

**THE SUPREME COURT OF PENNSYLVANIA
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

REPORT ON 2015 - 2016 OPERATIONS

The Pennsylvania Lawyers Fund for Client Security (the "Fund") was established by Order of the Supreme Court of Pennsylvania dated April 30, 1982. The Fund was originally established as the "Pennsylvania Client Security Fund." The name was changed to the "Pennsylvania Lawyers Fund for Client Security" by Supreme Court Order dated March 11, 1993. The Fund operates under Pennsylvania Rules of Disciplinary Enforcement, Section 501, et seq.

The Fund was established to reimburse clients who have suffered losses as a result of a misappropriation of funds by their Pennsylvania attorney. There must have been an attorney/client relationship or a fiduciary relationship between the client and the attorney. The Fund does not have jurisdiction over claims alleging malpractice, negligence, or ineffective representation. The Board of the Fund does not arbitrate what the Board determines to be a legitimate fee dispute.

Funding is received through an annual assessment paid by every active-licensed Pennsylvania attorney. The Fund does not receive any tax dollars. For the fiscal year ending June 30, 2016, the Fund's portion of the \$200 annual fee was \$45. The Fund received a total of \$2,886,415 in assessment revenue for the fiscal year ending June 30, 2016. It should be noted that the Fund's assets at year end were down by \$2.29 million compared to the prior year end, with a value of \$8.6 million. Additionally, the Fund has another \$3.5 million of its assets committed to pay awards associated with a waiver of the aggregate per attorney cap as discussed later in this Report, thereby reducing the Fund's uncommitted assets to approximately \$5.1 million. The pending claims at the end of the fiscal year alleged losses totaling \$46,547,159. The Fund's maximum exposure, given the \$100,000 maximum award is approximately \$10.8 million, more than twice the amount of the Fund's uncommitted assets at year end.

In accordance with Pennsylvania Rule of Disciplinary Enforcement 502(d), an independent audit of the Pennsylvania Lawyers Fund for Client Security has been conducted by a certified public

accountant. A copy of such audit has been filed with the Supreme Court of Pennsylvania and is a part of this Report.

The period covered by this Report is the Fund's fiscal year July 1, 2015 through June 30, 2016. This Report has not been submitted to the Supreme Court of Pennsylvania for review prior to publication.

A. At the Start of the 2015-2016 Fiscal Year

The Fund commenced the 2015-2016 fiscal year with 547 pending claims, carrying an award potential of \$13,133,184. This dollar amount is calculated after applying the Fund's \$100,000 award limitation. There were 82 claims alleging a loss of \$100,000 or more among the pending claims. The aggregate total of the alleged losses for these 547 pending claims was \$29,311,659.

B. Activity During the Fiscal Year

The Fund received a total of 204 claims during the period July 1, 2015 through June 30, 2016, alleging losses totaling \$28,682,975. This was a decrease of 160 claims from the amount received during the prior fiscal year. Sixteen of these claims allege losses of \$100,000 or greater, with two of the claims alleging a loss in excess of \$1 million. 108 lawyers were accused of dishonest conduct.

During the 2015-2016 fiscal year, the Board of the Fund made disposition of 218 claims. 119 of these claims resulted in the approval of awards, which awards totaled \$5,001,842. This amount reflects an increase of \$3,719,228 in the amount of approved awards compared with the prior fiscal year. Thirty claimants received the Fund's maximum award of \$100,000.

During the 2015-2016 fiscal year, the Board submitted a request to the Supreme Court of Pennsylvania to waive the \$1,000,000 per attorney aggregate cap. In April 2016, the Supreme Court of Pennsylvania granted the Board's request and approved a maximum aggregate disbursement to this group of claimants not to exceed \$3,500,000. The Board determined to pay one-half of each approved award in August 2016. The remaining one-half of each approved award will be paid on or about August 1, 2017. The \$5,001,842 in approved awards discussed above

includes the awards that were approved to the claimants involved in this waiver request. The Board and Staff of the Pennsylvania Lawyers Fund for Client Security are grateful for the support of the Supreme Court of Pennsylvania in granting this waiver in order that the Fund may help the victims of this former attorney.

Effective September 4, 2007, the Rules of Disciplinary Enforcement under which the Fund operates, were modified to permit, after the approval of an award, the disclosure of the name of the attorney and the amount of the approved award. A list of attorneys involved with the awards approved between July 1, 2015 and June 30, 2016, follows the Report on Operations.

The Board denied 81 claims, which claims alleged aggregate losses totaling \$2,482,424. Many of the claims denied were what the Board determined to be legitimate fee disputes. Several of the claims denied were claims that were based upon funds that were given to an attorney for the sole purpose of investing the funds. Eighteen claims with aggregate alleged losses of \$138,262 were discontinued by the claimants. There were 11 fewer denials during this fiscal year than in the previous fiscal year. The number of claims which were discontinued by the claimants decreased by nine compared with the prior fiscal year.

C. At the End of the Fiscal Year

On June 30, 2016, the Fund had 533 pending claims alleging aggregate total losses in the amount of \$46,169,356. Sixty-two of these claims allege a loss of \$100,000 or more, seeking an aggregate total of \$41,547,159 in awards. Four of the pending claims allege a loss in excess of \$1 million. The Fund's potential maximum exposure from all pending claims as of June 30, 2016, given the \$100,000 maximum award is approximately \$10,822,197.

Since the establishment of the Fund in April 1982, through the period ending June 30, 2016, a period of 34 years, the Fund has approved awards in the aggregate amount of \$63,833,753 as a result of the actions of approximately 905 attorneys.

D. Awards

1. Fiduciary Funds – The conversion of (a) estate funds and (b) trust or escrow funds continues to be the largest categories of approved awards. During the 2015-2016 fiscal year, these two types of claims resulted in the Fund approving awards totaling \$4,353,271 or 87.03% of the total award dollars. \$2,126,193 of this amount represent estate funds, with the \$2,227,078 balance being funds that were to have been held in escrow or trust by the attorney, or where the attorney had been acting as a trustee for a trust. Fifty-four claims alleging attorney theft from estate or trust/escrow monies resulted in awards.

2. Lawsuit Settlement Proceeds - The conversion of lawsuit settlement proceeds was the second highest category of awards paid during the 2015-2016 fiscal year. Awards in this category totaled \$343,232 and represented 6.86% of total awards approved during the fiscal year. Seven claimants received awards representing the return of lawsuit settlement proceeds.

3. Non-performance or Unearned Fees – The acceptance and retention of unearned fees or retainers was the third highest category of awards paid during the 2015-2016 fiscal year. Approved awards for this category totaled \$198,506 or 3.97% of the total approved awards during this fiscal year. Fifty-five claimants received awards representing the return of unearned fees.

Notwithstanding the award amounts reported herein, it should be noted that claims are filed against less than one percent of all Pennsylvania licensed attorneys. This very small percentage speaks highly of the integrity of the Pennsylvania Bar.

E. Lawyers Concerned for Lawyers

During the 2015-2016 fiscal year, the Fund provided \$346,443 for the activities of Lawyers Concerned for Lawyers, as directed by the Supreme Court of Pennsylvania. The funding assistance provided to Lawyers Concerned for Lawyers complements the Fund's mission to ameliorate losses resulting from attorney dishonesty. Often times when an attorney converts client funds, the conduct is related to alcohol or substance abuse or a gambling addiction. The financial

support for Lawyers Concerned for Lawyers helps to mitigate the losses by providing a resource for impaired attorneys. The Fund anticipates that it will continue to support Lawyers Concerned for Lawyers during the fiscal year 2016-2017 in the amount of \$346,443.

F. Mandatory Overdraft Notification

Pennsylvania Rule of Disciplinary Enforcement 221 was promulgated by the Supreme Court of Pennsylvania on April 24, 1995, requiring approved financial institutions to report the occurrence of an item being presented against insufficient funds, when the item involves an attorney trust account. The approved financial institutions are required to submit a report even when the financial institution chooses to honor the item that was presented against insufficient funds. The fiscal year began with 14 pending inquiries. The Fund received 206 negative balance reports during the 2015-2016 fiscal year. Twenty-eight matters were referred to the appropriate Office of Disciplinary Counsel for further inquiry, either due to an unsatisfactory explanation, or as a result of the attorney failing to cooperate with the Fund's inquiry. 180 overdraft notices were reviewed and closed based upon a satisfactory explanation. The fiscal year ended with 12 negative balance inquiries pending.

G. Restitution and Subrogation Efforts

All claimants are required to execute a subrogation agreement prior to the receipt of an approved award, which subrogation agreement assigns to the Fund the right to collect the award amount. The Fund may subsequently receive restitution through civil collection efforts or through criminal restitution payments. The Fund also receives reimbursements from formerly admitted attorneys who desire to seek reinstatement in accordance with Pa.R.D.E. 531. During the 2015-2016 fiscal year, the Fund recovered \$138,514 through subrogation and Rule 531 reimbursements.

H. Board Meetings and Locations

The Board of the Fund continued during the 2015-2016 fiscal year to make a high priority of educating the legal community and Pennsylvania citizenry about the Fund, its mission and activities. During this fiscal year, the Board of the Fund met in Hershey, Philadelphia and

Pittsburgh. Invitations to the Fund's informational dinners, which are held on the eve of the Board's meetings, were extended to the Judiciary, Bar leaders and prominent local citizens from the county where the Board met, as well as from the surrounding counties.

Respectfully submitted,

Lewis F. Gould, Jr., Esq., Board Chair
Daniel I. Booker, Esq., Vice Chair
Bishop Keith W. Reed, Sr.
Hon. Stefanie J. Salavantis, Treasurer
Robert A. Gleason, Jr.
Hon. Albert H. Masland
John A. Barbour, Esq.

AWARDS APPROVED JULY 1, 2015 THROUGH JUNE 30, 2016

<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>ID #</u>	<u>COUNTY</u>	<u>NUMBER OF APPROVED AWARDS</u>	<u>TOTAL AWARDS</u>
Acquista	Lee Samuel	73763	Erie	3	\$3,850
In re: Anonymous*			Allegheny	3	\$11,274
Basner	Christopher	205985	Perry	1	\$2,000
Berg	Philip J.	9867	Montgomery	2	\$65,200
Boring	Kirby Lee	21297	Allegheny	1	\$47,340
Brydon	Samuel J.	37528	Butler	1	\$11,301
Crane	Anthony M.	82067	Philadelphia	1	\$2,203
Domenick	Daniel J.	312682	Allegheny	1	\$7,700
Druzisky	Robert R.	65249	Beaver	1	\$650
Dubin	Steven G.	29562	Bucks	1	\$26,000
Fitzgerald	Kevin J.	64407	Lackawanna	1	\$1,200
Gaudio	David P.	77010	Allegheny	1	\$3,833
Gembala, III	Joseph A.	44063	Philadelphia	5	\$7,305
Gindlesperger	Barry B.	53471	Westmoreland	4	\$4,700
Gultanoff	Barry F.	25731	Montgomery	2	\$118,089
Hargrove	Daniel B.	52704	Allegheny	1	\$500
Ingram	Jesse H.	41433	Philadelphia	1	\$100,000
Jamison	Chris M.	35597	Delaware	2	\$104,194
Johns	Mark D.	85270	Montgomery	1	\$1,000
Kerins	William J.	31136	Bucks	1	\$40,877
Langella	Ronald P.	29949	McKean	2	\$3,099
Levant	Harry J.	57079	Philadelphia	4	\$186,372
Marcial	Basil D.	74365	Philadelphia	1	\$5,400
McGogney	Glenn D.	19856	Lehigh	1	\$39,575
McKee	Sharmil Donzella	201184	Philadelphia	1	\$7,000
Miller	Andrew M.	19866	Mercer	2	\$13,489
Morgan, Jr.	David A.	64333	Lackawanna	2	\$4,550
Noonan	Gregory R.	48544	Montgomery	2	\$102,521
Oesterling	Lee E.	71320	Cumberland	4	\$5,274
Rabel	Michael A.	201443	Allegheny	2	\$5,684
Rizzo	Joseph A.	204779	Northampton	1	\$750
Rodney	Wayne A.	68464	Philadelphia	1	\$1,250
Rominger	Karl E.	81924	Cumberland	16	\$573,783
Saraco	Joseph J.	32240	Montgomery	2	\$30,500
Sausville-Macias	Mario	27356	Out of state	1	\$2,000
Schwab	Gregory G.	43918	Allegheny	3	\$13,500
Spoto, Jr.	Frank M.	91070	Fayette	2	\$2,900
Stamos Ford	Candace Marie	89574	Allegheny	1	\$1,664
Steinberg	Arnold Y.	26495	Allegheny	1	\$27,620
Timperio, Jr.	Nicholas E.	69207	Fayette	3	\$1,050
Weikal-Beauchat	Wendy	71930	Adams	31	\$3,411,516
Wilson	Robert A.	37224	Delaware	1	\$1,654
Yoder	David R.	76281	Cumberland	1	\$1,477

*The name of this attorney is being kept confidential in accordance with the terms of the private discipline that was imposed in the corresponding disciplinary proceedings.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT

HAMILTON & MUSSER, P.C.
Certified Public Accountants

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

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HAMILTON & MUSSER, P.C.

Certified Public Accountants • Consultants to Management

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Pennsylvania Lawyers Fund for Client Security
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Lawyers Fund for Client Security (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of June 30, 2016 and 2015, and the related statements of support, revenue, and expenses – modified cash basis and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Members of the American and Pennsylvania Institutes of CPAs

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Pennsylvania Lawyers Fund for Client Security as of June 30, 2016 and 2015, and its support, revenue, and expenses, and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

September 22, 2016

Mechanicsburg, Pennsylvania



Certified Public Accountants

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and Cash Equivalents	\$ 2,501,805	\$ 2,792,712
Investments (Note 2)	<u>6,110,808</u>	<u>8,112,793</u>
Total Assets	<u>\$ 8,612,613</u>	<u>\$ 10,905,505</u>
Liabilities		
Payroll Taxes Payable	<u>\$ 1,110</u>	<u>\$ 3,560</u>
Total Liabilities	<u>1,110</u>	<u>3,560</u>
Net Assets		
Unrestricted	<u>8,611,503</u>	<u>10,901,945</u>
Total Net Assets	<u>8,611,503</u>	<u>10,901,945</u>
Total Liabilities and Net Assets	<u>\$ 8,612,613</u>	<u>\$ 10,905,505</u>

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statement of Support, Revenue, and Expenses – Modified Cash Basis
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:			
Annual Fees	\$ 2,886,415	\$ -	\$ 2,886,415
Restitution	138,514	-	138,514
Investment Loss (Note 2)	(59,652)	-	(59,652)
Net Assets Released From Restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>2,965,277</u>	<u>-</u>	<u>2,965,277</u>
Expenses:			
Program			
Awards	4,394,008	-	4,394,008
Funding of Lawyers Concerned for Lawyers, Inc. (Note 3)	<u>346,443</u>	<u>-</u>	<u>346,443</u>
Total Program Expenses	4,740,451	-	4,740,451
Management and General Fundraising	515,268	-	515,268
	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>5,255,719</u>	<u>-</u>	<u>5,255,719</u>
Change in Net Assets	(2,290,442)	-	(2,290,442)
Net Assets, Beginning of Year	<u>10,901,945</u>	<u>-</u>	<u>10,901,945</u>
Net Assets, End of Year	<u>\$ 8,611,503</u>	<u>\$ -</u>	<u>\$ 8,611,503</u>

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statement of Support, Revenue, and Expenses – Modified Cash Basis
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:			
Annual Fees	\$ 2,897,395	\$ -	\$ 2,897,395
Restitution	122,164	-	122,164
Investment Income (Note 2)	337,520	-	337,520
Net Assets Released From Restrictions	<u>15,206</u>	<u>(15,206)</u>	<u>-</u>
Total Revenue	<u>3,372,285</u>	<u>(15,206)</u>	<u>3,357,079</u>
Expenses:			
Program			
Awards	2,377,877	-	2,377,877
Funding of Lawyers Concerned for Lawyers, Inc. (Note 3)	<u>343,798</u>	<u>-</u>	<u>343,798</u>
Total Program Expenses	2,721,675	-	2,721,675
Management and General Fundraising	560,846	-	560,846
	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>3,282,521</u>	<u>-</u>	<u>3,282,521</u>
Change in Net Assets	89,764	(15,206)	74,558
Net Assets, Beginning of Year	<u>10,812,181</u>	<u>15,206</u>	<u>10,827,387</u>
Net Assets, End of Year	<u>\$ 10,901,945</u>	<u>\$ -</u>	<u>\$ 10,901,945</u>

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Statements of Cash Flows – Modified Cash Basis

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ (2,290,442)	\$ 74,558
Adjustments to Reconcile Change in Net Assets to		
Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Realized Gain on Sale of Investments	(782,017)	(416,980)
Unrealized Loss on Investments	884,003	127,988
Increase (Decrease) in:		
Payroll Taxes Payable	<u>(2,450)</u>	<u>210</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>(2,190,906)</u>	<u>(214,224)</u>
Cash Flows From Investing Activities:		
Proceeds from Sale of Investments	<u>1,899,999</u>	<u>1,000,002</u>
Net Cash and Cash Equivalents Provided by Investing Activities	<u>1,899,999</u>	<u>1,000,002</u>
Increase (Decrease) in Cash and Cash Equivalents	(290,907)	785,778
Cash and Cash Equivalents, Beginning of Year	<u>2,792,712</u>	<u>2,006,934</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,501,805</u>	<u>\$ 2,792,712</u>
<u>Supplemental Cash Flow Disclosures:</u>		
Interest Paid	\$ -	\$ -
Income Taxes Paid	-	-

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

NOTE 1

NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The Pennsylvania Lawyers Fund for Client Security (the Fund) was established by the Supreme Court of Pennsylvania to reimburse clients who have suffered a loss of money or other property as a result of the dishonest conduct of Pennsylvania attorneys. The Fund is a remedy for clients who are unable to obtain reimbursement from other sources, such as third parties or the attorney involved.

Basis of Accounting:

The financial statements of the Fund have been prepared on the modified cash basis of accounting and, consequently, revenue is recognized when received and expenses are recognized when paid. The Fund has elected to record investments and payroll taxes payable.

Basis of Presentation:

Financial statement presentation follows the *Not-for-Profit Entities* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) which requires the Fund to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Fund had no temporarily or permanently restricted net assets.

Contributions:

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Support, Revenue, and Expenses – Modified Cash Basis as net assets released from restrictions. The Fund had no temporarily or permanently restricted net assets.

Fixed Assets:

Fixed assets purchased are recorded as an expense at the time of purchase. Accordingly, no depreciation expense has been provided.

Taxation:

The Fund is exempt from federal income tax as provided by Code Section 501(c)(4) of the Internal Revenue Code. Accordingly, no income tax is incurred unless the Fund earns income considered to be unrelated business income. The Fund conducted no activities that were subject to income taxes.

Management evaluated the tax positions taken and concluded that the Fund had taken no uncertain tax positions that require recognition or disclosure in the financial statements. With few exceptions, the Fund is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years through June 30, 2013.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

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

Investments:

Investments are valued at fair market value on a recurring basis in the Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis.

Fair Value Reporting requires an establishment of a hierarchy that ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices in active markets for identical assets and liabilities

Level 2 – Directly or indirectly observable inputs other than Level 1 quoted prices

Level 3 – Unobservable inputs not corroborated by market data

For investments that have quoted market prices in active markets, the Fund uses the quoted market prices as fair values and includes those investments in Level 1 of the fair value hierarchy. When quoted market prices in active markets are not available, various pricing services are used to determine fair value of investments that are included in Level 2 of the fair value hierarchy. Level 3 represents financial assets whose fair value is determined based upon inputs that are unobservable and include the Fund's own determinations of the assumptions that a market participant would use in pricing the asset.

Investment income, including realized and unrealized gains is reported as an increase in unrestricted net.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term would materially affect investment assets reported in the Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis and the Statements of Support, Revenue, and Expenses – Modified Cash Basis.

Use of 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.

Cash and Cash Equivalents:

For the purpose of the Statements of Cash Flows – Modified Cash Basis, cash and cash equivalents include all highly liquid investments with an initial maturity date of three months or less.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

NOTE 2 INVESTMENTS

Investments consisted of the following at June 30, 2016 and 2015:

<u>June 30, 2016</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	\$ 3,583,273	\$ 6,110,808	\$ 2,527,535
<u>June 30, 2015</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	\$ 4,701,256	\$ 8,112,793	\$ 3,411,537

Fair values of investments measured on a recurring basis at June 30, 2016 and 2015 are as follows:

Fair Value Measurements at <u>Reporting Date Using:</u>				
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>				
PA Supreme Court Unitized Asset	\$ 6,110,808	\$ _____	\$ 6,110,808	\$ _____
<u>June 30, 2015</u>				
PA Supreme Court Unitized Asset	\$ 8,112,793	\$ _____	\$ 8,112,793	\$ _____

Level 2 – PA Supreme Court Unitized Asset

The PA Supreme Court Unitized Asset is considered a pooled equity investment. This investment is not considered a publicly traded security. The value of this investment is based on its reported net asset value (NAV) per share determined by the financial institution where the investment is held. The Fund uses this NAV per share, or its equivalent, as a practical expedient for measuring the fair value of this investment at June 30, 2016 and 2015.

Investment income (loss) consisted of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest	\$ 2,076	\$ 2,185
Other Investment Income	40,258	46,343
Realized Gain on Sale of Investments	782,017	416,980
Unrealized Loss on Investments	<u>(884,003)</u>	<u>(127,988)</u>
Total	<u>\$ (59,652)</u>	<u>\$ 337,520</u>

NOTE 3 FUNDING OF LAWYERS CONCERNED FOR LAWYERS, INC.

At the direction of the Supreme Court of Pennsylvania, the Fund has agreed to fund a portion of the 2016 and 2015 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$346,443 and \$343,798, respectively.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Awards	\$ <u>3,698,397</u>	\$ <u>2,940,187</u>

On June 30, 2016, the Fund had 533 pending claims alleging an aggregate total loss in the amount of \$46,547,159. Sixty-two of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$41,547,159 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$10,822,197. However, the Fund's exposure may be further limited by the \$1 million per attorney aggregate cap per Pa.R.D.E.514(b).

On June 30, 2015, the Fund had 543 pending claims alleging an aggregate total loss in the amount of \$29,253,311. Seventy-seven of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$23,820,127 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$13,133,184. However, the Fund's exposure may be further limited by the \$1 million per attorney aggregate cap per Pa.R.D.E.514(b).

NOTE 5 LEASES

The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund was assessed shared occupancy costs totaling \$36,610 and \$35,062 for the years ending June 30, 2016 and 2015, respectively.

The Fund also leases a digital copier under an operating lease requiring monthly payments of \$210. Future minimum lease payments are as follows for the years ended June 30:

2017	\$ 2,522
2018	<u>2,312</u>
Total	\$ <u>4,834</u>

Rent expenditures were \$2,522 for the years ended June 30, 2016 and 2015.

The Fund also leases a postage meter under an operating lease requiring monthly payments of \$240 for the first 24 months and \$327 for the next 39 months. Future minimum lease payments are as follows for the years ended June 30:

2017	\$ 2,880
2018	3,402
2019	3,924
2020	3,924
2021	<u>2,943</u>
Total	\$ <u>17,073</u>

Rent expenditures were \$1,440 and \$0 for the years ended June 30, 2016 and 2015, respectively.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

NOTE 6 EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2016 and 2015 were:

	<u>2016</u>	<u>2015</u>
Program:		
Awards	\$ 4,394,008	\$ 2,377,877
Funding of Lawyers Concerned For Lawyers, Inc.	<u>346,443</u>	<u>343,798</u>
Total Program	<u>4,740,451</u>	<u>2,721,675</u>
Management and General:		
Bank Custodial Fees and Service Charges	40,768	46,978
Benefits and Taxes	55,197	53,060
Dues and Publications	2,031	1,735
Insurance	693	845
Investigation	206	462
Occupancy	36,610	35,062
Office, Stationery, Supplies, and Postage	34,791	38,736
Professional Fees:		
General Counsel	623	54,000
Other	58,178	50,109
Registration and Assessment	74,457	75,540
Salaries	190,885	181,000
Telephone	637	647
Travel	<u>20,192</u>	<u>22,672</u>
Total Management and General	<u>515,268</u>	<u>560,846</u>
Fundraising	<u>-</u>	<u>-</u>
Total	<u>\$ 5,255,719</u>	<u>\$ 3,282,521</u>

NOTE 7 RELATED-PARTY TRANSACTIONS

The Fund reports to the Supreme Court of Pennsylvania. The Fund's revenues are collected from active members of the Pennsylvania Bar by the Disciplinary Board of the Supreme Court of Pennsylvania, which periodically remits such revenues to the Fund. The Fund was assessed a charge for registration and assessment collection costs by the Disciplinary Board of the Supreme Court of Pennsylvania in the amount of \$74,457 and \$75,540 for the years ended June 30, 2016 and 2015, respectively.

NOTE 8 EMPLOYEE BENEFIT PLANS

The Fund has a simplified employee pension plan which is available to all employees after one year of employment. The plan permits contributions, including employee and employer, to a maximum of 10% of employee compensation limited to a contribution of \$30,000. The employer contributions were \$19,100 and \$18,100 for the years ended June 30, 2016 and 2015, respectively.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

NOTE 9 CONCENTRATED CREDIT RISK

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents held with financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution for the years ended June 30, 2016 and 2015. From time to time throughout the year, amounts at one financial institution exceeded the limit of insurance provided by the FDIC. The amount in excess of the FDIC limit was \$2,357,861 and \$2,741,583 at June 30, 2016 and 2015, respectively.

The Fund maintains a portion of its cash in money market accounts which are not insured by the FDIC. The uninsured amount was \$1,393 and \$1,390 at June 30, 2016 and 2015, respectively.

NOTE 10 SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 22, 2016, which is the date the financial statements were available to be issued.