

Letter from the Board Chair

As the Board Chair of the Pennsylvania Lawyers Fund for Client Security, it is my pleasure to present the 2000 – 2001 edition of the Fund's Annual Report. This Annual Report provides information regarding the types of claims that the Fund handles and the matters dealt with by the Board and Staff.

The five lawyer and two non-lawyer volunteer members of the Board take their charge to adjudicate each and every claim filed with Fund very seriously. All information submitted by both the claimants and attorneys receive careful consideration in making the determination as to whether an award should be approved. This Fund has helped thousands of claimants recover losses incurred as a result of the very, very few Pennsylvania licensed attorneys who engage in the misappropriation of client funds. When these individuals learn that the reason they are able to recover their loss is because the Pennsylvania Bar provides the funds for this purpose through their annual assessment, their confidence in the profession is restored and the tarnished image they received based upon one person's actions fades. During my four years of service on this Board, I have seen many people receive awards from this Fund who, without this assistance, may well have lost everything. The members of the Pennsylvania Bar who provide the resources for this Fund should take pride in their professionalism and compassion for these victims.



I would like to take this opportunity to thank Madame Justice Sandra Schultz Newman, the Fund's liaison Justice, and all of the Justices of the Supreme Court of Pennsylvania for their support of the Fund. I would like to thank the members of the Board who give so unselfishly of their time in order to fulfill the mission envisioned by the Supreme Court of Pennsylvania. I also wish to thank the Staff for their support during my tenure on the Board.

Please take the time to review the information provided in this Annual Report to learn about the Fund and to provide this information to those who may be in need of the Fund's assistance.

**William H. Lamb, Esquire
Board Chair**

Executive Director's Report

The Pennsylvania Lawyers Fund for Client Security seeks to reimburse clients who have lost funds as a result of a misappropriation by their Pennsylvania attorney. The loss must have occurred because there was an attorney/client relationship or a fiduciary relationship, which is customary to the practice of law, between the claimant and the attorney. The Fund does not arbitrate fee disputes, nor does the Fund have jurisdiction over negligence or malpractice claims. The Fund's maximum award is \$75,000 per claimant.

The 2000 - 2001 fiscal year saw a decline in the number of claims filed with the Fund. 143 claims were filed with the Fund during the fiscal year, representing a 14% decrease from the number of claims received in the prior year. The Board made disposition of 142 claims during the fiscal year. This number represents 67% of the total claims that were pending at the start of the fiscal year and received during the fiscal year. This result was achieved through the dedication of the seven-member volunteer Board comprised of 5 lawyer members and 2 non-lawyer members.

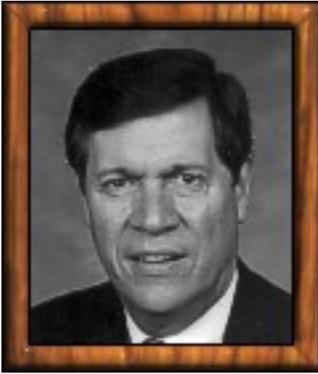
The Fund continues to place a high priority in educating the public regarding its activities. The publication of this Annual Report and maintaining a web site are two means of providing information regarding the Fund and its activities. Informational dinners are held the evening before each Board meeting to provide an opportunity for Board members and Staff to meet one-on-one with members of the judiciary and local bar associations, as well as members of the local business community. The Fund also provides informational materials to all Pennsylvania law schools and Widener University School of Law in Delaware.

During the Fund's nineteen years of existence, 2,775 claimants have received awards totaling \$26.2 million. These awards were made as a result of the actions of 508 attorneys. With an excess of 50,000 attorneys currently licensed in Pennsylvania, it is clear that the vast majority of attorneys in Pennsylvania are honest, ethical professionals.



Kathryn J. Peifer
Executive Director

Board Members



William H. Lamb, an attorney member, was appointed Board Chair of the Fund in April 2001. Mr. Lamb is a partner with Lamb, Windle & McErlane, P.C. in West Chester, Pennsylvania. He is a graduate of Duke University and acquired his Juris Doctorate from the University of Pennsylvania. Mr. Lamb is a member of the Pennsylvania Appellate Rules Committee and a member of the Philadelphia, Chester County, Pennsylvania and American Bar Associations. Mr. Lamb was originally appointed to the Board in March 1997 and was reappointed in April 2000 to serve a second term. His current term expires in March 2003.

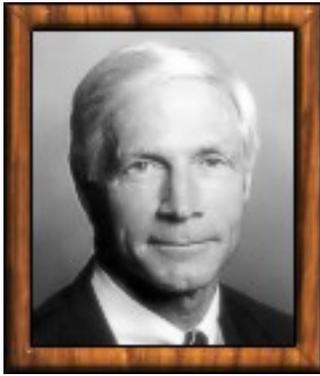
Paul S. Diamond, an attorney member, was appointed Vice Chair of the Fund in April 2001. Mr. Diamond is a partner with Obermayer, Rebmann, Maxwell and Hippel, LLP in Philadelphia, Pennsylvania. He is a graduate of Columbia University and the University of Pennsylvania Law School. Mr. Diamond has been a member of the Federal Judicial Nominating Commission of Pennsylvania since 1993 and is Vice-Chair of the American Bar Association's Amicus Curiae Briefs Subcommittee. He has served on the Pennsylvania Civil Procedural Rules Committee. Mr. Diamond was originally appointed to the Board in May 1998 and was reappointed in April 2001. His current term expires in April 2004.



Derek C. Hathaway, a non-lawyer member, was appointed to the Board in April 1999. He is the Chairman, President and CEO of Harsco Corporation in Camp Hill, Pennsylvania. Mr. Hathaway is a recent recipient of the Ellis Island Medal of Honor for his exceptional humanitarian efforts and outstanding contributions to society. Mr. Hathaway was awarded an honorary Doctor of Humane Letters from Messiah College and an honorary Doctor of Laws degree from the Dickinson School of Law in recognition of his leadership in business and the community. His current term expires in April 2002.

Barry M. Simpson, an attorney member, serves as the Treasurer of the Fund. Mr. Simpson is the Executive Director of the Pennsylvania Bar Association in Harrisburg, Pennsylvania. He is a graduate of Penn State University and University of Pittsburgh School of Law. Mr. Simpson is a member of the Pennsylvania and American Bar Associations, the Pennsylvania and American Trial Lawyers Associations and the Academy of Trial Lawyers of Allegheny County. He is a past president of the Allegheny County Bar Association. Mr. Simpson was appointed to the Board in June 1999. His current term expires in April 2002.





Carl D. Buchholz, III, an attorney member, is a senior partner with Rawle & Henderson, LLP in Philadelphia, Pennsylvania. He is a graduate of Muhlenberg College and Villanova Law School. Mr. Buchholz serves as the Chairman of Rawle & Henderson's Appellate Practice and Maritime Departments. He is a member of the Philadelphia, Pennsylvania and American Bar Associations and the Maritime Law Association of the United States. Mr. Buchholz was appointed to the Board in April 2000. His current term expires in April 2003.

Joseph H. Jacovini, an attorney member, is a senior partner and Chairman of Dilworth Paxson, LLP in Philadelphia, Pennsylvania. He is a graduate of Holy Cross (B.A.), Harvard Law School (LL.B.) and Villanova University (M.A.) Mr. Jacovini specializes in corporate law and corporate litigation. He has been a visiting Professor of Law at Lewis & Clark Law School and has guest-lectured and authored on a wide variety of legal subjects. Mr. Jacovini was appointed to the Board in August 2000 to serve the remaining term of Stuart D. Fiel, Esquire, who passed away in July 2000. Mr. Jacovini's current term expires in March 2003.



Beth Lang, a non-lawyer member, was appointed to the Board in March 2001. She is the Chief Operating Officer of Gateway Financial Group, Inc. in Pittsburgh, Pennsylvania. Ms. Lang is a graduate of Pennsylvania State University and has earned a Masters of Business Administration from Duquesne University and a Chartered Life Underwriter degree from The American College at Bryn Mawr. As a veteran in the insurance and financial services industries, Ms. Lang is a frequent speaker at industry seminars and has authored articles for estate and business planning periodicals. She serves on the Board of Women Initiating Regional Economic Development in Western Pennsylvania. Ms. Lang's current term expires in March 2004.

Robert L. Capoferri, a former non-lawyer member, is the immediate past Board Chair of the Fund. Mr. Capoferri is the President and CEO of Marble Crafters USA in Trainer, Pennsylvania. He attended Penn State University. Mr. Capoferri is the Chairman of the Delaware County Judicial Retention Committee and the Co-founder of the Ed McLoughlin Memorial Foundation for Children's Hospital. Mr. Capoferri was originally appointed to the Board on April 4, 1995 and served as Vice Chair of the Fund from April 1998 until his appointment as Board Chair in April 2000. Mr. Capoferri's tenure on the Board expired in March 2001.



Staff

Kathryn J. Peifer, is the Executive Director for the Fund. Ms. Peifer assumed this position in April 1997. She is a graduate of Central Penn College and Penn State University. Ms. Peifer served as a panelist at the American Bar Association's 17th National Forum on Client Protection on the topic of "Funding Your Fund: Where is it Coming From?" (June 2001) and has co-authored materials for the Pennsylvania Bar Institute's Ethics Potpourri, "The Client Security Fund: Why & How it Operates" (August 2001).



Paul J. Killion, is Counsel to the Board. Mr. Killion assumed this position in February 2001. Mr. Killion is a graduate of Suffolk University where he earned both his undergraduate degree and his Juris Doctorate. He was a prosecutor with the U.S. Justice Department for fifteen years and has worked in the U.S. Attorney's office in both Harrisburg, Pennsylvania and Boston, Massachusetts. Mr. Killion is also the former Director of the Medicare Fraud Unit for the Pennsylvania Attorney General's Office. Mr. Killion currently has a private practice in Harrisburg with a focus on white collar criminal defense work.

Arthur R. Littleton, Esquire, is Counsel Emeritus for the Fund, having assumed this position in February 2001. Mr. Littleton was the first Chairman of the Fund, serving in this capacity from 1982 through 1988, and then served as General Counsel from 1988 through February 2001. He is also Of Counsel to the firm Hoyle, Morris & Kerr in Philadelphia, Pennsylvania. Mr. Littleton is a graduate of the University of Pennsylvania where he obtained both his undergraduate degree as well as his Juris Doctorate. He is a permanent delegate of the Third Circuit Judicial Conference and a former Assistant U.S. Attorney.



Susan L. Erdman, is the Administrative Assistant for the Fund. Ms. Erdman is a graduate of Thompson Institute and has been with the Fund since 1995.

2000-2001 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 is proud to have Madame Justice Sandra Schultz Newman as its Liaison Justice to the Supreme Court of Pennsylvania.

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. Funding is received through an annual assessment paid by every licensed Pennsylvania attorney. For the fiscal year ending June 30, 2001, the assessment was \$45. The Fund does not have jurisdiction over malpractice or negligence claims.

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

This Annual Report is prepared and published for the Supreme Court of Pennsylvania and all members of the Pennsylvania Bar. The period covered by this Annual Report is for the Fund’s fiscal year, July 1, 2000 through June 30, 2001. ^[1]

A. As of the Start of the 2000-2001 Fiscal Year

The Fund commenced the 2000-2001 fiscal year with 68 pending claims, involving 47 attorneys, carrying an award potential of \$1,400,000. This dollar amount is calculated after applying the Fund’s \$75,000 award limitation. There were 11 claims in excess of \$75,000 among the pending claims and the gross total amount claimed of the Fund was \$4,444,540.

B. During the Fiscal Year

The Fund received a total of 143 claims from July 1, 2000 through June 30, 2001, alleging a total loss of \$9,524,417. 12 claims filed alleged losses in excess of \$75,000. 91 lawyers were accused of dishonest conduct.

During the 2000-2001 fiscal year, the Fund disposed of 142 claims, awarding \$2,114,156 to 95 claimants. The dollar amount awarded reflects an increase of \$979,387, to 59 fewer claimants than the prior fiscal year. 8 claimants received the Fund’s maximum award of \$75,000. 53 claims with an aggregate alleged loss of \$3,953,732 were denied. 17 claims with an aggregate alleged loss of \$269,600 were discontinued. There were 11 more denials this year than in the previous fiscal year. The number of discontinued claims increased by 3.

C. As of the End of the Fiscal Year

On June 30, 2001, the Fund had 69 pending cases alleging an aggregate total loss in the amount of \$7,211,779. 8 of these claims exceed the \$75,000 maximum reimbursement limit and seek \$6,798,272 in awards. The Fund’s total exposure from the pending claims is approximately \$1,200,000.

Since the establishment of the Fund in April 1982, through June 30, 2001, the Fund has

approved 2,775 awards in the aggregate amount of \$26,189,102 as a result of the actions of 508 attorneys.

The assistance provided by the Offices of Disciplinary Counsel of the Disciplinary Board of the Supreme Court of Pennsylvania permits the Fund's processing of its claims within a customary 9 to 12 month time period.

D. Claims Experience

1) **Fiduciary Funds** - Theft of (a) estate funds and (b) trust/escrow funds are the largest categories of claims. During the 2000-2001 fiscal year, these two types of theft cost the Fund \$1,477,122, or 69.87% of its total award dollars. 41 claimants who alleged attorney theft from estate or trust/escrow monies received awards.

2) **Embezzlement of Lawsuit Settlement Proceeds** - The Fund paid \$372,695 to 12 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 17.63% of the awards made by the Fund during the 2000 - 2001 fiscal year. Claims of misappropriation of lawsuit settlement funds often occur when an attorney settles a lawsuit without the knowledge or consent of the client. The attorney would then receive the funds and fail to remit them to the client. Claims involving an attorney who withholds funds from settlement proceeds to pay the client's medical providers and fails to disburse the money to the medical providers also fall under this category.

3) **Non-Performance** - The acceptance of unearned fees or retainers represented the third highest payment category with awards totaling \$190,121. 33 claimants received awards representing 9% of the Fund's total dollar awards for the fiscal year. Since the Fund does not arbitrate fee disputes, for an award to be considered when the attorney performed any services of value, the claimant must typically first file a complaint with the local bar association's fee dispute committee. If the committee determines that all or a portion of the fees or retainer paid were not earned, and the attorney does not return the fee, the Board will consider this type of claim and categorize the award as non-performance by the attorney.

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 2000-2001 fiscal year, the Fund provided \$150,000 for the activities of Lawyers Concerned for Lawyers, as directed by the Supreme Court of Pennsylvania. The Fund anticipates that it will continue to support Lawyers Concerned for Lawyers during the fiscal year 2001-2002 in the approximate amount of \$150,000.

F. Mandatory Overdraft Notification

Pennsylvania Rule of Disciplinary Enforcement 221 was promulgated by the Supreme Court of Pennsylvania on April 24, 1995, requiring the reporting by financial institutions to the Fund of checks drawn on attorney fiduciary accounts which contain insufficient funds. The Fund received 259 overdraft notices during the 2000-2001 fiscal year, which resulted in 28 overdraft notices being referred to the Office of Disciplinary Counsel. 241 overdraft notices were reviewed, dismissed with a satisfactory explanation, and scheduled for destruction 6 months thereafter. The fiscal year ended with 0 overdraft notices pending.

G. Restitution and Subrogation Efforts

The Fund received \$45,140 in subrogation and restitution payments during the 2000-2001 fiscal year. During the 1998-1999 fiscal year, the Fund received \$600,000 in settlement of the Fund's claim against a constructive trust pursuant to an Orphans' Court decision. This

amount represented approximately one-half of the awards paid by the Fund as a result of the covered attorney's actions. Two other claimants in the constructive trust proceedings who were denied recovery by the Orphans' Court appealed to the Pennsylvania Superior Court. The Superior Court remanded the matter back to the Orphans' Court. The Fund and other parties to the action appealed the decision of the Superior Court to the Supreme Court of Pennsylvania. This appeal was unsuccessful, which resulted in a settlement agreement among all claimants to the constructive trust. Under the terms of the settlement agreement, the Fund agreed to disgorge \$132,500 of the \$600,000. These funds were disgorged in October 2000.

H. Board Meetings and Locations

The Board of the Fund continued during the 2000-2001 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 Lancaster, Pittsburgh and Philadelphia. Invitations to the Fund's informational dinners were extended to the Judiciary, Bar leaders and prominent local citizens from the county in which the Board meets, as well as from the surrounding counties, on the eve of the Board's meetings.

To date, the Fund has held its informational dinners and meetings in the following counties: Allegheny County (1983, 1986-1989, 1991, 1993-1998, 2000-2001); Cambria County (1998); Centre County (1995); Chester County (1990, 1998); Cumberland County (1998); Dauphin County (1984 -1985, 1989, 1991, 1993, 1996-1997, 1999); Delaware County (1994 and 1997); Erie County (1989, 1992, 1994 and 2000); Fayette County (1992); Lackawanna County (1990, 1999); Lancaster County (1990 and 2000); Lehigh County (1989); Luzerne County (1996); Monroe County (1992); Montgomery County (1999); Northampton County (1994); Philadelphia County (1982-1988, 1990-1993, 1995-1996, 1998 and 2001).

I. National Ranking

The Fund continues to rank among the top 4 funds in the United States in terms of both awards made and claims processed, as determined through the most recent American Bar Association Survey of Client Protection Funds. The funds in California, New York and New Jersey are the other most active organizations.

J. Board Membership and Fund Personnel

Board Chair, William H. Lamb, Esquire was originally appointed to the Board in March 1997. He had served as Vice Chair of the Fund from April 2000 to April 2001. Mr. Lamb was reappointed to the Board in April 2000 and was subsequently appointed as Board Chair in April 2001. Mr. Lamb's term expires in March 2003. Mr. Lamb is a partner with Lamb, Windle and McErlane in West Chester, Pennsylvania.

Other members of the Board include attorneys Paul S. Diamond of Philadelphia, the Vice Chair, Barry M. Simpson, who currently serves as Treasurer of the Fund, of Harrisburg, Carl D. Buchholz, III and Joseph H. Jacovini, both from Philadelphia.

By Supreme Court Rule, the Board consists of two non-lawyer members. Derek C. Hathaway of Camp Hill is the Chairman and CEO of Harsco Corporation. Mr. Hathaway's business experience has been an asset to the Fund. The second non-lawyer Board member is Beth Lang, the Chief Operating Officer of Gateway Financial Group, Inc., in Pittsburgh. Ms. Lang was appointed to the Board in March 2001. Ms. Lang's financial experience will be very beneficial to the Fund.

Kathryn J. Peifer, Executive Director of the Fund, is in charge of the Fund's headquarters, its daily administrative affairs, the processing of claims received by the Fund, preparing summaries thereof for Board consideration and scheduling and planning meetings and, when

necessary, hearings. The Fund employs one administrative assistant, Susan L. Erdman, who has made a significant contribution to the operations of the Fund through her thoughtful and professional demeanor in dealing with all those who have reason to contact the Fund.

In February 2001, the Board of the Fund retained Paul J. Killion of Harrisburg as Counsel to the Board. Mr. Killion reviews summaries of claims with regard to legal issues, oversees the collection and litigation matters involving the Fund, attends meetings and hearings of the Board, as well as advising the Board on all legal matters.

Arthur R. Littleton serves as Counsel Emeritus to the Fund. Mr. Littleton served as General Counsel from 1988 through January 2001. Mr. Littleton was instrumental with the establishment of the Fund and served as the first Board Chair from 1982-1988. His historical understanding of the operations of the Fund is invaluable to the Board. Mr. Littleton continues to attend the Board meetings of the Fund.

Respectfully submitted,
William H. Lamb, Board Chair
Paul S. Diamond
Derek C. Hathaway
Barry M. Simpson
Carl D. Buchholz, III
Joseph H. Jacovini
Beth Lang

[1] This Annual Report has not been submitted to the Supreme Court of Pennsylvania for prior review.

Financial Statements

**HAMILTON & MUSSER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

176 CUMBERLAND PARKWAY
MECHANICSBURG, PA 17055
(717) 697-3888

Harrisburg 234-7000
Hershey 533-6892

David A. Hamilton, CPA
Barry E. Musser, CPA

James A. Krimmel, MBA, CPA
Robert D. Mast, CPA

FAX (717) 697-6943
www.hnmcpcas.com

Members of the American and
Pennsylvania Institutes of CPA's

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position – modified cash basis of the Pennsylvania Lawyers Fund for Client Security, Inc. as of June 30, 2001 and 2000, and the related statements of activities – modified cash basis and cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Pennsylvania Lawyers Fund for Client Security, Inc. as of June 30, 2000, before the restatement described in note 9, were audited by other auditors whose report dated November 17, 2000, expressed an unqualified opinion.

We conducted our audit 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 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the Pennsylvania Lawyers Fund for Client Security as of June 30, 2001 and 2000 and the changes in its net assets – modified cash basis and its cash flows – modified cash basis for the year then ended in conformity with the basis of accounting described in note 1.

We also audited the adjustments described in note 9 that were applied to restate the June 30, 2000 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statements of Financial Position – Modified Cash Basis
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 3,176,158	\$ 2,225,772
Investments (Note 2)	5,095,950	5,896,470
	-----	-----
Total Assets	\$ 8,272,108	\$ 8,122,242
	=====	=====
<u>Liabilities</u>		
Accrued Payroll Taxes	\$ 440	\$ -
	-----	-----
<u>Net Assets</u>		
Unrestricted	8,271,668	8,122,242
	-----	-----
Total Liabilities and Net Assets	\$ 8,272,108	\$ 8,122,242
	=====	=====

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statements of Activities – Modified Cash Basis
For the Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>Revenue</u>		
Annual Fees	\$ 1,738,037	\$ 2,339,490
Restitution	52,731	131,182
Investment Income	496,123	432,624
Realized Gain on Investments	7,266	-
Unrealized Gain/(Loss) on Investments	192,214	(86,867)
	-----	-----
Total Revenue	2,486,371	2,816,429
	=====	=====
<u>Expenditures</u>		
Program		
Awards	1,878,958	1,586,373
Funding of Lawyers Concerned for Lawyers, Inc.	150,000	99,440
Management and General	307,987	309,995
	-----	-----
Total Expenditures	2,336,945	1,995,808
	-----	-----

Increase in Net Assets – Unrestricted	149,426	820,621
Net Assets – Unrestricted, Beginning of Year	8,122,242	7,292,112
Prior Period Adjustment (Note 9)	-	9,509
	-----	-----
Net Assets – Unrestricted, End of Year	\$ 8,271,668	\$ 8,122,242
	=====	=====

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statements of Cash Flows - Modified Cash Basis
For the Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<u>Cash Flows From Operating Activities:</u>		
Change in Net Assets	\$ 149,426	\$ 820,621
Realized Gain on Investments	(7,266)	-
Unrealized (Gain) Loss on Investments	(192,214)	86,867
Increase (Decrease) in:		
Accrued Payroll Taxes	440	-
	-----	-----
Net Cash Provided (Used) by Operating Activities	(49,614)	907,488
	-----	-----
<u>Cash Flows From Investing Activities:</u>		
Purchase of U.S. Treasury Notes	-	(2,462,715)
Redemption of U.S. Treasury Notes	1,000,000	990,703
	-----	-----
Net Cash Provided (Used) by Investing Activities	1,000,000	(1,472,012)
	-----	-----
Net Change in Cash and Cash Equivalents	950,386	(564,524)
Cash and Cash Equivalents, Beginning of Year	2,225,772	2,790,296
	-----	-----
Cash and Cash Equivalents, End of Year	\$ 3,176,158	\$ 2,225,772
	=====	=====
<u>Supplemental Cash Flow Disclosures:</u>		
Interest Paid	\$ -	\$ -
Income Taxes Paid	-	-

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Notes To Financial Statements
For the Years Ended June 30, 2001 and 2000

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 accrued payroll taxes.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Fund is required 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.

Revenue Recognition

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 statement of activities 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.

Investments

The Fund records investments based upon the recommendation of Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. The provisions of the standard require that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the balance sheet. The unrealized gain or loss on investments is reflected in the statement of activities.

Concentration of Credit Risk

The Fund maintains its cash in a money market account which is not insured by the FDIC. This money market account invests in short-term debt instruments consisting of A1/P1 commercial paper, repos and similar investments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting

principles 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 statement of cash flows, cash and cash equivalents include all highly liquid investments with an initial maturity date of three months or less.

Cash and cash equivalents consisted of the following at June 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Cash (overdraft)	\$ 38	\$ (12,009)
Money Market Fund	3,176,120	2,237,781
	-----	-----
Total	<u>\$ 3,176,158</u>	<u>\$ 2,225,772</u>
	=====	=====

Cash overdrafts result from the Fund's cash management efforts to optimize interest revenue through investing activities, and do not actually result in bank overdrafts because the Fund's money market fund is used to pay checks as they are presented for payment.

NOTE 2 - INVESTMENTS

Investments consisted of the following U.S. Treasury Notes at June 30, 2001:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Value</u>	<u>Cost</u>	<u>Market Value</u>
5.500	7/31/01	500,000	498,672	500,705
5.875	11/30/01	500,000	497,813	504,455
6.625	4/30/02	500,000	516,328	511,110
5.750	10/31/02	500,000	504,531	510,940
5.500	5/31/03	500,000	498,985	511,050
5.250	8/15/03	500,000	500,722	509,215
5.250	5/15/04	1,000,000	976,875	1,017,190
5.875	11/15/05	500,000	496,992	517,810
5.625	2/15/06	500,000	490,176	513,475
		-----	-----	-----
		<u>\$ 5,000,000</u>	<u>\$ 4,981,094</u>	<u>\$ 5,095,950</u>
		=====	=====	=====

Investments consisted of the following U.S. Treasury Notes at June 30, 2000:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Value</u>	<u>Cost</u>	<u>Market Value</u>
5.750	10/31/00	500,000	497,578	499,220
5.625	2/28/01	500,000	495,156	497,500
5.500	7/31/01	500,000	498,672	494,920
5.875	11/30/01	500,000	497,813	495,935
6.625	4/30/02	500,000	516,328	501,560
5.750	10/31/02	500,000	504,531	492,890
5.500	5/31/03	500,000	498,985	488,435
5.250	8/15/03	500,000	500,722	484,685

5.250	5/15/04	1,000,000	976,875	964,840
5.875	11/15/05	500,000	496,992	491,405
5.625	2/15/06	500,000	490,176	485,080
		-----	-----	-----
		\$ 6,000,000	\$ 5,973,828	\$ 5,896,470
		=====	=====	=====

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 2001 and 2000 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$150,000 and \$99,440 respectively.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Awards	\$ 447,300	\$ 1,051,800
Award Potential	2,050,000	1,400,000
	-----	-----
Total	\$ 2,497,300	\$ 2,451,800
	=====	=====

Award potential represents the estimated payments related to pending claims filed with the Fund.

NOTE 5 - LEASES

The Fund entered into an operating lease for its office space. Rent expenditures were \$18,304 and \$15,608 for the years ended June 30, 2001 and 2000, respectively. Future minimum lease payments are as follows for the years ended June 30:

2002	\$ 3,937
	=====

NOTE 6 - EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2001 and 2000 were:

	<u>2001</u>	<u>2000</u>
<u>Program</u>		
Awards	1,878,958	1,586,373
Funding of Lawyers Concerned For Lawyers, Inc.	150,000	99,440
	-----	-----
<u>Management and General</u>		
Registration and assessment	-	43,840
Travel	19,791	15,635
Salaries	96,500	90,000
Benefits and taxes	27,948	21,902
Office, stationery, supplies, and postage	20,427	23,797
Telephone	4,382	5,528

Occupancy	20,685	19,917
Bank custodial fees and service charges	18,303	20,173
<u>Professional fees</u>		
General counsel	50,673	40,000
Outside counsel	-	2,581
Other	45,365	21,340
Dues and publications	415	-
Insurance	1,235	5,176
Janitorial Expense	2,263	-
Outside temporary staff	-	106
	-----	-----
Total Management and General	307,987	309,995
	-----	-----
Total Expenditures	\$ 2,336,945	\$ 1,995,808
	=====	=====

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 amounts of \$0 and \$43,840 for the years ended June 30, 2001 and 2000, 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 15% of employee compensation limited to a contribution of \$30,000. The employer contributions amount to \$9,650 and \$9,000 for the years ended June 30, 2001 and 2000, respectively.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

In prior years, the Fund recorded investments at cost. Management has elected to record investments at market value to comply with the Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. The resulting adjustment of \$9,509 is shown on the statement of activities – modified cash basis as an increase to the beginning net assets.