

**PENNSYLVANIA INTEREST ON
LAWYERS TRUST ACCOUNT BOARD
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009
AND
INDEPENDENT AUDITOR'S REPORT**

HAMILTON & MUSSER, P.C.
Certified Public Accountants

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
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For the Years Ended June 30, 2010 and 2009

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HAMILTON & MUSSER, P.C.

Certified Public Accountants • Consultants to Management

DAVID A. HAMILTON, CPA
BARRY E. MUSSER, CPA, CFP®

JAMES A. KRIMMEL, MBA, CPA, CFE
ROBERT D. MAST, CPA

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, 2010 and 2009, 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, 2010 and 2009, 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 an opinion on the basic financial statements taken as a whole. The supplementary information on pages 15, 17 and 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

September 15, 2010

Mechanicsburg, Pennsylvania

Certified Public Accountants

Members of the American and Pennsylvania Institutes of CPAs

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
Management's Discussion and Analysis
For the Years Ended June 30, 2010 and 2009

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, 2010 with selected comparative information for the fiscal year ending June 30, 2009. 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%.

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). For the fiscal year ending June 30, 2010, \$8.5 million and for the fiscal year ending June 30, 2009 \$8.9 million of such charges were earmarked for the IOLTA Board's grants program targeted to civil legal services provided by non-profit legal aid organizations. The amount of the surcharge that is earmarked for the IOLTA Board is scheduled for legislative review before November 1, 2012 under a sunset provision of the statute. On October 9, 2009, the governor signed into law a temporary increase in the filing fee surcharge known as the Access to Justice Act (AJA). 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. For the fiscal year ending June 30, 2010, \$900,000 of temporary surcharges were earmarked for the IOLTA Board. Annually, the temporary fee is anticipated to generate approximately \$2.9 million. The temporary fee was implemented December 9, 2009 and will expire in 25 months, on January 8, 2012. The combined regular plus the temporary surcharge raised \$9.4 million during the fiscal year ending June 30, 2010.

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 out-of-state attorneys who wished to appear in a Pennsylvania Court was established. The admission fee proceeds which currently average about \$21,700 monthly are used to fund a Loan Repayment Assistance Program (LRAP) that provides forgivable loans to eligible

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

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attorneys employed by qualified legal services organizations. The loans are forgiven if the attorney remains employed 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 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

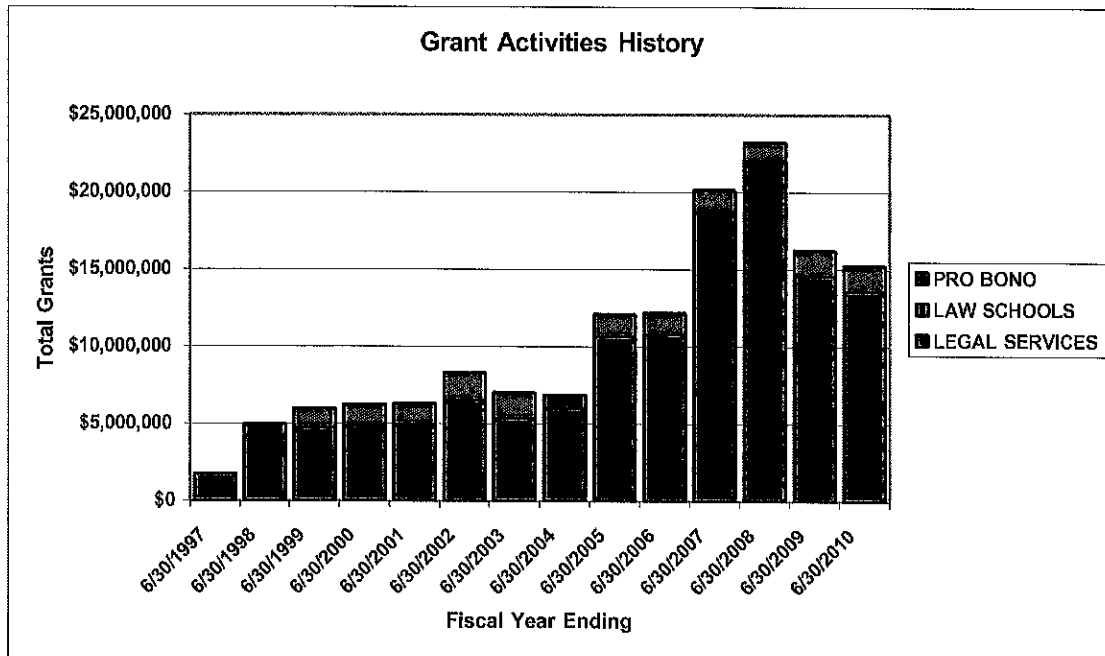
National and other studies have concluded that only one of five indigent persons needing civil legal assistance actually receives the needed legal help. As a result, legal assistance is often rationed to those whose needs are determined the greatest, such as victims of domestic violence, tenants and 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 compliance with the IOLTA requirements of RPC 1.15.

Overall Grant Activities

Since the inception of the IOLTA Board in Pennsylvania through June 30, 2010, about \$162.5 million of grants have been awarded (about \$146.8 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.

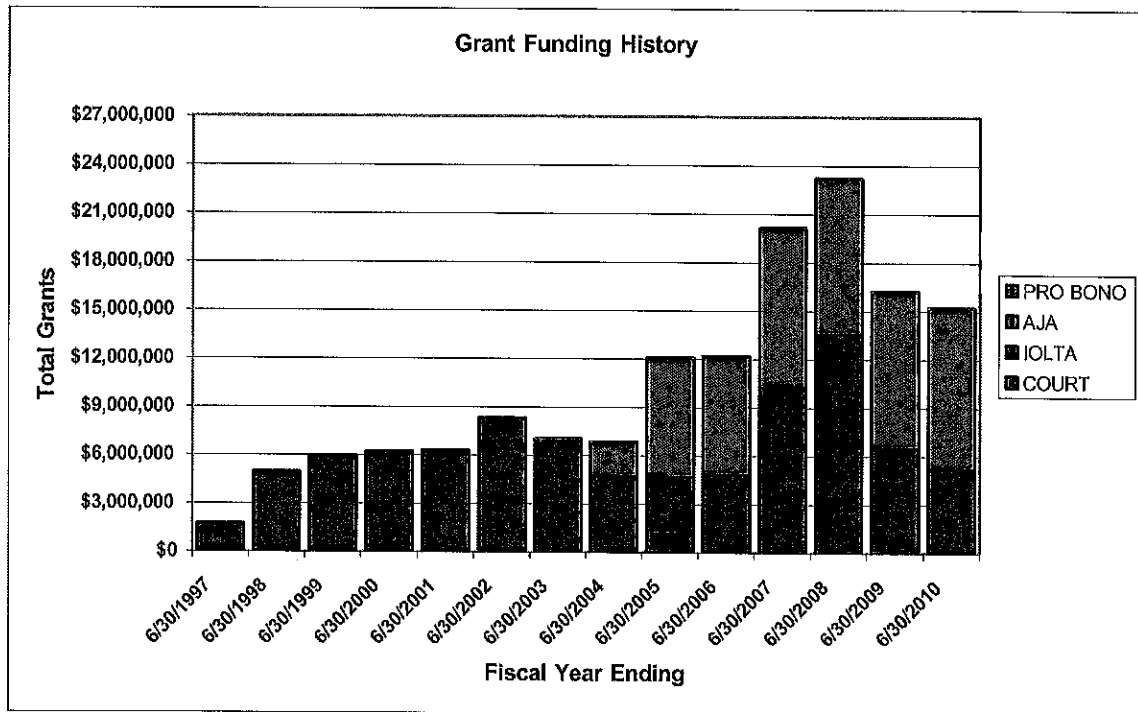


The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
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Since the IOLTA Board came under the jurisdiction of the Supreme Court of PA, most grants, \$128.7 million, have gone to legal services organizations, almost \$17.6 million to law school clinical and externship programs, and about \$491,100 to establish or expand pro bono efforts.

These grants over the years have been funded \$87.3 million from the IOLTA funding stream, \$56.2 million from the AJA fees, \$2.9 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, a temporary increase in the filing fee surcharge which helps fund civil legal assistance. The statute was implemented December 9, 2009 and will expire in 25 months, January 8, 2012. During the six months of the current fiscal year about \$900,000 was received from the new, temporary filing fee surcharge.

Attorney Compliance

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

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
Management's Discussion and Analysis
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COMMENTS ON FINANCIAL STATEMENTS

Condensed financial data extracted from the basic financial statements for the fiscal years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Capital assets	\$ 92,280	\$ 101,298
Other assets	<u>14,934,157</u>	<u>15,738,373</u>
Total assets	<u>\$ 15,026,437</u>	<u>\$ 15,839,671</u>
Total current liabilities	<u>\$ 270,060</u>	<u>\$ 506,215</u>
Invested in capital assets	92,280	101,298
Restricted net assets	9,256,665	10,004,356
Unrestricted net assets	<u>5,407,432</u>	<u>5,227,802</u>
Total net assets	<u>14,756,377</u>	<u>15,333,456</u>
Total liabilities and net assets	<u>\$ 15,026,437</u>	<u>\$ 15,839,671</u>
IOLTA interest, net of service charges	\$ 4,091,718	\$ 5,283,264
Access to Justice fees	<u>9,368,177</u>	<u>8,858,922</u>
Total operating revenues	<u>13,459,895</u>	<u>14,142,186</u>
Program administration	<u>633,544</u>	<u>685,396</u>
Grant awards		
Legal service organizations	13,591,131	14,581,900
Law schools	1,630,251	1,634,847
Pro bono grants	<u>36,393</u>	<u>66,700</u>
Total grant awards	<u>15,257,775</u>	<u>16,283,447</u>
Total operating expenses	<u>15,891,319</u>	<u>16,968,843</u>
Total non-operating revenues	<u>1,854,345</u>	<u>340,608</u>
Change in net assets	(577,079)	(2,486,049)
Net assets – July 1	<u>15,333,456</u>	<u>17,819,505</u>
Net assets – June 30	<u>\$ 14,756,377</u>	<u>\$ 15,333,456</u>

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
Management's Discussion and Analysis
For the Years Ended June 30, 2010 and 2009

Financial Statement Overview

As between the reported years, grants were reduced by about \$1 million, or about 6%. This represents the second consecutive year of grant reductions. The reduction resulted primarily because of reduced IOLTA revenues of about \$1.1 million attributable to steeply reduced interest rates paid on IOLTA accounts because of the recessionary economy.

Legal Services Organization Grants

Grants totaling \$13,591,131 and \$14,581,900 were awarded in fiscal years ended June 30, 2010 and 2009 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, \$11,707,667 million, 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 23,875 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, recession-related legal services focused on unemployment compensation, food stamp and utility shut-off issues and improved access to Temporary Aid to Needy Families (TANF) benefits. A Consumer Law Team defended mortgage foreclosure cases, combated other forms of abusive, predatory lending such as payday lending and refund anticipation loans, and defended against sub prime credit card abuses for low-income consumers. Another project served the broad range of civil legal needs for newcomers (refugees) to the northeast region of the state, including direct representation and community legal education.

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 \$1,630,251 and \$1,634,847 in fiscal years ended June 30, 2010 and 2009. Each of the Pennsylvania law schools received a grant of at least \$200,000. Fourteen clinics operated by the law schools received IOLTA grant support. IOLTA support for each clinic ranges from 2% to 94% 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 34,000 hours in the direct representation of indigent clients in the fiscal year ending June 30, 2010.

Pro Bono Initiative

This year organized pro bono programs were funded in three counties and one statewide effort at the level of \$36,393, net of refunds of grant under-spending from prior years. The grants were expected to help mobilize nearly 6,250 lawyer volunteers to provide civil legal assistance for the indigent.

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Balance Sheets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and Cash Equivalents		
Restricted to Access to Justice Program	\$ 7,083,197	\$ 43,052
Unrestricted	5,170,868	5,194,111
Deferred Compensation Asset (Note 9)	87,886	56,111
Accounts Receivable		
IOLTA Interest	409,897	441,727
Access to Justice	2,171,615	9,961,304
Other	6,076	2,908
Prepaid Expenses	4,618	10,888
Note Receivable (Note 10)	<u>-</u>	<u>28,272</u>
Total Current Assets	<u>14,934,157</u>	<u>15,738,373</u>
Capital Assets (Note 3)	204,894	233,736
Less – Accumulated Depreciation (Note 3)	<u>(112,614)</u>	<u>(132,438)</u>
Total Capital Assets	<u>92,280</u>	<u>101,298</u>
Total Assets	<u>\$ 15,026,437</u>	<u>\$ 15,839,671</u>
Current Liabilities		
Accounts Payable	\$ 24,180	\$ 304,769
Accrued Expenses	157,994	145,335
Deferred Compensation Liability (Note 9)	<u>87,886</u>	<u>56,111</u>
Total Current Liabilities	<u>270,060</u>	<u>506,215</u>
Net Assets		
Unrestricted to IOLTA Program	4,705,646	4,799,460
Invested in Capital Assets	92,280	101,298
Restricted to Access to Justice Program	9,256,665	10,004,356
Unrestricted to Pro Bono	118,585	105,441
Unrestricted to Pro Bono Hac Vice	<u>583,201</u>	<u>322,901</u>
Total Net Assets	<u>14,756,377</u>	<u>15,333,456</u>
Total Liabilities and Net Assets	<u>\$ 15,026,437</u>	<u>\$ 15,839,671</u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenue		
IOLTA Interest, Net of Service Charges of \$219,831 and \$215,053	\$ 4,091,718	\$ 5,283,264
Access to Justice Fees	<u>9,368,177</u>	<u>8,858,922</u>
Total Operating Revenue	<u>13,459,895</u>	<u>14,142,186</u>
Operating Expenses		
Program Administration	<u>633,544</u>	<u>685,396</u>
Grant Awards		
Legal Service Organizations	13,591,131	14,581,900
Law Schools	1,630,251	1,634,847
Pro Bono Grants	<u>36,393</u>	<u>66,700</u>
Total Grant Awards	<u>15,257,775</u>	<u>16,283,447</u>
Total Operating Expenses	<u>15,891,319</u>	<u>16,968,843</u>
Operating Income (Loss)	<u>(2,431,424)</u>	<u>(2,826,657)</u>
Non-Operating Revenue		
Pro Bono Initiative Contributions	49,537	35,711
Pro Hac Vice	260,300	203,400
Lawyers Assessment Fees	1,507,300	-
Other Interest and Service Charges, Net	<u>37,208</u>	<u>101,497</u>
Total Non-Operating Revenue	<u>1,854,345</u>	<u>340,608</u>
Change in Net Assets	(577,079)	(2,486,049)
Net Assets, Beginning of Year	<u>15,333,456</u>	<u>17,819,505</u>
Net Assets, End of Year	<u>\$ 14,756,377</u>	<u>\$ 15,333,456</u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
IOLTA Interest Received	\$ 4,123,547	\$ 5,537,370
Access to Justice Fees Received	17,157,866	9,421,252
Other Cash Receipts	31,179	85,647
Cash Paid to Grant Recipients	(15,510,100)	(16,283,447)
Cash Paid to Suppliers	(273,558)	(110,006)
Cash Paid to Employees	<u>(312,664)</u>	<u>(406,045)</u>
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	<u>5,216,270</u>	<u>(1,755,229)</u>
Cash Flows from Non-Operating Activities		
Pro Bono Initiative Contributions	49,537	35,711
Pro Hac Vice	260,300	203,400
Lawyers Investment Fees	1,507,300	-
Other Interest and Service Charges, Net	<u>37,208</u>	<u>101,497</u>
Net Cash and Cash Equivalents Provided by Non-Operating Activities	<u>1,854,345</u>	<u>340,608</u>
Cash Flows from Investing Activities		
Purchase of Investments for Deferred Compensation Asset	(31,775)	(11,564)
Acquisitions of Capital Assets	<u>(21,938)</u>	<u>(58,480)</u>
Net Cash and Cash Equivalents Used by Investing Activities	<u>(53,713)</u>	<u>(70,044)</u>
Increase (Decrease) in Cash and Cash Equivalents	7,016,902	(1,484,665)
Cash and Cash Equivalents, Beginning of Year	<u>5,237,163</u>	<u>6,721,828</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,254,065</u>	<u>\$ 5,237,163</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents Used by Operating Activities		
Operating Income	\$ (2,431,424)	\$ (2,826,657)
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided (Used) by Operating Activities		
Depreciation Expense	30,956	22,788
Changes in Assets and Liabilities:		
Accounts Receivable	7,846,623	905,509
Prepaid Expenses	6,270	(1,269)
Accounts Payable	(280,589)	107,355
Accrued Expenses	<u>44,434</u>	<u>37,045</u>
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	<u>\$ 5,216,270</u>	<u>\$ (1,755,229)</u>

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, 2010 and 2009

NOTE 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.

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.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverage in fiscal year 2009. There were no significant claims in the current year or the two prior years.

Tax Status:

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

NOTE 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 \$12,254,065 and \$5,237,163, and the bank balances were \$12,259,866 and \$5,256,919, for the years ended June 30, 2010 and 2009, 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.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended June 20, 2010 was as follows:

Capital Assets	
Furniture and Equipment	\$ 71,322
Software	<u>133,572</u>
Total Capital Assets	204,894
Less: Accumulated Depreciation	<u>(112,614)</u>
Capital Assets, Net	<u>\$ 92,280</u>

Capital assets activity for the year ended June 20, 2009 was as follows:

Capital Assets	
Furniture and Equipment	\$ 117,521
Software	112,016
Leasehold Improvements	<u>4,199</u>
Total Capital Assets	233,736
Less: Accumulated Depreciation	<u>(132,438)</u>
Capital Assets, Net	<u>\$ 101,298</u>

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

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

Depreciation expense of \$30,956 and \$22,788 was recorded for the years ended June 30, 2010 and 2009, respectively.

NOTE 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 \$15,257,775 and \$16,283,447, during the years ended June 30, 2010 and 2009, respectively.

During March 2010, the Board recommended, and during June 2010, the Supreme Court of Pennsylvania approved, a total of \$5,554,041 in grants for the grant year July 1, 2010 through June 30, 2011, which included \$3,954,041 in grants to Pennsylvania legal services organizations and \$1,600,000 in grants to Pennsylvania law school clinical and internship programs.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

NOTE 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%

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 \$9,368,177 and \$8,858,922 relating to the AJA during the years ended June 30, 2010 and 2009, respectively, of which \$9,247,580 and \$8,853,117 was available for appropriation for the years ended June 30, 2010 and 2009, respectively.

During March 2010, the Board recommended, and during June 2010, the Supreme Court of Pennsylvania approved, \$11,332,500 in grants to Pennsylvania Legal Aid Network, Inc. for the grant period July 1, 2010 through June 30, 2011.

NOTE 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 \$49,537 and \$35,711 as a result of the appeal during the years ended June 30, 2010 and 2009, respectively. Grants to pro bono programs (included in amounts in Note 4) by the Board totaled \$36,393 and \$66,700 during the years ended June 30, 2010 and 2009, respectively.

During March 2010, the Board recommended, and during June 2010, the Supreme Court of Pennsylvania approved \$50,000 in Pro Bono grants for the grant period July 1, 2010 through June 30, 2011.

NOTE 7

LEASES

The Board entered into an operating lease for its former office space. Rent expenditures were \$5,145 and \$24,696 for the years ended June 30, 2010 and 2009, respectively. The Board relocated to the Pennsylvania Judicial Center in September 2009. The Board was assessed shared occupancy costs totaling \$26,176 for the year ending June 30, 2010. It is anticipated that the shared occupancy costs to be paid for the fiscal year ending 2011 will be \$34,901.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

NOTE 8 RETIREMENT PLAN

The Board sponsors a 403(b) retirement plan for employees. There were employer contributions of \$40,635 and \$38,530 to the plan for the years ended June 30, 2010 and 2009, respectively.

NOTE 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 \$87,886 and \$56,111 for the agreement as of June 30, 2010 and 2009, respectively.

NOTE 10 NOTE RECEIVABLE

During the year ended June 30, 2009, a settlement was reached with a participating lawyer for past interest owed. The settlement was in the form of a note receivable in the amount of \$86,933, with an initial payment of \$30,000 due by December 31, 2008. Starting in January 2009, there would be monthly payments of \$5,000 which includes principal and interest of 6%. The principal amount due is \$0 and \$28,272 as of June 30, 2010 and 2009, respectively.

Interest received on this note totaled \$388 and \$1,339 during the years ended June 30, 2010 and 2009, respectively.

NOTE 11 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 \$100 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.

NOTE 12 ADVERTISING

The Board expenses advertising costs when incurred. Advertising costs total \$1,608 and \$7,515 for the years ended June 30, 2010 and 2009, respectively.

NOTE 13 SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 15, 2010, 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, 2010 and 2009

	General	Access to Justice	Pro Bono Initiative	Pro Hac Vice	Property	Total 2010	Total 2009
Operating Revenue							
IOLTA Interest, Net of Service Charges of \$219,831 and \$215,053	\$ 4,091,718	\$ -	\$ -	\$ -	\$ -	\$ 4,091,718	\$ 5,283,264
Access to Justice Fees	<u> -</u>	<u>9,368,177</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u>9,368,177</u>	<u>8,858,922</u>
Total Operating Revenue	<u>4,091,718</u>	<u>9,368,177</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u>13,459,895</u>	<u>14,142,186</u>
Operating Expenses							
Program Administration	<u>465,847</u>	<u>136,741</u>	<u> -</u>	<u> -</u>	<u>30,956</u>	<u>633,544</u>	<u>685,396</u>
Grant Awards							
Legal Service Organizations	3,592,164	9,998,967	-	-	-	13,591,131	14,581,900
Law Schools	1,630,251	-	-	-	-	1,630,251	1,634,847
Pro Bono Grants	<u> -</u>	<u> -</u>	<u>36,393</u>	<u> -</u>	<u> -</u>	<u>36,393</u>	<u>66,700</u>
Total Grant Awards	<u>5,222,415</u>	<u>9,998,967</u>	<u>36,393</u>	<u> -</u>	<u> -</u>	<u>15,257,775</u>	<u>16,283,447</u>
Total Operating Expenses	<u>5,688,262</u>	<u>10,135,708</u>	<u>36,393</u>	<u> -</u>	<u>30,956</u>	<u>15,891,319</u>	<u>16,968,843</u>
Operating Income (Loss)	<u>(1,596,544)</u>	<u>(767,531)</u>	<u>(36,393)</u>	<u> -</u>	<u>(30,956)</u>	<u>(2,431,424)</u>	<u>(2,826,637)</u>
Non-Operating Revenue							
Pro Bono Initiative Contributions	-	-	49,537	-	-	49,537	35,711
Pro Hac Vice	-	-	-	260,300	-	260,300	203,400
Lawyers Assessment Fees	1,507,300	-	-	-	-	1,507,300	-
Other Interest and Service Charges, Net	<u>12,322</u>	<u>24,886</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u>37,208</u>	<u>101,497</u>
Total Non-Operating Revenue	<u>1,519,622</u>	<u>24,886</u>	<u>49,537</u>	<u>260,300</u>	<u> -</u>	<u>1,854,345</u>	<u>340,608</u>
Change in Net Assets	<u>(76,922)</u>	<u>(742,645)</u>	<u>13,144</u>	<u>260,300</u>	<u>(30,956)</u>	<u>(577,079)</u>	<u>(2,486,049)</u>
Reclassification of Net Assets							
Acquisition of Property	<u>(16,892)</u>	<u>(5,046)</u>	<u> -</u>	<u> -</u>	<u>21,938</u>	<u> -</u>	<u> -</u>
Net Assets, Beginning of Year	<u>4,799,460</u>	<u>10,004,356</u>	<u>105,441</u>	<u>322,901</u>	<u>101,298</u>	<u>15,333,456</u>	<u>17,819,505</u>
Net Assets, End of Year	<u>\$ 4,705,646</u>	<u>\$ 9,256,665</u>	<u>\$ 118,585</u>	<u>\$ 583,201</u>	<u>\$ 92,280</u>	<u>\$ 14,756,377</u>	<u>\$ 15,333,456</u>

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
Schedule of Program Administration Expenses and Property Acquisitions – Budget & Actual
For the Year Ended June 30, 2010

	<u>General</u>	Access to <u>Justice</u>	<u>Property</u>	<u>Total</u>	Budget (Unaudited)
Program Administration Expenses					
Personnel					
Wages	\$ 252,343	\$ 72,980	\$ -	\$ 325,323	\$ 361,078
Fringe Benefits	<u>110,014</u>	<u>33,677</u>	<u>-</u>	<u>143,691</u>	<u>145,127</u>
Total Personnel	<u>362,357</u>	<u>106,657</u>	<u>-</u>	<u>469,014</u>	<u>506,205</u>
Operating Expenses					
Advertising	1,238	370	-	1,608	2,000
Consultants & Contract Services	25,954	7,752	-	33,706	52,510
Office Supplies	8,177	2,442	-	10,619	18,505
Postage	2,916	871	-	3,787	9,300
Printing & Promotion	6,176	1,017	-	7,193	18,000
Rent	24,117	7,204	-	31,321	32,611
Telephone	4,685	1,399	-	6,084	8,640
Travel & Meetings	18,170	5,427	-	23,597	32,600
Depreciation	-	-	30,956	30,956	29,098
Insurance	5,874	1,754	-	7,628	6,825
Equipment Maintenance	2,683	802	-	3,485	13,140
Other	<u>3,500</u>	<u>1,046</u>	<u>-</u>	<u>4,546</u>	<u>3,200</u>
Total Operating Expenses	<u>103,490</u>	<u>30,084</u>	<u>30,956</u>	<u>164,530</u>	<u>226,429</u>
Total Program Administration Expenses	<u>\$ 465,847</u>	<u>\$ 136,741</u>	<u>\$ 30,956</u>	<u>\$ 633,544</u>	<u>\$ 732,634</u>
Property Acquisitions					
Furniture, Equipment & Leaseholds Purchased	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,938</u>	<u>\$ 21,938</u>	<u>\$ 139,000</u>

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Schedules of Grant Recipients

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Legal Service Organizations		
Aids Law Project	\$ 35,300	\$ 39,400
Allegheny County Bar Foundation	42,200	47,100
CASA of Allegheny County	36,100	40,300
Community Impact Legal Services	21,000	23,400
Community Legal Services of Philadelphia	57,900	64,700
Consumer Bankruptcy Assistance Project	45,000	50,200
Disability Rights Network of PA	49,300	55,100
Education Law Center	49,300	55,100
Equality Advocates Pennsylvania	5,300	11,800
Franklin County Legal Services	17,400	19,400
HIAS & Council Migration Services of Philadelphia	32,200	35,900
Homeless Advocacy Project	27,400	30,500
Juvenile Law Center	42,400	47,300
Kids Voice Pennsylvania, Inc.	48,100	53,700
Lackawanna Pro Bono, Inc.	27,600	30,800
Laurel Legal Services, Inc.	57,700	64,400
Legal Aid of Southeastern PA	107,000	119,400
Legal Clinic for the Disabled, Inc.	33,800	37,700
Legal Services for Immigrants and Internationals	34,300	38,200
Mid-Penn Legal Services	150,600	168,500
Montgomery Child Advocacy Project	21,000	23,400
Neighborhood Legal Services Association	57,700	64,400
North Penn Legal Services	262,500	292,000
Northwestern Legal Services	61,564	69,300
PA Immigration Resource Center	86,600	96,900
Pennsylvania Legal Aid Network, Inc.	11,707,667	12,474,000
Philadelphia Legal Assistance Center, Inc.	24,100	26,900
Philadelphia Volunteer Lawyers for the Arts	4,800	5,400
Philadelphia Volunteers for the Indigent Program	85,200	95,100
Protection from Abuse Coordinated Services, Inc.	38,800	43,300
Public Interest Law Center of Philadelphia	42,400	47,300
Senior Law Center	43,500	48,500
Southwestern Pennsylvania Legal Services, Inc.	57,700	64,300
Support Center Child Advocates	77,100	86,100
Westmoreland Bar Foundation	25,600	28,500
Women Against Abuse Legal Center	32,200	35,900
Women's Center & Shelter Civil Law Project	<u>42,800</u>	<u>47,700</u>
Total Legal Services Organizations	<u>13,591,131</u>	<u>14,581,900</u>
Law Schools		
Pennsylvania State University, Dickinson School of Law	200,000	200,000
Drexel University, Earle Mack School of Law	233,036	165,000
Duquesne University School of Law	197,215	207,108
Temple University, Beasley School of Law	200,000	200,000
University of Pennsylvania School of Law	200,000	262,739
University of Pittsburgh School of Law	200,000	200,000
Villanova University School of Law	200,000	200,000
Widener University School of Law	<u>200,000</u>	<u>200,000</u>
Total Law Schools	<u>1,630,251</u>	<u>1,634,847</u>

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Schedules of Grant Recipients – Continued
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Pro Bono Grants		
Blair County Bar Association	(5,157)	9,800
Chester County Bar Association	5,000	3,500
Franklin County Bar Association	-	8,900
Monroe County Bar Association	2,500	-
Neysa C. Adams Pro Se Assistance and Mediation Clinic	15,000	-
Pennsylvania Bar Association	22,050	22,000
Philadelphia – Tenant Assistance Project	-	10,000
Susquehanna University	(15,000)	-
Washington County Bar Association	<u>12,000</u>	<u>12,500</u>
Total Pro Bono Grants	<u>36,393</u>	<u>66,700</u>
Total Grant Awards	<u>\$ 15,257,775</u>	<u>\$ 16,283,447</u>