

**PENNSYLVANIA INTEREST ON
LAWYERS TRUST ACCOUNT BOARD
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2009 AND 2008
AND
INDEPENDENT AUDITOR'S REPORT**

HAMILTON & MUSSER, P.C.
Certified Public Accountants

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Table of Contents

For the Years Ended June 30, 2009 and 2008

<u>CONTENTS</u>	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2-6
Financial Statements:	
Balance Sheets	7
Statements of Revenue, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10-14
Supplementary Information:	
Detailed Schedule of Revenue, Expenses, and Changes in Net Assets	15
Schedule of Program Administration Expenses and Property Acquisitions – Budget & Actual	16
Schedules of Grant Recipients	17-18



HAMILTON & MUSSER, P.C.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets 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, 2009 and 2008, and the related statements of revenue, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Interest on Lawyers Trust Account Board as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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 through 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 29, 2009

Mechanicsburg, Pennsylvania

Certified Public Accountants

Members of the American and Pennsylvania Institutes of CPA's

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Management's Discussion and Analysis For the Years Ended June 30, 2009 and 2008

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, 2009 with selected comparative information for the fiscal year ending June 30, 2008. 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 fiduciary funds in interest-bearing IOLTA accounts at financial institutions. Lawyers who infrequently handle fiduciary funds can request an exemption from the IOLTA requirements of the RPC 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, 2009, \$8.9 million and for the fiscal year ending June 30, 2008 \$9.4 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.

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.

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.

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 average about \$16,950 monthly are dedicated to the mission of the IOLTA Board.

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, 2009 and 2008

IOLTA BOARD'S ACTIVITY HIGHLIGHTS

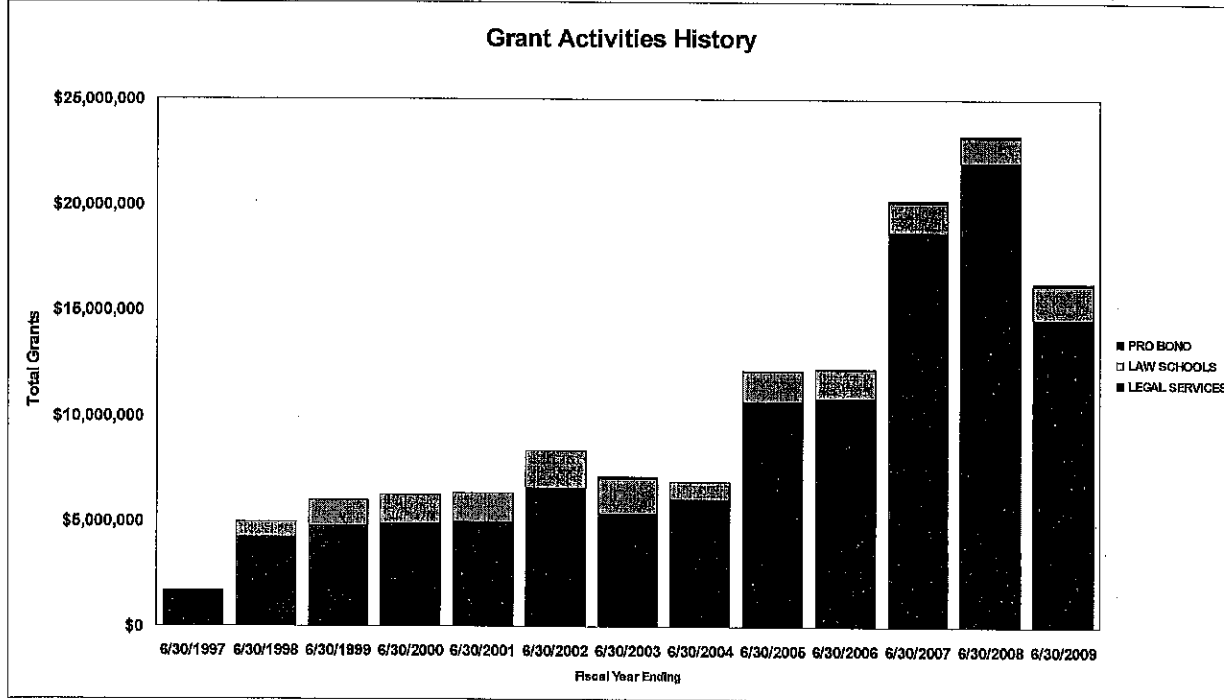
National and other studies have concluded that only one of five indigent persons needing civil legal assistance actually receives the needed legal help. As a result, legal assistance is often rationed to those whose needs are determined the greatest, such as victims of domestic violence, tenants and 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, 2009, about \$147.2 million of grants have been awarded (about \$131.6 million of which was awarded while the IOLTA Board was under the jurisdiction of the Supreme Court – see graph on the following page). 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, however, have caused a 30% reduction in grants this year.



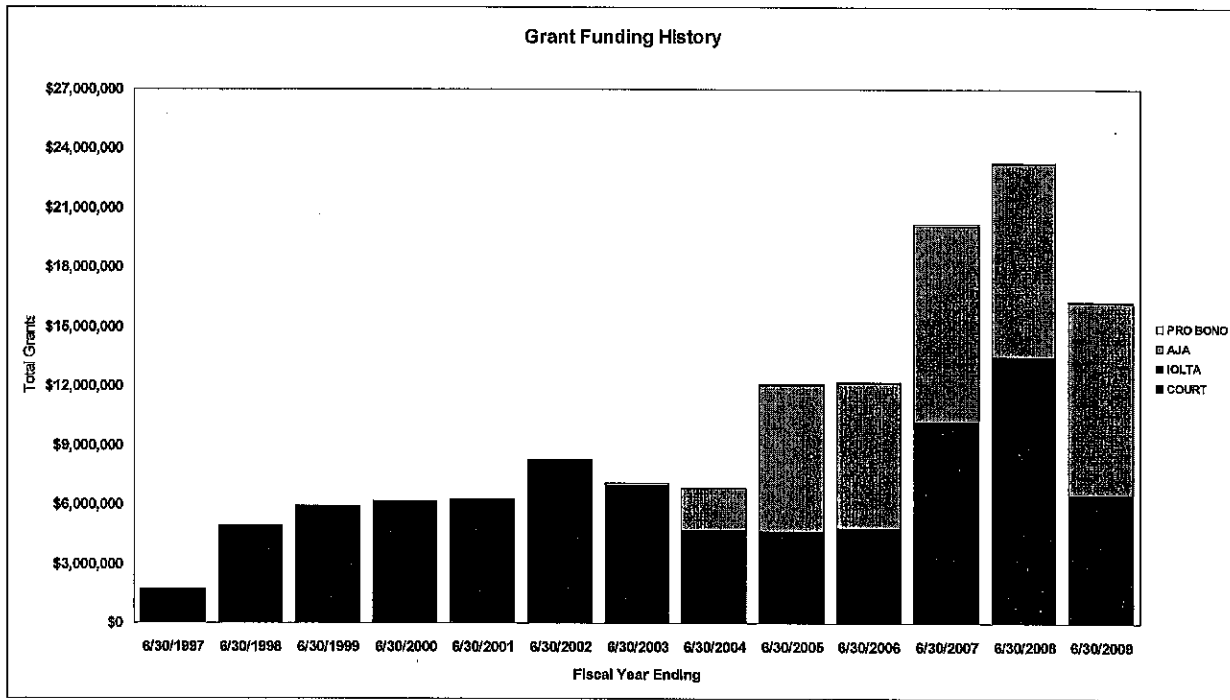
Since the IOLTA Board came under the jurisdiction of the Supreme Court of PA, most grants, \$115.1 million, have gone to legal services organizations, almost \$16 million to law school clinical and externship programs, and about \$454,700 to establish or expand pro bono efforts.

These grants over the years have been funded \$83.5 million from the IOLTA funding stream, \$46.2 million from the AJA fees, \$1.6 million from Court funding, and \$.5 million from private contributions (see below graph).

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, 2009 and 2008



Revenue Enhancement

As a result of the unprecedented low interest rates paid on IOLTA accounts and their effect on grants to legal aid programs, on April 2, 2009, the Supreme Court of Pennsylvania amended RPC 1.15 to require each actively licensed Pennsylvania attorney to pay an additional \$25 per year to support the mission of the IOLTA program. Those payments which will be received in the next fiscal year are expected to total approximately \$1.5 million annually.

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
For the Years Ended June 30, 2009 and 2008

COMMENTS ON FINANCIAL STATEMENTS

Condensed financial data extracted from the basic financial statements for the fiscal years ended June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Capital assets	\$ 101,298	\$ 65,606
Other assets	<u>15,738,373</u>	<u>18,115,714</u>
Total assets	<u>\$ 15,839,671</u>	<u>\$ 18,181,320</u>
Total current liabilities	<u>\$ 506,215</u>	<u>\$ 361,815</u>
Invested in capital assets	101,298	65,606
Restricted net assets	10,004,356	10,965,358
Unrestricted net assets	<u>5,227,802</u>	<u>6,788,541</u>
Total net assets	<u>15,333,456</u>	<u>17,819,505</u>
Total liabilities and net assets	<u>\$ 15,839,671</u>	<u>\$ 18,181,320</u>
IOLTA interest, net of service charges	\$ 5,283,264	\$ 9,998,166
Access to Justice fees	<u>8,858,921</u>	<u>9,413,589</u>
Total operating revenues	<u>14,142,186</u>	<u>19,411,755</u>
Program administration	<u>685,396</u>	<u>575,566</u>
Grant awards		
Legal service organizations	14,581,900	22,010,202
Law schools	1,634,847	1,195,993
Pro bono grants	<u>66,700</u>	<u>58,468</u>
Total grant awards	<u>16,283,447</u>	<u>23,264,663</u>
Total operating expenses	<u>16,968,843</u>	<u>23,840,228</u>
Total non-operating revenues	<u>340,608</u>	<u>699,560</u>
Change in net assets	(2,486,049)	(3,728,914)
Net assets – July 1	<u>17,819,505</u>	<u>21,548,419</u>
Net assets – June 30	<u>\$ 15,333,456</u>	<u>\$ 17,819,505</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, 2009 and 2008

Financial Statement Overview

As between the reported years, grants were reduced by about \$7 million, or 30%. The reductions resulted primarily because of reduced revenues of about \$5.3 million. Most of the revenue reduction is attributable to steeply reduced interest rates paid on IOLTA accounts because of the recessionary economy. As between the years, IOLTA revenues are down \$4.7 million or 47%. To fully fund the grants that were awarded required the use of \$2.5 million from accumulated net assets.

Legal Services Organization Grants

Grants totaling \$14,581,900 and \$22,010,202 were awarded in fiscal years ended June 30, 2009 and 2008 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, \$12.4 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 37,109 cases for indigent persons in Pennsylvania.

Direct grants were made to some of the organizations of the Pennsylvania Legal Aid Network targeted to increase the access to civil legal help by assisting the organizations to implement and maintain region-wide telephone "help lines." Help lines make use of a toll-free number that callers from the area served by the program can use to seek legal assistance. After financial eligibility for service is determined, callers requiring direct representation are routed to the appropriate service office to schedule an appointment. Clients needing legal advice are immediately transferred to lawyers and paralegals staffing the telephone help line. Other grants were awarded to defend mortgage foreclosure cases, combat predatory lending practices, and to defend against sub prime credit card abuses for low-income consumers. Another project funded with an IOLTA grant provided outreach to the Hispanic community to focus specifically on public benefits education and advocacy.

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 \$1,634,847 and \$1,195,993 in fiscal years ended June 30, 2009 and 2008. 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 a clinic ranges from a low of 4% of the total cost of operating the clinic, to 100% of the costs for some externship programs. At one law school, the IOLTA grant helped it initiate a farm workers' clinic, the first of its kind in the United States. At another school, the IOLTA funding helped it initiate an immigration law clinic. Externships at poverty law offices were also planned for students who will provide civil legal representation under the supervision of experienced poverty law practitioners. The law students and faculty planned to spend about 36,000 hours in the direct representation of indigent clients in the fiscal year ending June 30, 2009.

Pro Bono Initiative

This year organized pro bono programs were funded in six counties and one statewide effort at the level of \$66,700. The grants were expected to help mobilize nearly 6,400 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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and Cash Equivalents	\$ 5,237,163	\$ 6,721,828
Deferred Compensation Asset (Note 9)	56,111	44,547
Accounts Receivable		
IOLTA Interest	441,727	727,531
Access to Justice	9,961,304	10,523,634
Other	2,908	88,555
Prepaid Expenses	10,888	9,619
Note Receivable (Note 10)	<u>28,272</u>	<u>-</u>
Total Current Assets	<u>15,738,373</u>	<u>18,115,714</u>
Capital Assets (Note 3)	233,736	175,256
Less – Accumulated Depreciation (Note 3)	<u>(132,438)</u>	<u>(109,650)</u>
Total Capital Assets	<u>101,298</u>	<u>65,606</u>
Total Assets	<u>\$ 15,839,671</u>	<u>\$ 18,181,320</u>
Current Liabilities		
Accounts Payable	\$ 304,769	\$ 197,414
Accrued Expenses	145,335	119,854
Deferred Compensation Liability (Note 9)	<u>56,111</u>	<u>44,547</u>
Total Current Liabilities	<u>506,215</u>	<u>361,815</u>
Net Assets		
Unrestricted to IOLTA Program	4,799,460	6,532,610
Invested in Capital Assets	101,298	65,606
Restricted to Access to Justice Program	10,004,356	10,965,358
Unrestricted to Pro Bono	105,441	136,430
Unrestricted to Pro Bono Hac Vice	<u>322,901</u>	<u>119,501</u>
Total Net Assets	<u>15,333,456</u>	<u>17,819,505</u>
Total Liabilities and Net Assets	<u>\$ 15,839,671</u>	<u>\$ 18,181,320</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenue		
IOLTA Interest, Net of Service Charges of \$215,053 and \$277,604	\$ 5,283,264	\$ 9,998,166
Access to Justice Fees	<u>8,858,922</u>	<u>9,413,589</u>
Total Operating Revenue	<u>14,142,186</u>	<u>19,411,755</u>
Operating Expenses		
Program Administration	<u>685,396</u>	<u>575,566</u>
Grant Awards		
Legal Service Organizations	14,581,900	22,010,202
Law Schools	1,634,847	1,195,993
Pro Bono Grants	<u>66,700</u>	<u>58,468</u>
Total Grant Awards	<u>16,283,447</u>	<u>23,264,663</u>
Total Operating Expenses	<u>16,968,843</u>	<u>23,840,229</u>
Operating Income (Loss)	<u>(2,826,657)</u>	<u>(4,428,474)</u>
Non-Operating Revenue		
Pro Bono Initiative Contributions	35,711	62,811
Pro Hac Vice	203,400	119,501
Other Interest and Service Charges, Net	<u>101,497</u>	<u>517,248</u>
Total Non-Operating Revenue	<u>340,608</u>	<u>699,560</u>
Change in Net Assets	(2,486,049)	(3,728,914)
Net Assets, Beginning of Year	<u>17,819,505</u>	<u>21,548,419</u>
Net Assets, End of Year	<u>\$ 15,333,456</u>	<u>\$ 17,819,505</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
IOLTA Interest Received	\$ 5,537,370	\$ 10,288,313
Access to Justice Fees Received	9,421,252	9,727,130
Other Cash Receipts	85,647	(82,158)
Cash Paid to Grant Recipients	(16,283,447)	(23,264,663)
Cash Paid to Suppliers	(110,006)	(13,407)
Cash Paid to Employees	<u>(406,045)</u>	<u>(325,858)</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>(1,755,229)</u>	<u>(3,670,643)</u>
Cash Flows from Non-Operating Activities		
Pro Bono Initiative Contributions	35,711	62,811
Pro Hac Vice	203,400	119,501
Other Interest and Service Charges, Net	<u>101,497</u>	<u>517,248</u>
Net Cash and Cash Equivalents Provided by Non-Operating Activities	<u>340,608</u>	<u>699,560</u>
Cash Flows from Investing Activities		
Purchase of Investments for Deferred Compensation Asset	(11,564)	(14,345)
Acquisitions of Capital Assets	<u>(58,480)</u>	<u>(66,239)</u>
Net Cash and Cash Equivalents Used by Investing Activities	<u>(70,044)</u>	<u>(80,584)</u>
Decrease in Cash and Cash Equivalents	(1,484,665)	(3,051,667)
Cash and Cash Equivalents, Beginning of Year	<u>6,721,828</u>	<u>9,773,495</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,237,163</u>	<u>\$ 6,721,828</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents Used by Operating Activities		
Operating Income	\$ (2,826,657)	\$ (4,428,474)
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Used by Operating Activities		
Depreciation Expense	22,788	15,632
Changes in Assets and Liabilities:		
Accounts Receivable	905,509	521,530
Prepaid Expenses	(1,269)	(834)
Accounts Payable	107,355	167,353
Accrued Expenses	<u>37,045</u>	<u>54,150</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>\$ (1,755,229)</u>	<u>\$ (3,670,643)</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, 2009 and 2008

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, 2009 and 2008

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 \$5,237,163 and \$6,721,828, and the bank balances were \$5,256,919 and \$6,857,354, for the years ended June 30, 2009 and 2008, 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, 2009 and 2008

NOTE 3 CAPITAL ASSETS

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	<u>233,736</u>
Less: Accumulated Depreciation	<u>(132,438)</u>
Capital Assets, Net	<u>\$ 101,298</u>

Capital assets activity for the year ended June 20, 2008 was as follows:

Capital Assets	
Furniture and Equipment	\$ 65,732
Software	105,325
Leasehold Improvements	<u>4,199</u>
Total Capital Assets	<u>175,256</u>
Less: Accumulated Depreciation	<u>(109,650)</u>
Capital Assets, Net	<u>\$ 65,606</u>

Depreciation expense of \$22,788 and \$15,632 was recorded for the years ended June 30, 2009 and 2008, 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 \$16,283,447 and \$23,264,663, during the years ended June 30, 2009 and 2008, respectively.

During March 2009, the Board recommended, and during May 2009, the Supreme Court of Pennsylvania approved, a total of \$5,233,000 in grants for the grant year July 1, 2009 through June 30, 2010, which included \$3,598,000 in grants to Pennsylvania legal services organizations and \$1,635,000 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, 2009 and 2008

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 \$8,858,922 and \$9,413,589 relating to the AJA during the years ended June 30, 2009 and 2008, respectively, of which \$8,853,117 and \$9,421,251 was available for appropriation for the years ended June 30, 2009 and 2008, respectively.

During March 2009, the Board recommended, and during May 2009, the Supreme Court of Pennsylvania approved, \$9,431,500 in grants to Pennsylvania Legal Aid Network, Inc. for the grant period July 1, 2009 through June 30, 2010.

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 \$35,711 and \$62,811 as a result of the appeal during the years ended June 30, 2009 and 2008, respectively. Grants to pro bono programs (included in amounts in Note 4) by the Board totaled \$66,700 and \$58,468 during the years ended June 30, 2009 and 2008, respectively.

During March 2009, the Board recommended, and during May 2009, the Supreme Court of Pennsylvania approved \$56,550 in Pro Bono grants for the grant period July 1, 2009 through June 30, 2010.

NOTE 7 LEASES

The Board leases office space in Harrisburg under a three-year operating lease. Lease expense amounted to \$24,696 and \$23,716, for the years ended June 30, 2009 and 2008, respectively.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Notes to Financial Statements
For the Years Ended June 30, 2009 and 2008

NOTE 8 RETIREMENT PLAN

The Board sponsors a 403(b) retirement plan for employees. There were employer contributions of \$38,530 and \$34,312 to the plan for the years ended June 30, 2009 and 2008, 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 \$56,111 and \$44,547 for the agreement as of June 30, 2009 and 2008, 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 \$28,272 as of June 30, 2009.

Interest received on this note totaled \$1,339 during the year ended June 30, 2009.

NOTE 11 PRO HAC VICE ADMISSIONS

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.

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Detailed Schedule of Revenue, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2009 and 2008

	<u>General</u>	<u>Access to Justice</u>	<u>Pro Bono Initiative</u>	<u>Pro Hac Vice</u>	<u>Property</u>	<u>Total 2009</u>	<u>Total 2008</u>
Operating Revenue							
IOLTA Interest, Net of Service Charges of \$215,053 and \$277,604	\$ 5,283,264	\$ -	\$ -	\$ -	\$ -	\$ 5,283,264	\$ 9,998,166
Access to Justice Fees	<u>8,858,922</u>	<u>8,858,922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,858,922</u>	<u>9,413,589</u>
Total Operating Revenue	<u>5,283,264</u>	<u>8,858,922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,142,186</u>	<u>19,411,755</u>
Operating Expenses							
Program Administration	<u>510,962</u>	<u>151,646</u>	<u>-</u>	<u>-</u>	<u>22,788</u>	<u>685,396</u>	<u>575,566</u>
Grant Awards							
Legal Service Organizations	4,872,849	9,709,051	-	-	-	14,581,900	22,010,202
Law Schools	1,634,847	-	-	-	-	1,634,847	1,195,993
Pro Bono Grants	<u>66,700</u>	<u>66,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,700</u>	<u>58,468</u>
Total Grant Awards	<u>6,507,696</u>	<u>9,709,051</u>	<u>66,700</u>	<u>-</u>	<u>-</u>	<u>16,283,447</u>	<u>23,264,663</u>
Total Operating Expenses	<u>7,018,658</u>	<u>9,860,697</u>	<u>66,700</u>	<u>-</u>	<u>22,788</u>	<u>16,968,843</u>	<u>23,840,229</u>
Operating Income (Loss)	<u>(1,735,394)</u>	<u>(1,001,775)</u>	<u>(66,700)</u>	<u>-</u>	<u>(22,788)</u>	<u>(2,826,657)</u>	<u>(4,428,474)</u>
Non-Operating Revenue							
Pro Bono Initiative Contributions	-	-	35,711	-	-	35,711	62,811
Pro Hac Vice	-	-	-	203,400	-	203,400	119,501
Other Interest and Service Charges, Net	<u>47,858</u>	<u>53,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,497</u>	<u>517,428</u>
Total Non-Operating Revenue	<u>47,858</u>	<u>53,639</u>	<u>35,711</u>	<u>203,400</u>	<u>-</u>	<u>340,608</u>	<u>699,560</u>
Change in Net Assets	<u>(1,687,536)</u>	<u>(948,136)</u>	<u>(30,989)</u>	<u>203,400</u>	<u>(22,788)</u>	<u>(2,486,049)</u>	<u>(3,728,914)</u>
Reclassification of Net Assets							
Acquisition of Property	<u>(45,614)</u>	<u>(12,866)</u>	<u>-</u>	<u>-</u>	<u>58,480</u>	<u>-</u>	<u>-</u>
Net Assets, Beginning of Year	<u>6,332,610</u>	<u>10,965,358</u>	<u>136,430</u>	<u>119,501</u>	<u>65,606</u>	<u>17,819,505</u>	<u>21,548,419</u>
Net Assets, End 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>

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD
Schedule of Program Administration Expenses and Property Acquisitions – Budget & Actual
For the Year Ended June 30, 2009

	Budget (Unaudited)	General	Access to Justice	Property	Total
Program Administration Expenses					
Personnel					
Wages	\$ 337,700	\$ 246,685	\$ 74,445	\$ -	\$ 321,130
Fringe Benefits	<u>133,600</u>	<u>96,444</u>	<u>25,516</u>	<u>-</u>	<u>121,960</u>
Total Personnel	<u>471,300</u>	<u>343,129</u>	<u>99,961</u>	<u>-</u>	<u>443,090</u>
Operating Expenses					
Advertising	1,600	5,862	1,653	-	7,515
Consultants & Contract Services	79,300	63,835	24,761	-	88,596
Office Supplies	14,000	13,068	3,686	-	16,754
Postage	10,000	6,623	1,868	-	8,491
Printing & Promotion	23,000	11,656	878	-	12,534
Rent	26,000	19,263	5,433	-	24,696
Telephone	8,500	5,377	1,517	-	6,894
Travel & Meetings	28,000	18,599	5,246	-	23,845
Depreciation	7,000	-	-	22,788	22,788
Insurance	9,000	5,913	1,668	-	7,581
Equipment Maintenance	10,500	11,237	3,170	-	14,407
Other	<u>2,700</u>	<u>6,400</u>	<u>1,805</u>	<u>-</u>	<u>8,205</u>
Total Operating Expenses	<u>219,600</u>	<u>167,833</u>	<u>51,685</u>	<u>22,788</u>	<u>242,306</u>
Total Program Administration Expenses	<u>\$ 690,900</u>	<u>\$ 510,962</u>	<u>\$ 151,646</u>	<u>\$ 22,788</u>	<u>\$ 685,396</u>
Property Acquisitions					
Furniture, Equipment & Leaseholds Purchased	<u>\$ 145,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,480</u>	<u>\$ 58,480</u>

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Schedules of Grant Recipients

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Legal Service Organizations		
Aids Law Project	\$ 39,400	\$ 50,000
Allegheny County Bar Foundation	47,100	110,000
CASA of Allegheny County	40,300	60,000
Community Impact Legal Services	23,400	35,000
Community Legal Services of Philadelphia	64,700	82,100
Consumer Bankruptcy Assistance Project	50,200	66,400
Disability Rights Network of PA	55,100	70,000
Education Law Center	55,100	70,000
Equality Advocates Pennsylvania	11,800	15,000
Franklin County Legal Services	19,400	20,065
HIAS & Council Migration Services of Philadelphia	35,900	92,000
Homeless Advocacy Project	30,500	47,000
Juvenile Law Project	47,300	60,000
Kids Voice	53,700	80,000
Lackawanna Pro Bono, Inc.	30,800	46,100
Laurel Legal Services, Inc.	64,400	-
Legal Aid of Southeastern PA	119,400	178,700
Legal Clinic for the Disabled, Inc.	37,700	50,000
Legal Services for Immigrants and Internationals	38,200	38,100
Mid-Penn Legal Services	168,500	249,000
Montgomery Child Advocacy Project	23,400	35,000
Neighborhood Legal Services Association	64,400	24,124
North Penn Legal Services	292,000	414,000
Northwestern Legal Services	69,300	99,100
PA Immigration Resource Center	96,900	180,000
Pennsylvania Legal Aid Network, Inc.	12,474,000	18,883,265
Philadelphia Legal Assistance Center, Inc.	26,900	35,000
Philadelphia Volunteer Lawyers for the Arts	5,400	5,000
Philadelphia Volunteers for the Indigent Program	95,100	135,000
Protection from Abuse Coordinated Services, Inc.	43,300	60,000
Public Interest Law Center of Philadelphia	47,300	60,000
Senior Law Center	48,500	135,000
Southwestern PA Legal Aid Society	64,300	287,900
Support Center Child Advocates	86,100	117,000
Westmoreland Bar Foundation	28,500	42,500
Women Against Abuse Legal Center	35,900	47,000
Women's Center & Shelter Civil Law Project	<u>47,700</u>	<u>30,848</u>
Total Legal Services Organizations	<u>14,581,900</u>	<u>22,010,202</u>
Law Schools		
Pennsylvania State University, Dickinson School of Law	200,000	200,000
Drexel University, Earle Mack School of Law	165,000	45,000
Duquesne University School of Law	207,108	12,970
Temple University, Beasley School of Law	200,000	200,000
University of Pennsylvania School of Law	262,739	138,023
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>1,634,847</u>	<u>1,195,993</u>

PENNSYLVANIA INTEREST ON LAWYERS TRUST ACCOUNT BOARD

Schedules of Grant Recipients – Continued
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Pro Bono Grants		
Blair County Bar Association	9,800	-
Chester County Bar Association	3,500	5,500
Franklin County Bar Association	8,900	9,968
Lackawanna Pro Bono, Inc.	-	7,000
Pennsylvania Bar Association	22,000	20,000
Philadelphia Bar Foundation	-	10,000
Philadelphia – Tenant Assistance Project	10,000	-
Venango County Bar Association	-	1,500
Washington County Bar Association	12,500	12,500
Wayne County Bar Association	-	(8,000)
	<u>66,700</u>	<u>58,468</u>
Total Pro Bono Grants		
	<u>66,700</u>	<u>58,468</u>
Total Grant Awards	<u>\$ 16,283,447</u>	<u>\$ 23,264,663</u>