

Letter From the Board Chair

As the Board Chair of the Pennsylvania Lawyers Fund for Client Security, I am pleased to present, on behalf of the entire Board of the Fund, the Fund's Annual Report for 2005-2006. This Annual Report provides information regarding the types of claims that are covered by the Fund, as well as information regarding awards that have been paid by the Fund.



The Pennsylvania Lawyers Fund for Client Security was created by the Supreme Court of Pennsylvania in 1982 to reimburse individuals whose lawyers have misappropriated their clients' funds. The Fund is overseen by a seven member Board comprised of five lawyers and two non-lawyers, all of whom are appointed by the Supreme Court of Pennsylvania and all of whom serve without compensation. The Board members give careful and thoughtful consideration to each and every claim received by the Fund, regardless of the amount of the claim. All information received in connection with a claim, from both claimant and attorney, is thoroughly evaluated before a determination is made on whether an award should be approved. Since its inception, the Fund has made awards to thousands of claimants. While the number of lawyers who misappropriate clients' funds is extremely small compared to the number of licensed attorneys, their actions nevertheless result in the confidence in the legal profession being shaken. The actions of the Fund help to restore that confidence and maintain the integrity of the legal profession.

I would like to thank Chief Justice Ralph J. Cappy and all of the Justices of the Supreme Court of Pennsylvania for their support of the Fund and for providing me with the opportunity to serve on this Board. I would also like to thank my fellow Board members who give so generously of their time and the Board's Staff for their hard work and professionalism. Finally, I would like to thank the members of the Pennsylvania Bar for recognizing the need to help individuals who are victims of such misconduct and providing the resources for the Fund to perform this important work. They are to be commended for their professionalism and compassion.

Please take the time to consider the information provided in this Annual Report in order to learn more about the Pennsylvania Lawyers Fund for Client Security so that you may provide this valuable information to those who may be in need of the Fund's assistance.

Zygmunt R. Bialkowski Jr., 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 2005 - 2006 fiscal year. 221 claims were filed with the Fund during the fiscal year, representing an 11% increase from the number of claims received in the prior year. The Board made disposition of 217 claims during the fiscal year. This number represents 55% 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.

During the Fund's twenty-four years of existence, 3,526 claimants have received awards totaling \$36.19 million. These awards were made as a result of the actions of 608 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



Zygmunt R. Bialkowski, Jr., an attorney member, is a partner with Margolis Edelstein in Scranton, Pennsylvania. Mr. Bialkowski was appointed Board Chair in March 2006. 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, Pennsylvania, American and Federal Bar Associations. Mr. Bialkowski was originally appointed to the Board in April 2002 and subsequently reappointed to the Board in March 2005. His current term expires in March 2008.

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 currently serves as the Vice Chair and the Treasurer of the Fund. 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. Ms. Lang was reappointed to the Board in March 2004. Her current term expires in March 2007.



Morris M. Shuster, an attorney member, is Of Counsel with the firm of Chimicles & Tikellis, LLP in Haverford, Pennsylvania and an adjunct Professor of Law at the University of Pennsylvania Law School. He is a graduate of University of Pennsylvania, acquired his Juris Doctorate from the University of Pennsylvania Law School. Mr. Shuster has extensive experience in trial preparation and settlement negotiations in consumer class actions, anti-trust and truth-in-lending litigation, as well as employment

discrimination litigation, medical malpractice, products liability and general tort litigation. He is also a mediator in the Federal courts and in private dispute resolution. Mr. Shuster is a member of the Philadelphia, Pennsylvania and American Bar Associations. Mr. Shuster was appointed to the Board in April 2004. His current term expires in March 2007.

Maureen Murphy McBride, an attorney member, is a partner with Lamb McErlane PC in West Chester, Pennsylvania. She is a graduate of King's College and Villanova University School of Law. Ms. McBride is a noted writer of appellate briefs, is a member of the Pennsylvania Bar Association's Appellate Practice Committee and frequently teaches continuing legal education courses. She is also a liaison for Project PEACE, an association between the Pennsylvania Bar Association and schools dedicated to promoting peace through peer mediation. Ms. McBride is admitted to practice



before the Supreme Court of the United States, Supreme Court of Pennsylvania, U.S. District Court of the Eastern District of Pennsylvania, U.S. Court of Appeals for the Third Circuit and the U.S. Court of Appeals for the Fourth Circuit. Ms. McBride was appointed to the Board in February 2005 to serve the remaining term of Kelly Beaudin Stapleton, which term expired in

March 2006. Ms. McBride was reappointed to the Board in June 2006. Her current term expires in March 2009.



James M. Mead, a non-lawyer member, was appointed to the Board in May 2005. Mr. Mead was the President and CEO (retired) of Capital Blue Cross, Harrisburg, Pennsylvania. He has earned a bachelor's and a master's degree, both in economics and both from The Pennsylvania State University. Mr. Mead has served on the faculty of the School of Business at the Pennsylvania State University in Harrisburg and as a special assistant to the Pennsylvania Insurance Commissioner. Mr. Mead has served on many community organizations, including Chairman of the Penn State Harrisburg Board of Advisers, Chairman of the Central Pennsylvania U.S. Savings Bond Campaign for the U.S. Treasury Department and Campaign Chairman of the United Way of the Capital Region. Mr. Mead was awarded and recognized as an Alumni Fellow of The Pennsylvania State University and is listed in Marquis Who's Who in America and Who's Who in Finance and Industry. His current term on the Board expires in March 2008.



Robert A. Rovner, an attorney member, is a senior partner with Rovner, Allen, Rovner, Zimmerman & Nash in Feasterville, Pennsylvania. He is a graduate of Temple University and Temple Law School. Mr. Rovner serves on the Board of Trustees for Temple University and is a former Pennsylvania State Senator. Mr. Rovner has a general practice of law, specializing in civil litigation, criminal defense, Social Security disability and worker's compensation matters. He may be heard in the Southeastern Pennsylvania area on his two weekly radio broadcasts. Mr. Rovner was appointed to the Board in April 2006. His current term expires in March 2009.



Joan O'Connor Shoemaker, an attorney member, was appointed to the Board in May 2006. She is a sole practitioner in Pittsburgh, Pennsylvania. Ms. Shoemaker is a graduate of Duquesne University and the Duquesne University School of Law. She is a member of the Allegheny County and Pennsylvania Bar Associations. Ms. Shoemaker is a member of the Pittsburgh Legal Journal editorial staff, a frequent lecturer for the Pennsylvania Bar Institute on estates, trusts and adoption and, for the Adoption Committee of the Allegheny County Bar Association. Ms. Shoemaker is a Fellow of the Allegheny County Bar Foundation and recently retired as a Pennsylvania Bar Law Examiner. Ms. Shoemaker's current term expires in March 2009.

FORMER BOARD CHAIRS

Carl D. Buchholz III, Esquire (2004 – 2006)
Hon. Paul S. Diamond (2003 – 2004)
Hon. William H. Lamb (2001 – 2003)
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

Joseph H. Jacovini, Esquire
Derek C. Hathaway
Kelly Beaudin Stapleton, Esquire
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
Hon. 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. Sciuillo
Paula Green Bregman, Esquire
Harold S. Irwin, Esquire
Joseph P. Scottino, Ph.D.
David S. Gifford

Staff



Kathryn J. Peifer Esquire, 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 and has co-authored materials for the Pennsylvania Bar Institute's Ethics Potpourri, "The Client Security Fund: Why & How it Operates" (August 2001). She most recently served as a faculty member for the Difficult Claims Workshop at the American Bar Association's 19th National Forum on Client Protection (May 2003). Ms. Peifer has served as an adjunct professor at Central Penn College and is a member of the Advisory Committee for the Legal Studies Program at Central Penn College. Ms. Peifer is a member of the Dauphin County, Pennsylvania and American Bar Associations.



Lisa A. Watkins, Esquire, was retained as Counsel to the Board in June 2003. Ms. Watkins is a graduate of the University of Pennsylvania and Villanova University School of Law. She most recently served as a member of the Board for the Disciplinary Board of the Supreme Court of Pennsylvania and is a past member of the First Judicial District Committee on Racial and Gender Fairness. Ms. Watkins is a member of the Philadelphia and Montgomery County Bar Associations, Pennsylvania Bar Association and the Women's Lawyers Division of the National Bar Association. Ms. Watkins has extensive experience as personal injury defense litigation, specializing in products liability, hospital/medical devices, toxic tort and premises liability litigation.



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.

THE SUPREME COURT OF PENNSYLVANIA
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
REPORT ON 2005 - 2006 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, 2006, 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 Judiciary and Bar. The period covered by this Annual Report is for the Fund's fiscal year, July 1, 2005 through June 30, 2006.¹

A. As of the Start of the 2005-2006 Fiscal Year

The Fund commenced the 2005-2006 fiscal year with 177 pending claims, involving 105 attorneys, carrying an award potential of \$3,264,467. This dollar amount is calculated after applying the Fund's \$75,000 award limitation. There were 18 claims in excess of \$75,000 among the pending claims and the gross total amount claimed of the Fund was \$7,194,574.

B. During the Fiscal Year

The Fund received a total of 221 claims from July 1, 2005 through June 30, 2006, alleging a total loss of \$6,918,643. This was an increase of 22 claims from the amount received during the prior fiscal year. 22 claims received alleged losses in excess of \$75,000. 130 lawyers were accused of dishonest conduct.

During the 2005-2006 fiscal year, the Fund disposed of 217 claims, awarding \$2,479,054 as a result of 125 claims. The dollar amount awarded reflects an increase of \$512,642 which was awarded to 6 fewer claimants than the prior fiscal year. Eleven claimants received the Fund's maximum award of \$75,000. Seventy-nine claims with an aggregate alleged loss of \$2,551,881 were denied. Thirteen claims with an aggregate alleged loss of \$119,431 were discontinued. There were 25 more denials this year than in the previous fiscal year. The number of discontinued claims decreased by 1.

C. As of the End of the Fiscal Year

On June 30, 2006, the Fund had 181 pending claims alleging an aggregate total loss in the amount of \$6,321,307. Nineteen of these claims exceed the \$75,000 maximum reimbursement limit and seek \$4,863,561 in awards. The Fund's potential maximum exposure from the pending claims is approximately \$2,882,746.

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

Since the establishment of the Fund in April 1982, through June 30, 2006, the Fund has approved 3,526 awards in the aggregate amount of \$36,191,446 as a result of the actions of 608 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 12 month time period.

D. Claims Experience

1. Fiduciary Funds - Theft of (a) estate funds and (b) trust/escrow funds continues to be the largest categories of claims. During the 2005-2006 fiscal year, these two types of theft cost the Fund \$1,446,394 or 58.34% of its total award dollars. 39 claimants who alleged attorney theft from estate or trust/escrow monies received awards. \$375,000, or 25.93%, of the total awards approved in this category were approved to 5 former clients of one attorney.

2. Embezzlement of Lawsuit Settlement Proceeds - The Fund approved awards totaling \$742,348 to 28 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 29.95% of the awards approved by the Fund during the 2005 - 2006 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. \$500,200, or 67.38%, of the total approved awards in this category were approved to 17 former clients of two attorneys who practiced in the same law firm.

3. Nonperformance – The acceptance of unearned fees or retainers represents the third highest payment category, with approved awards totaling \$142,161. Awards were approved to 45 claimants representing 5.74% of the Fund's total approved 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 disputes committee. If the committee determines that all or a significant portion of the fees or retainer were not earned, and the attorney does not refund the unearned fee, the Board will consider this type of claim and categorize the award as nonperformance by the attorney. \$64,700, or 45.51%, of the total approved awards in this category were approved to 7 former clients of one 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 2005-2006 fiscal year, the Fund provided \$267,500 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 2006-2007 in the approximate amount of \$277,875.

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 are presented against insufficient funds. The fiscal year began with 9 pending notices. The Fund received 208 overdraft notices during the 2005-2006 fiscal year, which resulted in 51 overdraft notices being referred to the Office of Disciplinary Counsel for further inquiry. The remaining 166 overdraft notices were reviewed, dismissed with a satisfactory explanation, and scheduled for destruction 6 months thereafter. The fiscal year ended with zero overdraft notices pending.

G. Restitution and Subrogation Efforts

The Fund recovered \$127,794 in restitution payments during the 2005-2006 fiscal year.

H. Board Meetings and Locations

The Board of the Fund continued during the 2005-2006 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, Pittsburgh and Philadelphia. 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, 2000-2006); Cambria County (1998); Centre County (1995); Chester County (1990, 1998); Cumberland County (1998, 2002-2003); Dauphin County (1984 -1985, 1989, 1991, 1993, 1996-1997, 1999, 2001, 2004-2005); Delaware County (1994, 1997 and 2002); 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); and, Philadelphia County (1982-1988, 1990-1993, 1995-1996, 1998, 2001, 2003-2006).

I. National Ranking

According to the American Bar Association's Survey of Lawyers' Funds for Client Protection for the years 2002 through 2004, the Fund ranks in the top 4 funds in the United States for claims received and processed during that three year period. The funds in California, New York and Florida received and processed more claims during the same time period.

J. Board Membership and Fund Personnel

Board Chair, Zygmunt R. Bialkowski Jr., Esquire was originally appointed to the Board in April 2002. Mr. Bialkowski was reappointed to the Board in March 2005 and was subsequently appointed as Board Chair in March 2006 when the then Board Chair, Carl D. Buchholz, III, completed a maximum 6 years of service on the Board. Mr. Bialkowski is a partner with Margolis Edelstein in Scranton, Pennsylvania.

Other members of the Board include attorneys Morris M. Shuster, from Haverford, Maureen Murphy McBride from West Chester, Robert A. Rovner, from Philadelphia and, Joan Shoemaker, from Pittsburgh, Pennsylvania.

By Supreme Court Rule, the Board consists of two non-lawyer members. Beth Lang, the Chief Operating Officer of Gateway Financial Group, Inc., in Pittsburgh currently serves as the Vice Chair and Treasurer of the Fund. The second non-lawyer member of the Board is James M. Mead, President and CEO (retired) from Capital Blue Cross of Camp Hill, PA.

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

Lisa A. Watkins, Esquire, of Wyncote, Pennsylvania serves as Counsel to the Board. Ms. Watkins 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,

Zygmunt R. Bialkowski, Jr., Board Chair

Beth Lang

Morris M. Shuster

Maureen Murphy McBride

James M. Mead

Robert A. Rovner

Joan Shoemaker

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2006 AND 2005
AND
INDEPENDENT AUDITOR'S REPORT

HAMILTON & MUSSER, P.C.
Certified Public Accountants

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
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For the Years Ended June 30, 2006 and 2005

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HAMILTON & MUSSER, P.C.

Certified Public Accountants • Consultants to Management

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ROBERT D. MAST, CPA

INDEPENDENT AUDITOR'S 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 as of June 30, 2006 and 2005, 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 of the Pennsylvania Lawyers Fund for Client Security as of June 30, 2006 and 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with the basis of accounting described in Note 1.

August 18, 2006

Mechanicsburg, Pennsylvania

Certified Public Accountants

Members of the American and Pennsylvania Institutes of CPA's

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Statements of Financial Position – Modified Cash Basis

June 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|--------------------------|--------------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ 829,937 | \$ 10,059,616 |
| Investments (Note 2) | <u>9,567,332</u> | - |
| Total Assets | <u>\$ 10,397,269</u> | <u>\$ 10,059,616</u> |
| Liabilities | | |
| Accrued Payroll Taxes | \$ 335 | \$ 26 |
| Net Assets | | |
| Unrestricted | <u>10,396,934</u> | <u>10,059,590</u> |
| Total Liabilities and Net Assets | <u>\$ 10,397,269</u> | <u>\$ 10,059,616</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Statements of Activities – Modified Cash Basis
For the Years Ended June 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Revenue: | | |
| Annual Fees | \$ 2,134,130 | \$ 2,927,295 |
| Restitution | 127,794 | 118,283 |
| Investment Income | 36,235 | 212,538 |
| Realized Gain (Loss) on Investments | 75,190 | (28,538) |
| Unrealized Gain on Investments | <u>563,903</u> | - |
| Total Revenue | <u>2,937,252</u> | <u>3,229,578</u> |
| Expenditures: | | |
| Program: | | |
| Awards | 1,871,867 | 1,998,775 |
| Funding of Lawyers Concerned for Lawyers, Inc. | 267,500 | 245,000 |
| Funding for the Disciplinary Board | - | <u>500,000</u> |
| Total Program Expenditures | <u>2,139,367</u> | <u>2,743,775</u> |
| Management and General | <u>460,541</u> | <u>418,645</u> |
| Total Expenditures | <u>2,599,908</u> | <u>3,162,420</u> |
| Increase in Net Assets | 337,344 | 67,158 |
| Net Assets, Beginning of Year | <u>10,059,590</u> | <u>9,992,432</u> |
| Net Assets, End of Year | <u>\$ 10,396,934</u> | <u>\$ 10,059,590</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, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|----------------------|
| Cash Flows From Operating Activities: | | |
| Change in Net Assets | \$ 337,344 | \$ 67,158 |
| Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities: | | |
| Realized (Gain) Loss on Investments | (75,190) | 28,538 |
| Unrealized (Gain) Loss on Investments | (563,903) | - |
| Increase (Decrease) in: | | |
| Accrued Payroll Taxes | <u>309</u> | <u>(3)</u> |
| Net Cash and Cash Equivalents Provided (Used) by Operating Activities | <u>(301,440)</u> | <u>95,693</u> |
| Cash Flows From Investing Activities: | | |
| Proceeds from Sale of Investments | 1,350,000 | 1,520,527 |
| Purchase of Investments | <u>(10,278,239)</u> | - |
| Net Cash and Cash Equivalents Provided (Used) by Investing Activities | <u>(8,928,239)</u> | <u>1,520,527</u> |
| Increase (Decrease) in Cash and Cash Equivalents | (9,229,679) | 1,616,220 |
| Cash and Cash Equivalents, Beginning of Year | <u>10,059,616</u> | <u>8,443,396</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 829,937</u> | <u>\$ 10,059,616</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, 2006 and 2005

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.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes To Financial Statements
For the Years Ended June 30, 2006 and 2005

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

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

NOTE 2 INVESTMENTS

Investments consisted of the following U.S. Treasury Notes at June 30, 2006:

| | <u>Cost</u> | <u>Market Value</u> |
|---------------------------------|---------------------|---------------------|
| PA Supreme Court Unitized Asset | <u>\$ 9,003,430</u> | <u>\$ 9,567,332</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 2006 and 2005 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$267,500 and \$245,000 respectively.

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|-----------------|---------------------|---------------------|
| Awards | \$ 975,852 | \$ 535,361 |
| Award Potential | <u>6,275,057</u> | <u>3,264,467</u> |
| Total | <u>\$ 7,250,909</u> | <u>\$ 3,799,828</u> |

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

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes To Financial Statements
For the Years Ended June 30, 2006 and 2005

NOTE 5 LEASES

The Fund entered into an operating lease for its office space. Rent expenditures were \$45,715 and \$44,799 for the years ended June 30, 2006 and 2005, respectively. Future minimum lease payments are as follows for the years ended June 30:

| | |
|-------|------------------|
| 2007 | \$ 46,741 |
| 2008 | 47,863 |
| 2009 | <u>3,996</u> |
| Total | <u>\$ 98,600</u> |

The Fund also leases a mailing machine under an operating lease. Rent expenditures were \$2,213 and \$2,213 for the years ended June 30, 2006 and 2005, respectively. Future minimum lease payments are as follows for the years ended June 30:

| | |
|-------|-----------------|
| 2007 | \$ 2,213 |
| 2008 | <u>1,106</u> |
| Total | <u>\$ 3,319</u> |

The Fund also leases a facsimile machine under an operating lease. Rent expenditures were \$504 and \$378 for the years ended June 30, 2006 and 2005, respectively. Future minimum lease payments are as follows for the years ended June 30:

| | |
|-------|-----------------|
| 2007 | \$ 504 |
| 2008 | 504 |
| 2009 | 504 |
| 2010 | <u>126</u> |
| Total | <u>\$ 1,638</u> |

The Fund also leases a digital copier under an operating lease. Rent expenditures were \$2,760 and \$690 for the years ended June 30, 2006 and 2005, respectively. Future minimum lease payments are as follows for the years ended June 30:

| | |
|-------|-----------------|
| 2007 | \$ 2,760 |
| 2008 | <u>2,070</u> |
| Total | <u>\$ 4,830</u> |

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes To Financial Statements

For the Years Ended June 30, 2006 and 2005

NOTE 6 EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2006 and 2005 were:

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Program: | | |
| Awards | \$ 1,871,867 | \$ 1,998,775 |
| Funding of Lawyers Concerned For Lawyers, Inc. | 267,500 | 245,000 |
| Funding for the Disciplinary Board | <u>-</u> | <u>500,000</u> |
| Total Program | <u>2,139,367</u> | <u>2,743,775</u> |
| Management and General: | | |
| Registration and Assessment | 54,116 | 39,181 |
| Travel | 14,962 | 3,624 |
| Salaries | 130,448 | 124,800 |
| Benefits and Taxes | 37,707 | 36,542 |
| Office, Stationery, Supplies, and Postage | 40,715 | 30,185 |
| Telephone | 4,583 | 4,716 |
| Occupancy | 49,904 | 48,502 |
| Bank Custodial Fees and Service Charges | 40,164 | 19,123 |
| Professional Fees: | | |
| General Counsel | 47,250 | 45,102 |
| Other | 31,260 | 56,311 |
| Dues and Publications | 1,018 | 1,019 |
| Insurance | 1,607 | 4,073 |
| Janitorial Expense | 4,502 | 4,949 |
| Investigation | 464 | 518 |
| Advertising | <u>1,841</u> | <u>-</u> |
| Total Management and General | <u>460,541</u> | <u>418,645</u> |
| Total Expenditures | <u>\$ 2,599,908</u> | <u>\$ 3,162,420</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 amounts of \$54,116 and \$39,181 for the years ended June 30, 2006 and 2005, 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 were \$13,045 and \$12,480 for the years ended June 30, 2006 and 2005, respectively.