



WISCONSIN TRUST ACCOUNT FOUNDATION, INC.

**FINANCIAL STATEMENTS WITH
SUPPLEMENTARY SCHEDULES**

December 31, 2002

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wisconsin Trust Account Foundation, Inc.
Madison, Wisconsin

We have audited the accompanying statement of assets, liabilities and net assets – modified cash basis of Wisconsin Trust Account Foundation, Inc. as of December 31, 2002, and the related statements of revenue, expenses and changes in net assets – modified cash basis and cash flows – modified cash basis for the 18-month period then ended. These financial statements are the responsibility of Wisconsin Trust Account Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Wisconsin Trust Account Foundation, Inc. as of December 31, 2002, and its revenue, expenses and changes in net assets and its cash flows for the period then ended on the basis of accounting described in Note 1.

The accompanying schedule of grant awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wegner LLP

Wegner LLP
January 28, 2003

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
December 31, 2002

| | |
|---|----------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash | \$ 376,347 |
| Prepaid expenses | 6,199 |
| Prepaid grant awards | <u>46,500</u> |
| Total current assets | 429,046 |
| EQUIPMENT | |
| Equipment | 16,992 |
| Less accumulated depreciation | <u>11,726</u> |
| Equipment - net | 5,266 |
| OTHER ASSETS | |
| Investments | 964,602 |
| Security deposit | <u>500</u> |
| Total other assets | <u>965,102</u> |
| Total assets | <u>\$ 1,399,414</u> |
| LIABILITIES AND NET ASSETS | |
| LIABILITIES | |
| | \$ - |
| NET ASSETS | |
| Unrestricted | 299,214 |
| Board designated | <u>1,100,200</u> |
| Total net assets | <u>1,399,414</u> |
| Total liabilities and net assets | <u>\$ 1,399,414</u> |

See accompanying notes.

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
18-Month period ended December 31, 2002

UNRESTRICTED NET ASSETS

REVENUE

| | |
|---|-----------------|
| Trust account interest income | \$ 2,443,642 |
| Equal Justice Coalition contribution | 100,000 |
| Department of Workforce Development grant | 200,000 |
| Investment loss - net | <u>(33,074)</u> |

Total revenue 2,710,568

EXPENSES

Program services

Grant awards 2,839,874

Support services

| | |
|-----------------------------------|--------------|
| Personnel | 200,181 |
| Occupancy | 27,694 |
| Office expenses | 10,122 |
| Telephone | 4,748 |
| Board expenses | 10,228 |
| Training and conferences | 2,349 |
| Professional services | 10,614 |
| Equipment maintenance and support | 4,856 |
| Bank charges | 6,640 |
| Publicity and public relations | 1,892 |
| Insurance | 3,150 |
| Depreciation | 5,624 |
| Miscellaneous | <u>2,570</u> |

Total support services 290,668

Total expenses 3,130,542

Change in net assets **(419,974)**

Net assets - beginning of period 1,819,388

Net assets - end of period **\$ 1,399,414**

See accompanying notes.

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS
18-Month period ended December 31, 2002

| | |
|---|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ (419,974) |
| Adjustments to reconcile change in net assets to net cash used by operating activities | |
| Depreciation | 5,624 |
| Realized gain on sales of investments | (70,036) |
| Unrealized loss on investments | 140,733 |
| (Increase) decrease in assets | |
| Prepaid expenses | (3,187) |
| Prepaid grant awards | (46,500) |
| | <hr/> |
| Net cash used by operating activities | (393,340) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of equipment | (3,136) |
| Purchases of investments | (772,390) |
| Proceeds from the sales of investments | 895,215 |
| | <hr/> |
| Net cash provided by investing activities | 119,689 |
| Change in cash | (273,651) |
| Cash - beginning of period | <hr/> 649,998 |
| Cash - end of period | <hr/><hr/>\$ 376,347 |

See accompanying notes.

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

The mission of Wisconsin Trust Account Foundation, Inc. (WisTAF) is dedicated to equal access to the civil justice system; funding legal services for low-income persons through the fair and effective administration of interest from lawyers' trust accounts (IOLTA) and other sources. WisTAF is a nonprofit corporation created to administer the IOLTA program throughout the state of Wisconsin and to disburse the funds collected under this program. Beginning January 1, 1987, the IOLTA program required lawyers to remit the interest income earned on clients' nominal trust account balances to WisTAF. These funds are distributed by WisTAF to provide legal aid to the poor and to fund programs for the benefit of the public as may be approved by the Supreme Court for exclusively public purposes. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Period

WisTAF changed its accounting year end from June 30 to December 31. The financial statements include the operations of WisTAF for the eighteen-month period July 1, 2001 - December 31, 2002.

Financial Statement Presentation

The accompanying financial statements have been prepared on the modified cash basis of accounting. This basis differs from U.S. generally accepted accounting principles because WisTAF has not recognized accounts receivable from trust accounts, accrued interest on investments, and accounts payable to vendors and grantees and their related effects on earnings. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of WisTAF and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Board Designated Net Assets – Unrestricted net assets subject to self-imposed limits by action of the Board of Directors for grant awards to be paid in the future.

Equipment

Acquisitions of equipment in excess of \$500 are capitalized. Purchases of equipment are recorded at cost. Depreciation is provided using the straight-line method over three to five years, the estimated useful lives of the assets.

Investments

WisTAF carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of assets, liabilities and net assets – modified cash basis. Unrealized gains and losses are included in the change in net assets in the accompanying statement of revenue, expenses and changes in net assets – modified cash basis.

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trust Account Interest Income

Trust account interest income consists of funds transferred from IOLTA accounts throughout the state of Wisconsin. Revenue is recognized when received in accordance with the modified cash basis of accounting.

Government Grants

The Wisconsin Family Law Project of WisTAF is funded by a service contract with the Wisconsin Department of Workforce Development. Revenue from this contract is based upon the actual cost of providing such services up to the maximum amount specified in the contract. Costs are allocated to the project in accordance with established procedures and are subject to audit by the Wisconsin Department of Workforce Development. No determination has been made regarding the effect, if any, such an audit could have on the financial statements.

Functional Expenses

The costs of administering the program and other activities have been summarized on a functional basis in the statement of revenue, expenses and changes in net assets – modified cash basis.

Income Taxes

WisTAF is an exempt public charity under Section 501(c)(3) of the Internal Revenue Code and therefore is not subject to federal and state income or franchise taxes.

Estimates

The preparation of financial statements in conformity with the modified cash 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.

NOTE 2 – CONCENTRATION OF CREDIT RISK

WisTAF maintains cash balances at one financial institution. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$100,000. WisTAF had uninsured cash balances of \$280,740 at December 31, 2002.

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE 3 – INVESTMENTS

Investments consisted of the following at December 31, 2002:

| | Basis | Unrealized Gain (Loss) | Fair Value |
|--------------------|--------------|---------------------------|---------------|
| Money market funds | \$ 142,683 | \$ - | \$ 142,683 |
| Fixed income | 154,672 | 3,219 | 157,891 |
| Equities | 807,980 | (143,952) | 664,028 |
| Investments | \$ 1,105,335 | \$ (140,733) | \$ 964,602 |

The investments are uninsured and are subject to changes in economic market conditions. WisTAF's investment policy attempts to minimize the risk of credit exposure through portfolio diversification.

Investment income consisted of the following for the 18-month period ended December 31, 2002:

| | |
|--------------------------------|-------------|
| Operational interest | \$ 10,447 |
| Reserve interest and dividends | 40,469 |
| Realized gain | 70,036 |
| Unrealized loss | (140,733) |
| Investment income | (19,781) |
| Less investment fees | 13,293 |
| Investment loss - net | \$ (33,074) |

NOTE 4 – CONTINGENCY

In 1996, the Fifth Circuit Court of Appeals reversed a federal district court holding that clients do not have a cognizable property interest in the interest earned on their deposits on IOLTA accounts. The United States Supreme Court (USSC) accepted review of this decision. See *Washington Legal Foundation v. Texas Equal Access to Justice Foundation*, 94F.3d 996, (1996) rev'g in part 873 F. Supp 1 (W.D. Tex. 1995), cert. granted sub nom. *Phillips v. Washington Legal Foundation*, 117 S. Ct. 2535 (1997).

In June 1998, the USSC affirmed the Fifth Circuit's conclusion that clients have a "property interest" in the interest generated from their attorney's IOLTA trust accounts. However, the USSC has sent the case back to the lower court for a decision on whether a taking has occurred and what, if any, just compensation is due. In May 2000, Washington Legal Foundation filed an appeal with the Fifth Circuit Court.

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE 4 – CONTINGENCY (continued)

In January 2001, the U.S. Court of Appeals for the Ninth Circuit held that IOLTA is property of the clients whose money is deposited into trust and generates the interest, and that a government appropriation of that interest for public purposes is a "Taking", entitling them to just compensation under the Fifth Amendment. Just compensation for the takings may be less than the amount of the interest taken, or nothing, depending on the circumstances. Determination of the remedy for just compensation has been remanded.

In December 2002, the USSC heard oral arguments in *Washington Legal Foundation, ET Al., vs. Legal Foundation of Washington, ET Al.* The case is before the USSC to determine if IOLTA programs are indeed a "Taking" as that is understood in the Constitution. The decision of the USSC is expected in late spring of 2003. A Texas case, *Phillips v. Washington Legal Foundation* has also been granted Certiorari but has not been scheduled for oral arguments. The facts in the two cases are very similar and it is expected that a decision in the first case will control the second.

In the event that the USSC would determine IOLTA is illegal WisTAF would immediately cease receiving the interest on lawyer's trust accounts and liquidate the Foundation and its assets in accordance with law and the direction of the Wisconsin State Supreme Court. There is a likelihood that the USSC will exempt programs that have an opt out provision for the client as is found in Wisconsin. If that was the case, the Foundation would conform to whatever form the USSC mandated.

Based on representation of counsel, WisTAF believes that the IOLTA program is legal and constitutional and will ultimately prevail in the courts. It is important to note that the decision only addresses one aspect of the Takings Clause. It is not possible at this time to determine what effect this will ultimately have on WisTAF, if any.

NOTE 5 – RETIREMENT PLAN

WisTAF sponsors a Simplified Employee Pension (SEP) plan. To be eligible to participate in the plan, employees must be 21 years of age, performed services during at least one of the preceding five years and earned at least the Internal Revenue Service minimum requirement for a SEP during the year. Contributions to the plan are based on 10% of gross salaries of eligible employees. Total contributions to the plan were \$11,468 for the 18-month period ended December 31, 2002.

NOTE 6 – DESCRIPTION OF LEASING ARRANGEMENTS

WisTAF leases office space in Madison under an operating lease agreement that expires in September 2004. The lease requires monthly payments of \$1,212, with annual increases of about 5% of the base rental. WisTAF leases a copier for use in the operation of its program under an operating lease agreement that expires in December 2004. The lease requires monthly payments of \$270. Total lease expense was \$23,946 for the 18-month period ended December 31, 2002. Future minimum lease payments are \$17,970 and \$14,706 for 2003 and 2004.

WISCONSIN TRUST ACCOUNT FOUNDATION, INC.
SCHEDULE OF GRANT AWARDS
18-Month period ended December 31, 2002

| | Foundation Grants | Special Needs Grants | Wisconsin Equal Justice Fund Grants |
|--|----------------------|----------------------------|--|
| Legal Action of Wisconsin | \$ 950,130 | \$ - | \$ 34,000 |
| Wisconsin Judicare | 447,120 | - | 16,000 |
| Legal Services of Northeastern Wisconsin | 279,450 | - | 10,000 |
| Western Wisconsin Legal Services | 186,300 | - | 6,700 |
| Centro Legal Por Derechos Humanos | 22,500 | - | - |
| Wisconsin Coalition for Advocacy | 135,000 | - | 16,650 |
| Legal Aid Society of Milwaukee | 183,000 | - | 16,650 |
| ABC for Health | 127,500 | - | - |
| Center Against Sexual and Domestic Abuse | 96,000 | - | - |
| American Civil Liberties Union | 35,000 | - | - |
| Portage County Legal Aid Society | 10,500 | - | - |
| Legal Action of Wisconsin - Racine | 45,000 | - | - |
| Legal Aid Society of Door County | 10,500 | - | - |
| Wisconsin Law Foundation | 30,000 | - | - |
| AIDS Network | 30,000 | - | - |
| AIDS Resource Center of Wisconsin | - | - | - |
| Wisconsin Equal Justice Fund | - | 6,547 | - |
| Grant awards | \$ 2,588,000 | \$ 6,547 | \$ 100,000 |

| Wisconsin Family Law Project Grants | Grant Awards |
|--|-----------------|
| \$ 43,950 | \$ 1,028,080 |
| 17,645 | 480,765 |
| 7,350 | 296,800 |
| 4,810 | 197,810 |
| 11,767 | 34,267 |
| 18,136 | 169,786 |
| 18,135 | 217,785 |
| 11,767 | 139,267 |
| - | 96,000 |
| - | 35,000 |
| - | 10,500 |
| - | 45,000 |
| - | 10,500 |
| - | 30,000 |
| - | 30,000 |
| 11,767 | 11,767 |
| - | 6,547 |
| \$ 145,327 | \$ 2,839,874 |