

Letter from the Board Chair

As the Board Chair of the Pennsylvania Lawyers Fund for Client Security, it is my pleasure to present the 2001- 2002 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 the 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 five 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 Chief Justice Stephen A. Zappala 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. On a personal note, since this is my last year as Board Chair, I want to extend a special thanks to the Court and staff for the privilege of serving.

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 Fund experienced an increase in the number of claims received during the 2001 - 2002 fiscal year. 197 claims were filed with the Fund during the fiscal year, representing a 38% increase from the number of claims received in the prior year. The Board made disposition of 138 claims during the fiscal year. This number represents 38% 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, 2,871 claimants have received awards totaling \$27.36 million. These awards were made as a result of the actions of 499 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, Esquire
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 served as a member of the Federal Judicial Nominating Commission of Pennsylvania from 1993 to 2001 and was 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 March 2004.



Derek C. Hathaway, a non-lawyer member, was originally 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. Mr. Hathaway was reappointed to the Board in April 2002. His current term expires in March 2005.

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 March 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.



Zygmunt R. Bialkowski, Jr., an attorney member, is a partner with Margolis Edelstein in Scranton, Pennsylvania. He is a graduate of Marietta College and acquired his Juris Doctorate from Dickinson School of Law, serving as a permanent Governor to the law school. Mr. Bialkowski practices in the areas of corporate and business law, wills, estate planning and administration, real estate and civil litigation. He is certified as a civil trial advocate by the National Board of Trial Advocacy. Mr. Bialkowski is a member of the Lackawanna Bar Association, a past governor of the Pennsylvania Bar Association Board of Governors and is presently a member of the Pennsylvania Bar Foundation. Mr. Bialkowski was appointed to the Board in April 2002. His current term expires in March 2005.

Former Board Chairs

Robert L. Capoferri (2000 - 2001)
Carl E. Esser, Esquire (1999 - 2000)
Richard A. Zappala, Esquire (1997 - 1999)
Evans Rose, Jr., Esquire (1994 - 1997)
Albert P. Massey, Jr., Esquire (1992 - 1994)
C. Grainger Bowman, Esquire (1991 - 1992)
Walter F. Baczkowski, Esquire (1988 - 1991)
Arthur R. Littleton, Esquire (1982 - 1988)

Former Board Members

Barry M. Simpson, Esquire
Stuart D. Fiel, Esquire
George J. Amonitti, M.D.
Bernard W. Smalley, Sr., Esquire
Timothy J. Carson, Esquire
Jan R. Van Gorder, Esquire
Honorable Maxwell E. Davison
Rev. Edmund J. Dobbin
Timothy R. Thyreen
Lois H. Lichtenwalner, Esquire
Victor R. Delle Donne, Esquire
Rev. John M. Driscoll
Niara Sudarkasa, M.D.
Janet S. Dickerson
Dean John J. Sciullo
Paula Geen Bregman, Esquire
Harold S. Irwin, Esquire
Joseph P. Scottino, Ph.D.
David S. Gifford

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, Penn State University and Widener University School of Law. 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, served as Counsel to the Board through August 2002. Mr. Killion was retained in February 2001 to serve as Counsel to the Board. 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 serves as Chief Disciplinary Counsel for the Disciplinary Board of the Supreme Court of Pennsylvania.

John L. Doherty, was retained as Counsel to the Board in September 2002. Mr. Doherty is a graduate Duquesne University and Duquesne University School of Law. He most recently served as Chief Disciplinary Counsel for the Disciplinary Board of the Supreme Court of Pennsylvania, a position which he held for 10 years. Mr. Doherty is a member of the Allegheny County Bar Association, Pennsylvania Bar Association and the Pennsylvania Trial Lawyers Association. He has been named in Who's Who in American Law and Best Lawyers in America.



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.



**Arthur R. Littleton
(1926 - 2002)**

Arthur R. Littleton, Counsel Emeritus, passed away on July 23, 2002. Mr. Littleton was the first Chairman of the Fund and was instrumental in organizing the statewide Fund after serving as the Chairman of the Clients' Security Fund of the Philadelphia Bar Association. He served as Chairman of the Pennsylvania Lawyers Fund for Client Security from the Fund's inception in 1982 through 1988, and then served as General Counsel from 1988 through February 2001.

Mr. Littleton was a graduate from the University of Pennsylvania where he obtained both his undergraduate degree as well as his Juris Doctorate. He served in the U.S. Navy, retiring from the active reserve with the rank of lieutenant commander. Mr. Littleton was a former Assistant U.S. Attorney and, at the time of his death, was Of Counsel to the Philadelphia law firm of Hoyle, Morris & Kerr. He was devoted to reading and soliciting for Recording for the Blind and Dyslexic in Bryn Mawr, where he served as vice chairman of the board.

Mr. Littleton was recognized for his work in client protection, having received the Pennsylvania Bar Association Special Award in 1983. He was a member of the National Client Protection Organization. Mr. Littleton's contributions and presence will be missed by the Board and Staff of the Fund.

2001 – 2002 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. Funding is received through an annual assessment paid by every licensed Pennsylvania attorney. For the fiscal year ending June 30, 2002, 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, 2001 through June 30, 2002.¹¹

A. As of the Start of the 2001-2002 Fiscal Year

The Fund commenced the 2001-2002 fiscal year with 69 pending claims, involving 52 attorneys, carrying an award potential of \$1,200,000. This dollar amount is calculated after applying the Fund’s \$75,000 award limitation. There were 8 claims in excess of \$75,000 among the pending claims and the gross total amount claimed of the Fund was \$6,798,272.

B. During the Fiscal Year

The Fund received a total of 197 claims from July 1, 2001 through June 30, 2002, alleging a total loss of \$7,998,583. 24 claims filed alleged losses in excess of \$75,000. 88 lawyers were accused of dishonest conduct.

During the 2001-2002 fiscal year, the Fund disposed of 138 claims, awarding \$1,168,973 to 96 claimants. The dollar amount awarded reflects a decrease of \$945,183 to 4 more claimants than the prior fiscal year. 7 claimants received the Fund’s maximum award of \$75,000. 47 claims with an aggregate alleged loss of \$4,870,666 were denied. 8 claims with an aggregate alleged loss of \$12,738 were discontinued. There were 6 fewer denials this year than in the previous fiscal year. The number of discontinued claims decreased by 9.

C. As of the End of the Fiscal Year

On June 30, 2002, the Fund had 128 pending claims alleging an aggregate total loss in the amount of \$8,079,683. 22 of these claims exceed the \$75,000 maximum reimbursement limit and seek \$6,470,776 in awards. The Fund’s potential maximum exposure from the pending claims is approximately \$3,150,000.

Since the establishment of the Fund in April 1982, through June 30, 2002, the Fund has approved 2,871 awards in the aggregate amount of \$27,358,075 as a result of the actions of 499 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 2001-2002 fiscal year, these two types of theft cost the Fund \$685,503 or 58.64% of its total award dollars. 38 claimants who alleged attorney theft from estate or trust/escrow monies received awards.

2) **Embezzlement of Lawsuit Settlement Proceeds** - The Fund paid \$250,375 to 18 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 21.42% of the awards made by the Fund during the 2001 - 2002 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) **Fraud** - The conversion of funds through fraudulent representation or activities by the attorney represented the third highest payment category with awards totaling \$160,000. 3 claims were paid representing 13.69% of the Fund's total dollar awards for the fiscal year.

The type of claims which typically fall within this category are those where a long standing attorney/client relationship existed. The attorney abuses this relationship by requesting a loan from the client or agrees to hold and invest settlement funds on behalf of the client. The attorney then converts these funds for personal use. These claims are typically the most difficult to evaluate.

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 2001-2002 fiscal year, the Fund provided \$150,000 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 substance abuse. 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 2002-2003 in the approximate amount of \$240,000.

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 252 overdraft notices during the 2001-2002 fiscal year, which resulted in 20 overdraft notices being referred to the Office of Disciplinary Counsel. 226 overdraft notices were reviewed, dismissed with a satisfactory explanation, and scheduled for destruction 6 months thereafter. The fiscal year ended with 6 overdraft notices pending.

G. Restitution and Subrogation Efforts

The Fund received \$89,208 in subrogation and restitution payments during the 2001-2002 fiscal year.

H. Board Meetings and Locations

The Board of the Fund continued during the 2001-2002 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 Harrisburg, Pittsburgh and Mechanicsburg. 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.

To date, the Fund has held its informational dinners and meetings in the following counties: Allegheny County (1983, 1986-1989, 1991, 1993-1998, 2000-2002); Cambria County (1998); Centre County (1995); Chester County (1990, 1998); Cumberland County (1998 and 2002); Dauphin County (1984 -1985, 1989, 1991, 1993, 1996-1997, 1999, 2001); 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, who currently serves as the Vice Chair, Carl D. Buchholz, III, who currently serves as Treasurer of the Fund, and Joseph H. Jacovini, both from Philadelphia and Zygmunt R. Bialkowski, Jr., from Scranton.

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's financial background has been 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.

John L. Doherty of Pittsburgh serves as Counsel to the Board. Mr. Doherty 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.

Respectfully submitted,
William H. Lamb, Board Chair
Paul S. Diamond
Derek C. Hathaway
Carl D. Buchholz, III
Joseph H. Jacovini
Beth Lang
Zygmunt R. Bialkowski, Jr.

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

2001 – 2002 Financial Statements

HAMILTON & MUSSER, P.C. CERTIFIED PUBLIC ACCOUNTANTS

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

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

Harrisburg 234-7000
Hershey 533-6892

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

FAX (717) 697-6943
www.hnmcpas.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, 2002 and 2001, 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 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.

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, 2002 and 2001 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.

August 27, 2002
Mechanicsburg, Pennsylvania


Certified Public Accountants

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statements of Financial Position – Modified Cash Basis
June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 7,089,430	\$ 3,176,158
Investments (Note 2)	3,654,060	5,095,950
	-----	-----
Total Assets	\$ 10,743,490	\$ 8,272,108
	=====	=====
<u>Liabilities</u>		
Accrued Payroll Taxes	\$ 457	\$ 440
	-----	-----
<u>Net Assets</u>		
Unrestricted	10,743,033	8,271,668
	-----	-----
Total Liabilities and Net Assets	\$ 10,743,490	\$ 8,272,108
	=====	=====

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statements of Activities – Modified Cash Basis
For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Revenue</u>		
Annual Fees	\$ 3,466,875	\$ 1,738,037
Restitution	89,208	52,731
Investment Income	379,294	496,123
Realized Gain on Investments	(12,813)	7,266
Unrealized Gain/(Loss) on Investments	70,923	192,214
	-----	-----
Total Revenue	3,993,487	2,486,371
	=====	=====
<u>Expenditures</u>		
Program		
Awards	954,767	1,878,958
Funding of Lawyers Concerned for Lawyers, Inc.	150,000	150,000
Management and General	417,355	307,987
	-----	-----
Total Expenditures	1,522,122	2,336,945
	-----	-----
Increase in Net Assets – Unrestricted	2,471,365	149,426
Net Assets – Unrestricted, Beginning of Year	8,271,668	8,122,242
Prior Period Adjustment (Note 9)	-	-
	-----	-----
Net Assets – Unrestricted, End of Year	\$ 10,743,033	\$ 8,271,668
	=====	=====

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Statements of Cash Flows - Modified Cash Basis

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Cash Flows From Operating Activities:</u>		
Change in Net Assets	\$ 2,471,365	\$ 149,426
Realized Gain on Investments	12,813	(7,266)
Unrealized (Gain) Loss on Investments	(70,923)	(192,214)
Increase (Decrease) in:		
Accrued Payroll Taxes	17	440
	-----	-----
Net Cash Provided (Used) by Operating Activities	2,413,272	(49,614)
	-----	-----
<u>Cash Flows From Investing Activities:</u>		
Purchase of U.S. Treasury Notes	-	-
Redemption of U.S. Treasury Notes	1,500,000	1,000,000
	-----	-----
Net Cash Provided (Used) by Investing Activities	1,500,000	1,000,000
	-----	-----
Net Change in Cash and Cash Equivalents	3,913,272	950,386
Cash and Cash Equivalents, Beginning of Year	3,176,158	2,225,772
	-----	-----
Cash and Cash Equivalents, End of Year	\$ 7,089,430	\$ 3,176,158
	=====	=====
<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, 2002 and 2001

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, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Cash	\$ 2	\$ 38
Money Market Fund	7,089,428	3,176,120
	-----	-----
Total	\$ 7,089,430	\$ 3,176,158
	=====	=====

NOTE 2 - INVESTMENTS

Investments consisted of the following U.S. Treasury Notes at June 30, 2002:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Value</u>	<u>Cost</u>	<u>Market Value</u>
5.750	10/31/02	500,000	504,531	506,720
5.500	5/31/03	500,000	498,985	516,250
5.250	8/15/03	500,000	500,722	517,345
5.250	5/15/04	1,000,000	976,875	1,045,310
5.875	11/15/05	500,000	496,992	535,780
5.625	2/15/06	500,000	490,176	532,655
		-----	-----	-----
		\$ 3,500,000	\$ 3,468,281	\$ 3,654,060
		=====	=====	=====

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
		-----	-----	-----
		\$ 5,000,000	\$ 4,981,094	\$ 5,095,950
		=====	=====	=====

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 2002 and 2001 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$150,000 and \$150,000 respectively.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Awards	\$ 687,926	\$ 447,300
Award Potential	3,200,000	2,050,000
	-----	-----
Total	\$ 3,887,926	\$ 2,497,300
	=====	=====

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 \$30,453 and \$18,304 for the years ended June 30, 2002 and 2001, respectively. Future

minimum lease payments are as follows for the years ended June 30:

2003	\$ 41,177
2004	42,156
2005	43,160
2006	44,192
2007	22,358
	--
Total	\$ 193,043
	=====

The Fund also leases a copier under an operating lease. Rent expenditures were \$2,400 and \$1,600 for the years ended June 30, 2002 and 2001, respectively. Future minimum lease payments are as follows for the years ended June 30:

2003	\$ 2,400
2004	2,400
2005	2,400
2006	800
	--
Total	\$ 8,000
	=====

NOTE 6 - EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2002 and 2001 were:

<u>Program</u>	<u>2002</u>	<u>2001</u>
Awards	954,767	1,878,958
Funding of Lawyers Concerned For Lawyers, Inc.	150,000	150,000
	-----	-----
<u>Management and General</u>		
Registration and assessment	89,208	-
Travel	20,429	19,791
Salaries	101,750	96,500
Benefits and taxes	29,464	27,948
Office, stationery, supplies, and postage	37,257	20,427
Telephone	7,380	4,382
Occupancy	31,653	20,685
Bank custodial fees and service charges	19,458	18,303
<u>Professional fees</u>		
General counsel	65,000	50,673
Other	10,250	45,365
Dues and publications	271	415
Insurance	813	1,235
Janitorial Expense	3,366	2,263
Outside temporary staff	1,056	-
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Total Management and General	417,355	307,987
	-----	-----
Total Expenditures	\$ 1,522,122	\$ 2,336,945

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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 \$89,208 and \$0 for the years ended June 30, 2002 and 2001, 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 \$10,175 and \$9,650 for the years ended June 30, 2002 and 2001, respectively.