2009, the governor signed into law, Act 49 of 2009, a supplemental 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 originally 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 (Act 122) plus the supplemental (Act 49) surcharges raised \$10.3 million during the fiscal year ending June 30, 2012.

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 \$30,900 monthly for the fiscal year ending June 30, 2012, 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.

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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 dedicated to help fund civil legal aid for the poor. The increase was implemented with the 2009-2010 assessment year, and raises approximately \$1.7 million annually. The funding is available to the IOLTA Board until further order of the Court directs otherwise. Effective April 9, 2012, the Supreme Court of Pennsylvania approved a one-year \$10 increase, or about \$610,000, in the amount of the annual attorney registration fee directed to the PA IOLTA Board.

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.

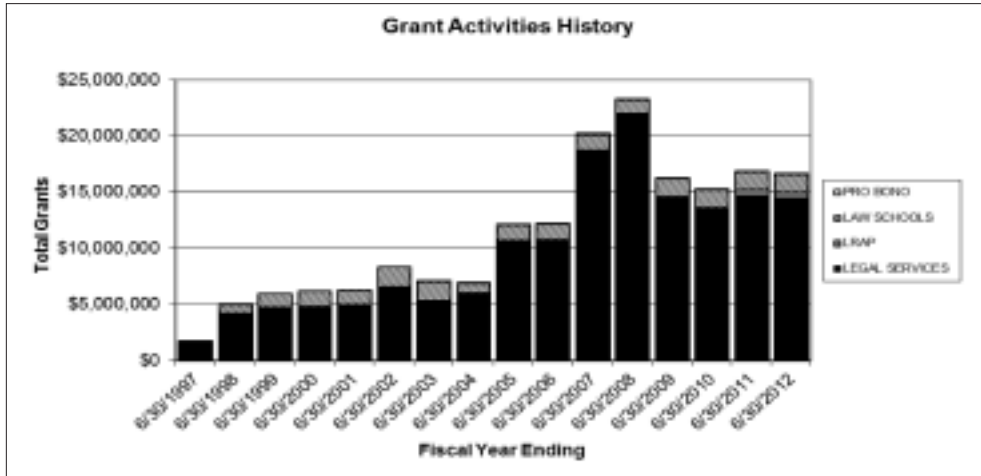
Overall Grant Activities

Since the inception of the IOLTA Board in Pennsylvania through June 30, 2012, about \$196 million of grants have been awarded (about \$180.4 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

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011



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.

Since the IOLTA Board came under the jurisdiction of the Supreme Court of PA, most grants, \$157.9 million, have gone to legal services organizations, almost \$20.8 million to law school clinical and externship programs, and about \$603,600 to establish or expand pro bono efforts.

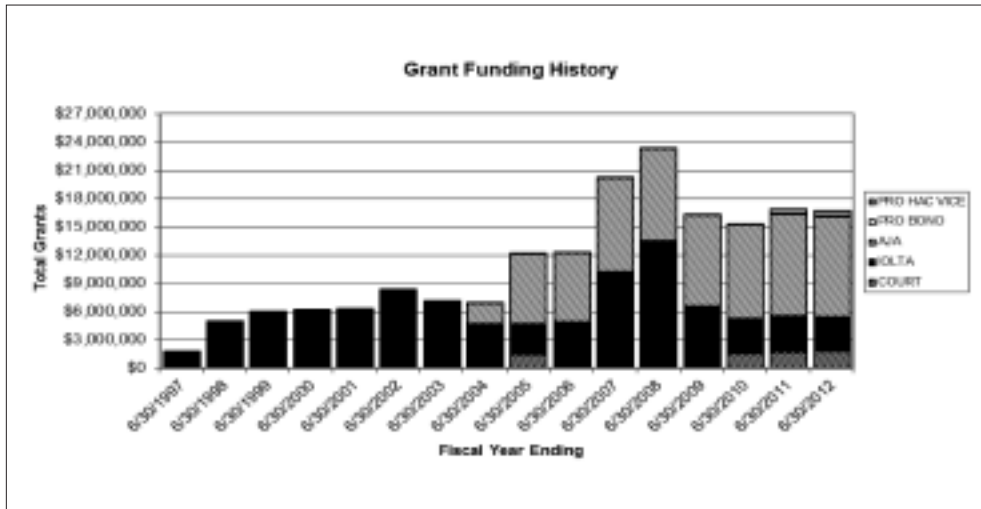
In the fiscal year ending June 30, 2011 the Supreme Court of Pennsylvania authorized a Loan Repayment Assistance Program (LRAP) to help lawyers better manage their student loans while in the employment of qualified legal aid organizations. Since its inception, \$1.1 million had been used for the LRAP.

These grants under the jurisdiction of the Supreme Court of Pennsylvania over the years have been funded \$94.8 million from the IOLTA funding stream, \$77.5 million from the AJA fees, \$6.4 million from Court funding, and \$.5 million from private contributions, and \$1.1 million from pro hac vice admission fees.

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011



Revenue Enhancement

The Pennsylvania legislature passed, and the governor signed, an extension of the expiration of the filing fee originally enacted as Act 122, known as the Access to Justice Act (AJA), which helps fund civil legal assistance. The AJA filing fees were extended June 30, 2012, and absent additional legislative action, will sunset on November 1, 2017.

On May 11, 2012, the Supreme Court of Pennsylvania amended Rule of Civil Procedure 1716 to provide that at least 50% of residual funds in class action lawsuits in Pennsylvania Courts be directed to the PA IOLTA Board to help fund civil legal aid for the poor. The rule was effective July 1, 2012, making Pennsylvania the ninth state to use class action residual proceeds to help fund civil legal assistance for the poor.

Performance Audit

The Access to Justice Act (Act 122) 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 report is posted on the IOLTA Board's website at www.paiolta.org. Its two recommendations

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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. As noted above the General Assembly extended the sunset for Act 122 until November 1, 2017, but did not consider additional action for the supplemental Act 49 fee. Regarding the second recommendation, the IOLTA Board with the collaboration and cooperation of PLAN Inc., commissioned a Study to review the effectiveness of legal assistance provided by telephone and a report on those findings was released to the members of the legislature in August 2012. That report found among other conclusions that 1) the majority of clients of telephone-based assistance receive follow-up from the program after having been served, 2) the vast majority – between 79 and 96 percent – of client served by telephone took follow-up action on the advice they were given, 3) between 50 and 88 percent of those who took action said it worked “very well” for them, and 4) one-half of the clients served by telephone achieved complete or partial solutions to their legal problems. The full Study of brief legal assistance and the report on the efficacy of providing telephone brief legal assistance is published on the website of the PA IOLTA Board.

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, 2012 AND 2011

COMMENTS ON FINANCIAL STATEMENTS

Condensed financial data extracted from the basic financial statements for the fiscal years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Capital assets	\$ 102,526	\$ 141,072
Other assets	<u>15,197,686</u>	<u>14,700,745</u>
Total assets	<u>\$ 15,300,212</u>	<u>\$14,841,817</u>
Total current liabilities	\$ 838,319	\$ 626,408
Invested in capital assets	102,526	141,072
Restricted net assets	8,553,494	9,092,897
Unrestricted net assets	<u>5,805,873</u>	<u>4,981,440</u>
Total net assets	<u>14,461,893</u>	<u>14,215,409</u>
Total liabilities and net assets	<u>\$ 15,300,212</u>	<u>\$14,841,817</u>
IOLTA interest, net of service charges	\$ 3,484,675	\$ 4,084,341
Access to Justice fees	<u>10,314,545</u>	<u>10,760,087</u>
Total operating revenues	<u>13,799,220</u>	<u>14,844,428</u>
Program administration	<u>838,004</u>	<u>696,098</u>
Grant awards		
Legal service organizations	14,451,470	14,715,963
Loan Repayment Assistance Program	564,430	510,000
Law schools	1,600,000	1,599,478
Pro bono grants	<u>47,500</u>	<u>50,000</u>
Total grant awards	<u>16,663,400</u>	<u>16,875,441</u>
Total operating expenses	<u>17,501,404</u>	<u>17,571,539</u>
Total non-operating revenues	<u>3,948,668</u>	<u>2,186,143</u>
Change in net assets	246,484	(540,968)
Net assets - July 1	<u>14,215,409</u>	<u>14,756,377</u>
Net assets - June 30	<u>\$ 14,461,893</u>	<u>\$14,215,409</u>

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

Financial Statement Overview

As between the reported years, grants were reduced slightly (1.2%). The decrease resulted from lower interest remittance receipts and fewer court filings.

Legal Services Organization Grants

Grants totaling \$14,451,470 and \$14,715,963 were awarded in fiscal years ended June 30, 2012 and 2011 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, \$12,543,471, 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 25,800 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, Northwestern Legal Services (NWLS) used special project funds to provide direct representation and counsel in housing law cases for low-income clients in the rural counties of Mercer, Crawford and Venango and Erie County. The project handled nearly 500 housing law cases and provided community legal education and outreach in homelessness prevention. The Community Justice Project (CJP) used special IOLTA funding to continue successful outreach and advocacy to the underserved Spanish-speaking communities in Hazleton and Reading. To overcome language and cultural barriers, CJP employs bilingual and bicultural paralegals, who are trusted in their communities, to offer immediate front-line help, refer clients, advocate for public benefits, and identify broad legal issues.

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 schools, net of refunds of grant under-spending from prior years, were \$1,600,000 and \$1,599,478 in fiscal years ended June 30, 2012 and 2011. Each of the Pennsylvania law

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PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

schools received a grant of \$200,000. Fourteen clinics operated by the law schools received IOLTA grant support. IOLTA support for each clinic ranges from 6% to 98% 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, IOLTA funding supports an award winning unemployment compensation clinic. The law students spent about 35,000 IOLTA-funded hours in the direct representation of indigent clients in the fiscal year ending June 30, 2012.

Pro Bono Initiative

This year organized pro bono programs were funded in five counties at the level of \$47,500, net of refunds of grant under-spending from prior years. The grants were expected to help mobilize nearly 270 lawyer volunteers to provide civil legal assistance for the indigent.

Loan Repayment Assistance Program

The IOLTA Board awarded a three-year, \$1,074,430 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. Since the inception of the program, 159 legal aid lawyers (75 in the first year, 84 in the second year) 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, 2012 AND 2011

ASSETS

	2012	2011
Current Assets		
Cash and Cash Equivalents		
Unrestricted	\$ 6,125,445	\$ 5,085,193
Restricted to Access to Justice Program	6,393,907	7,030,073
Deferred Compensation Asset (Note 9)	199,451	140,804
Accounts Receivable		
IOLTA Interest	311,298	374,311
Access to Justice	2,159,587	2,062,824
Other	250	250
Prepaid Expenses	7,748	7,290
Total Current Assets	15,197,686	14,700,745
Capital Assets (Note 3)	102,526	41,072
Total Assets	\$ 15,300,212	\$ 14,841,817

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 476,348	\$ 312,020
Accrued Expenses	162,020	173,484
Deferred Compensation Liability (Note 9)	199,451	140,804
Deferred Revenue	500	100
Total Current Liabilities	838,319	626,408
Net Assets		
Unrestricted to IOLTA Program	5,399,409	4,378,128
Invested in Capital Assets	102,526	141,072
Restricted to Access to Justice Program	8,553,494	9,092,897
Unrestricted to Pro Bono	113,893	117,111
Unrestricted to Pro Bono Hac Vice	292,571	486,201
Total Net Assets	14,461,893	14,215,409
Total Liabilities and Net Assets	\$ 15,300,212	\$ 14,841,817

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, 2012 and 2011

	2012	2011
Operating Revenue		
IOLTA Interest, Net of Service Charges of \$219,694 and \$221,094	\$ 3,484,675	\$ 4,084,341
Access to Justice Fees (Note 5)	10,314,545	10,760,087
Total Operating Revenue	13,799,220	14,844,428
Operating Expenses		
Program Administration	838,004	696,098
Grant Awards		
Legal Service Organizations	14,451,470	14,715,963
Law Schools	1,600,000	1,599,478
Pro Bono Grants	47,500	50,000
Loan Repayment Assistance Program	564,430	510,000
Total Grant Awards (Note 4)	16,663,400	16,875,441
Total Operating Expenses	17,501,404	17,571,539
Operating Income (Loss)	(3,702,184)	(2,727,111)
Non-Operating Revenue		
Pro Bono Initiative Contributions (Note 6)	44,282	48,526
Pro Hac Vice	370,800	413,000
Lawyers Assessment Fees	1,777,905	1,696,400
Class Action Residuals	1,728,060	-
Other Interest and Service Charges, Net	27,621	28,217
Total Non-Operating Revenue	3,948,668	2,186,143
Change in Net Assets	246,484	(540,968)
Net Assets, Beginning of Year	14,215,409	14,756,377
Net Assets, End of Year	\$ 14,461,893	\$ 14,215,409

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, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
IOLTA Interest Received	\$ 3,547,688	\$ 4,119,927
Access to Justice Fees Received	10,217,782	10,868,878
Other Cash Receipts	400	5,926
Cash Paid to Grant Recipients	(16,464,735)	(16,626,466)
Cash Paid to Suppliers	(426,384)	(181,760)
Cash Paid to Employees	(350,874)	(375,070)
Net Cash and Cash Equivalents Used by Operating Activities	(3,476,123)	(2,188,565)
Cash Flows from Non-Operating Activities		
Pro Bono Initiative Contributions	44,282	48,526
Pro Hac Vice	370,800	413,000
Lawyers Assessment Fees	1,777,905	1,696,400
Class Action Residuals	1,728,060	-
Other Interest and Service Charges, Net	27,621	28,217
Net Cash and Cash Equivalents Provided by Non-Operating Activities	3,948,668	2,186,143
Cash Flows from Investing Activities		
Purchase of Investments for Deferred Compensation Asset	(58,647)	(52,918)
Acquisitions of Capital Assets	(9,812)	(83,459)
Net Cash and Cash Equivalents Used by Investing Activities	(68,459)	(136,377)
Increase (Decrease) in Cash and Cash Equivalents	404,086	(138,799)
Cash and Cash Equivalents, Beginning of Year	12,115,266	12,254,065
Cash and Cash Equivalents, End of Year	\$ 12,519,352	\$ 12,115,266
Reconciliation of Operating Income to Net Cash and Cash Equivalents Used by Operating Activities		
Operating Income	\$ (3,702,184)	\$ (2,727,111)
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Used by Operating Activities		
Depreciation Expense	48,358	34,667
Changes in Assets and Liabilities:		
Accounts Receivable	(33,750)	150,154
Prepaid Expenses	(458)	(2,672)
Accounts Payable	164,328	287,840
Accrued Expenses	(11,464)	15,539
Deferred Compensation Liability	58,647	52,918
Deferred Revenue	400	100
Net Cash and Cash Equivalents Used by Operating Activities	\$ (3,476,123)	\$ (2,188,565)

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, 2012 and 2011

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 the Commonwealth 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 Supreme Court 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, 2012 and 2011

Management determined that all outstanding balances owed at June 30, 2012 and 2011 are collectible and therefore have not established an allowance account.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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, and computer software 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. Significant losses are covered by commercial insurance. There were no significant

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

reductions in insurance coverage in fiscal years 2012 or 2011. 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 a portion of PA court filings and other filing fees and surcharges. 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, 2009, 2010, 2011, and 2012 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 the total Board cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as by qualified securities pledged by the institution holding the assets.

The carrying amounts of the Board's deposits were \$12,519,352 and \$12,115,266, and the bank balances were \$12,600,045 and \$12,150,533, for the years ended June 30, 2012 and 2011, 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.

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>6/30/11</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>6/30/12</u>
Furniture and Equipment	\$ 75,356	\$ 1,299	\$ -	\$ 76,655
Software	<u>212,997</u>	<u>8,513</u>	<u>-</u>	<u>221,510</u>
	<u>\$ 288,353</u>	<u>\$ 9,812</u>	<u>\$ -</u>	<u>298,1653</u>
Less: Accumulated Depreciation				<u>(195,639)</u>
Capital Assets, Net				<u>\$ 102,526</u>

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>

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

Furniture and Equipment	3-7 Years
Software	3-5 Years

Depreciation expense of \$48,358 and \$34,667 was recorded for the years ended June 30, 2012 and 2011, respectively.

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

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 \$16,663,400 and \$16,875,441, during the years ended June 30, 2012 and 2011, respectively.

During March 2012, the Board recommended, and during June 2012, the Supreme Court of Pennsylvania approved, a total of \$5,922,113 in grants for the grant year July 1, 2012 through June 30, 2013, which included \$4,322,113 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, 2012 and 2011

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

AJA (Act 49) was signed into law in October of 2009, and provides a supplemental (temporary) filing fee of \$1 on the same courthouse filings as Act 122, excluding traffic citations.

Act 122 is scheduled to sunset on November 1, 2017 and Act 49 is scheduled to sunset on December 31, 2014. Funds in the AJA are distributed monthly 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 \$10,314,545 and \$10,760,087 relating to the AJA during the years ended June 30, 2012 and 2011, respectively, of which \$10,353,082 (Act 122 \$7,874,811; Act 49 \$2,478,271) and \$10,733,455 (Act 122 \$8,185,285; Act 49 \$2,548,170) was available for appropriation for the years ended June 30, 2012 and 2011, respectively.

During March 2012, the Board recommended, and during June 2012, the Supreme Court of Pennsylvania approved, \$9,870,600 in grants to Pennsylvania Legal Aid Network, Inc. for the grant period July 1, 2012 through June 30, 2013.

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 \$44,282 and \$48,526 as a result of the appeal during the years ended June 30, 2012 and 2011, respectively. Grants to pro bono programs (included in amounts in Note 4) by the Board totaled \$47,500 and \$50,000 during the years ended June 30, 2012 and 2011, respectively.

During March 2012, the Board recommended, and during June 2012, the Supreme Court of Pennsylvania approved \$52,500 in Pro Bono grants for the grant period July 1, 2012 through June 30, 2013.

7. LEASES

The Board rents office space in the Pennsylvania Judicial Center. The Board was assessed shared occupancy costs totaling \$34,901 and \$34,901 for the years ending June 30, 2012 and 2011, respectively. The Board is assessed a monthly occupancy fee which includes rent and related occupancy costs.

8. RETIREMENT PLAN

The Board sponsors a 403(b) retirement plan for employees. There were employer contributions of \$55,609 and \$48,068 to the plan for the years ended June 30, 2012 and 2011, respectively.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2012 and 2011

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 fair market value of the assets in the Rabbi Trust as of that date. The Board has funded \$199,451 and \$140,804 for the agreement as of June 30, 2012 and 2011, 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. During July 2011, the Board agreed to increase the LRAP grant to \$1,074,413.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 6, 2012, which is the date the financial statements were available to be issued.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

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

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Access to Justice</u>	<u>Property</u>	<u>Total</u>	<u>Budget (Unaudited)</u>
Program Administration Expenses					
Personnel					
Wages	\$ 296,444	\$ 90,412	\$ -	\$ 386,856	\$ 402,928
Fringe Benefits	99,050	26,757	-	125,807	126,538
Total Personnel	395,494	117,169	-	512,663	529,466
Operating Expenses					
Advertising	-	-	-	-	2,000
Consultants & Contract Services	31,682	128,773	-	160,455	156,920
Office Supplies	6,653	1,987	-	8,640	14,000
Postage	3,037	907	-	3,944	6,000
Printing & Promotion	5,654	1,018	-	6,672	12,500
Rent	26,874	8,027	-	34,901	38,000
Telephone	3,779	1,129	-	4,908	7,800
Travel & Meetings	24,499	7,318	-	31,817	36,800
Depreciation	-	-	48,358	48,358	53,500
Insurance	5,960	1,780	-	7,740	7,300
Other	13,787	4,119	-	17,906	7,850
Total Operating Expenses	121,925	155,058	48,358	325,341	342,670
Total Program Administration Expenses	\$ 517,419	\$ 272,227	\$ 48,358	\$ 838,004	\$ 872,136
Property Acquisitions					
Furniture, Equipment & Leaseholds Purchased	\$ -	\$ -	\$ 9,812	\$ 9,812	\$ 55,000

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

DETAILED SCHEDULE OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	General	Access to Justice	Pro Bono Initiative	Pro Hac Vice	Property	Total 2012	Total 2011
Operating Revenue							
IOLTA Interest, Net of Service Charges of \$219,694 and \$221,094	\$ 3,484,675	\$ -	\$ -	\$ -	\$ -	\$ 3,484,675	\$ 4,084,341
Access to Justice Fees	-	10,314,545	-	-	-	10,314,545	10,760,087
Total Operating Revenue	<u>3,484,675</u>	<u>10,314,545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,799,220</u>	<u>14,844,428</u>
Operating Expenses							
Program Administration	517,419	272,227	-	-	48,358	838,004	696,098
Grant Awards							
Legal Service Organizations	3,858,416	10,593,054	-	-	-	14,451,470	14,715,963
Law Schools	1,600,000	-	-	-	-	1,600,000	1,599,478
Pro Bono Grants	-	-	47,500	-	-	47,500	50,000
Loan Repayment Assistance Program	-	-	-	564,430	-	564,430	510,000
Total Grant Awards	<u>5,458,416</u>	<u>10,593,054</u>	<u>47,500</u>	<u>564,430</u>	<u>-</u>	<u>16,663,400</u>	<u>16,875,441</u>
Total Operating Expenses	5,975,835	10,865,281	47,500	564,430	48,358	17,501,404	17,571,539
Operating Income (Loss)	<u>(2,491,160)</u>	<u>(550,736)</u>	<u>(47,500)</u>	<u>(564,430)</u>	<u>(48,358)</u>	<u>(3,702,184)</u>	<u>(2,727,111)</u>
Non-Operating Revenue							
Pro Bono Initiative Contributions	-	-	44,282	-	-	44,282	48,526
Pro Hac Vice	-	-	-	370,800	-	370,800	413,000
Lawyers Assessment Fees	1,777,905	-	-	-	-	1,777,905	1,696,400
Class Action Residuals	1,728,060	-	-	-	-	1,728,060	-
Other Interest and Service Charges, Net	14,031	13,590	-	-	-	27,621	28,217
Total Non-Operating Revenue	<u>3,519,996</u>	<u>13,590</u>	<u>44,282</u>	<u>370,800</u>	<u>-</u>	<u>3,948,668</u>	<u>2,186,143</u>
Change in Net Assets	1,028,836	(537,146)	(3,218)	(193,630)	(48,358)	246,484	(540,968)
Reclassification of Net Assets							
Acquisition of Property	(7,555)	(2,257)	-	-	9,812	-	-
Net Assets, Beginning of Year	4,378,128	9,092,897	117,111	486,201	141,072	14,215,409	14,756,377
Net Assets, End of Year	<u>\$ 5,399,409</u>	<u>\$ 8,553,494</u>	<u>\$ 113,893</u>	<u>\$ 292,571</u>	<u>\$ 102,526</u>	<u>\$ 14,461,893</u>	<u>\$ 14,215,409</u>

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

SCHEDULES OF GRANT RECIPIENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Legal Service Organizations		
AIDS Law Project	\$ 32,100	\$ 36,700
Allegheny County Bar Foundation	68,700	77,400
CASA of Allegheny County	37,300	42,000
Community Justice Project	77,400	36,910
Community Legal Services of Philadelphia	51,900	59,500
Consumer Bankruptcy Assistance Project	46,000	57,000
Disability Rights Network of Pennsylvania	44,800	51,300
Education Law Center	44,800	51,300
Franklin County Legal Services	17,800	19,140
HIAS & Council Migration Services of Philadelphia	29,700	36,700
Homeless Advocacy Project	26,600	32,800
Juvenile Law Center	38,500	44,100
Kids Voice Pennsylvania, Inc.	52,500	55,500
Lackawanna Pro Bono, Inc.	28,550	32,000
Laurel Legal Services, Inc.	53,300	60,000
Legal Aid of Southeastern PA	129,600	145,000
Legal Clinic for the Disabled, Inc.	31,100	38,500
Legal Services for Immigrants and Internationals	34,500	38,800
Mid-Penn Legal Services	146,000	177,450
Montgomery Child Advocacy Project	26,800	30,000
Neighborhood Legal Services Association	53,300	60,000
North Penn Legal Services	196,050	260,000
Northwestern Legal Services	34,199	61,842
PA Immigration Resource Center	106,200	110,000
Pennsylvania Legal Aid Network, Inc.	12,543,471	12,510,958
Philadelphia Legal Assistance Center, Inc.	22,300	27,500
Philadelphia Volunteer Lawyers for the Arts	4,450	5,500
Philadelphia Volunteers for the Indigent Program	82,500	102,000
Protection from Abuse Coordinated Services, Inc.	41,800	48,063
Public Interest Law Center of Philadelphia	35,700	44,100
Regional Housing Legal Services	43,700	50,000
Senior Law Center	46,350	51,000
Southwestern Pennsylvania Legal Services, Inc.	53,300	60,000
Support Center Child Advocates	71,200	88,000
Westmoreland Bar Foundation	25,200	28,500
Women Against Abuse Legal Center	29,700	36,700
Women's Center & Shelter Civil Law Project	44,100	49,700
Total Legal Services Organizations	\$ 14,451,470	\$ 14,715,963

(continued)

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

SCHEDULES OF GRANT RECIPIENTS – CONTINUED
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Law Schools		
Pennsylvania State University, Dickinson School of Law	\$ 200,000	\$ 200,000
Drexel University, Earle Mack School of Law	200,000	200,000
Duquesne University School of Law	200,000	199,478
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	 \$ 1,600,000	 \$ 1,599,478
 Pro Bono Grants		
Beaver County – NLSA	\$ -	\$ 6,000
Butler County Bar Association	12,000	-
Chester County Bar Association	-	2,500
Crawford County Bar Association	-	10,000
Cumberland County Bar Association	13,000	12,000
Face-to-Face Legal Center	10,000	-
Montgomery Child Advocacy Project	-	10,000
Washington County Bar Association	9,500	9,500
Westmoreland Bar Foundation	3,000	-
 Total Pro Bono Grants	 \$ 47,500	 \$ 50,000
 Loan Repayment Assistance Program	 \$ 564,430	 \$ 510,000
 Total Grant Awards	 \$ 16,663,400	 \$ 16,875,441

