

**THE SUPREME COURT OF PENNSYLVANIA**  
**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
**REPORT ON 2007 - 2008 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. The Fund does not receive any tax dollars. For the fiscal year ending June 30, 2008, the assessment was \$35. 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, 2007 through June 30, 2008.<sup>1</sup>

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

A. As of the Start of the 2007-2008 Fiscal Year

The Fund commenced the 2007-2008 fiscal year with 160 pending claims, involving 98 attorneys, carrying an award potential of \$1,347,583. This dollar amount is calculated after applying the Fund's \$75,000 award limitation. There were 15 claims in excess of \$75,000 among the pending claims and the gross total amount claimed of the Fund was \$55,657,501.

B. Activity During the Fiscal Year

The Fund received a total of 179 claims from July 1, 2007 through June 30, 2008, alleging a total loss of \$7,699,582. This was a decrease of 4 claims from the amount received during the prior fiscal year. 22 of these claims alleged losses in excess of \$75,000. 102 lawyers were accused of dishonest conduct.

During the 2007-2008 fiscal year, the Board of the Fund made disposition of 210 claims. Ninety-nine of these claims resulted in the approval of awards, which awards totaled \$1,176,597. This amount reflects a decrease of \$532,351 from the awards approved during the prior fiscal year, and involved 15 fewer claimants than the prior fiscal year. Three claimants received the Fund's maximum award of \$75,000. Effective September 4, 2007, the Rules of Disciplinary Enforcement under which the Fund operates, were modified to permit, after the approval of an award, the disclosure of the name of an attorney and the amount of the approved award. A list of the awards approved between September 4, 2007 and June 30, 2008, and the attorneys involved with these awards, follows the report on operations.

Ninety-two claims with an aggregate alleged loss of \$1,405,553 were denied after review and consideration by the Board. Nineteen claims with an aggregate alleged loss of \$1,128,171 were discontinued by the claimants. There were 19 more denials during this fiscal year than in the previous fiscal year. The number of claims which were discontinued by the claimants increased by 2 over the prior fiscal year.

C. As of the End of the Fiscal Year

On June 30, 2008, the Fund had 129 pending claims alleging an aggregate total loss in the amount of \$57,935,582<sup>2</sup>. Twenty-one of these claims exceed the \$75,000 maximum reimbursement limit and seek \$56,936,516 in awards. The Fund's potential maximum exposure from these pending claims is approximately \$2,569,066.

Since the establishment of the Fund in April 1982, through the period ending June 30, 2008, the Fund has approved 3,739 awards in the aggregate amount of \$39,076,991 as a result of the actions of 659 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 2007-2008 fiscal year, these two types of theft cost the Fund \$983,002 or 83.55% of its total award dollars. Thirty-six claimants who alleged attorney theft from estate or trust/escrow monies received awards. \$395,034, or 40.19%, of the total awards approved in this category were approved to 12 former clients of one attorney.

2. Embezzlement of Lawsuit Settlement Proceeds - The Fund approved awards totaling \$124,060 to 8 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 10.55% of the awards approved by the Fund during the 2007-2008 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

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<sup>2</sup> One pending claim alleges a loss of \$50 million.

providers and fails to disburse the money to the medical providers also fall under this category. \$70,833, or 57.10%, of the total approved awards in this category were approved to 3 former clients of one attorney.

3. Nonperformance – The acceptance of unearned fees or retainers represents the third highest payment category, with approved awards totaling \$69,035, representing 5.87% of the Fund’s total approved awards for this fiscal year. Awards were approved to 53 claimants. 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 significant portion of the fees or retainer were not earned and the attorney does not refund the unearned fee, the Board may consider this type of claim and categorize the award as nonperformance 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 2007-2008 fiscal year, the Fund provided \$280,700 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 2008-2009 in the amount of \$289,523.

F. Mandatory Overdraft Notification

Pennsylvania Rule of Disciplinary Enforcement 221 was promulgated by the Supreme Court of Pennsylvania on April 24, 1995, requiring financial institutions to report the occurrence of an item being presented against insufficient funds, when the item involves an

attorney trust account. The fiscal year began with 5 pending notices. The Fund received 252 overdraft notices during the 2007-2008 fiscal year, which resulted in 47 overdraft notices being referred to the Office of Disciplinary Counsel for further inquiry. 190 overdraft notices were reviewed, dismissed with a satisfactory explanation, and scheduled for destruction one year thereafter. The fiscal year ended with 15 overdraft notices pending.

G. Restitution and Subrogation Efforts

All claimants are required to execute a subrogation agreement prior to the receipt of an approved award, which subrogation agreement assigns to the Fund the right to collect the award amount. The Fund may subsequently receive restitution through civil collection efforts or through criminal restitution payments. During the 2007-2008 fiscal year, the Fund recovered \$115,032 in restitution payments.

H. Board Meetings and Locations

The Board of the Fund continued during the 2007-2008 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 Malvern. 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, 2000-2008); Cambria County (1998); Centre County (1995); Chester County (1990, 1998, 2008); Cumberland County (1998, 2002-2003); Dauphin County (1984 -1985, 1989, 1991, 1993, 1996-1997, 1999, 2001, 2004-2007); 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, 2003-2007).

I. National Ranking

According to the American Bar Association's Survey of Lawyers' Funds for Client Protection for the years 2005 through 2007, among those client protection funds that responded, the Fund ranks in the top 5 funds in the United States for claims received and processed and total amount paid in awards during that three year period. The funds in California, New York, Ohio and Illinois received more claims during this time period. The California, New York and Illinois funds disposed of more claims during the stated time period. The New York, California and New Jersey funds paid out more in awards during this three-year time period.

J. Board Membership and Fund Personnel

Board Chair, James M. Mead, was originally appointed to the Board in May 2005 and was subsequently reappointed in March 2008. At that same time, Mr. Mead was appointed as Board Chair when the then Board Chair, Zygmunt R. Bialkowski Jr., Esquire, completed a maximum 6 years of service on the Board. Mr. Mead, from Camp Hill, Pennsylvania, is the retired President and CEO of Capital Blue Cross. Mr. Mead is only the second non-lawyer member to serve as Board Chair of the Fund.

Other members of the Board include attorneys Maureen Murphy McBride from West Chester, who serves as Vice-Chair, Robert A. Rovner, from Feasterville, Joan Shoemaker and Eric N. Anderson, both from Pittsburgh, Pennsylvania and, the Honorable Robert A. Graci, from Harrisburg, Pennsylvania.

By Supreme Court Rule, the Board consists of two non-lawyer members. James M. Mead, President and CEO (retired) from Capital Blue Cross of Camp Hill, PA currently serving as the Board Chair for the Fund, and Robert K. Reitzel, a Vice President and Trust Officer with Hershey Trust Company, Hershey, Pennsylvania is the second non-lawyer appointee. Mr. Reitzel currently serves as the Treasurer for the Fund.

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,

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James M. Mead, Board Chair  
Maureen Murphy McBride  
Robert A. Rovner  
Joan Shoemaker  
Eric N. Anderson  
Robert K. Reitzel  
Hon. Robert A. Graci

AWARDS APPROVED SEPTEMBER 4, 2007 THROUGH JUNE 30, 2008

<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>ID #</u>	<u>COUNTY</u>	<u>CLAIMS RESULTING IN AWARDS</u>	<u>TOTAL AWARDS</u>
Alston	Gerald M	57044	Philadelphia	1	\$20,020.00
Ambrose	Fred J.	30647	Montgomery	1	\$4,000.00
Anderson	Ronald W.	70364	Westmoreland	1	\$650.00
Apple	James R.	37942	Allegheny	1	\$41,645.14
Beachy III	William H.	21698	Somerset	1	\$550.00
Beitchman	Perry E.	59376	Philadelphia	3	\$3,000.00
Black	Carol A.	32742	Philadelphia	1	\$33,229.57
Block	Gary R.	17772	Chester	2	\$86,646.04
Bolden	James A.	33976	Philadelphia	1	\$57,081.44
Brekus	Andrew J.	47076	Delaware	1	\$1,400.00
Charles	Larry	47848	Philadelphia	2	\$900.00
Corcoran	Richard M.	75280	Cambria	1	\$3,006.05
Crum	Lee E.	21837	Allegheny	1	\$675.00
Daugherty	Troy R.	73369	Bedford	1	\$2,134.69
Dente	Joseph	58468	Luzerne	1	\$48,000.00
DeSantis	Joseph J.	76349	Erie	2	\$2,787.00
Federline	Robert L.	32154	Allegheny	1	\$10,000.00
Feingold	Allen	3892	Philadelphia	1	\$10,000.00
Fields	Scott J.	47519	Montgomery	5	\$8,448.00
Fitzpatrick	William A.	12277	Philadelphia	1	\$57,264.29
Frankel	Mark D.	17142	York	2	\$8,026.82
Gallimore	Allan G.	56717	Allegheny	1	\$750.00
Garfold	Daniel J.	53162	Allegheny	4	\$11,985.55
Glammer	Daniel H.	56261	Montgomery	4	\$6,550.00
Glycenfer	William D.	40953	Philadelphia	1	\$300.00
Goerke	Daniel F.	67724	Chester	1	\$1,356.00
Golden	W. Brian	20345	Monroe	1	\$18,794.09
Goldhaber	Douglas	72174	Bedford	1	\$300.00
Harris	James W.	10373	York	2	\$73,466.67
Jackson	Anthony D.	35596	Philadelphia	2	\$5,200.00
Jenks	James R.	7734	Erie	1	\$5,000.00
Kasaback	John M	43910	Cambria	1	\$1,100.00
Kasprenski	Michael	52370	Lehigh	4	\$112,119.11
Kosseff	Robert A.	20387	Philadelphia	4	\$73,564.32
Levine	Michael S.	20802	Dauphin	2	\$8,205.00
Lewis	F. Lee	49189	Philadelphia	1	\$695.00
Lorenzo	Olivia J.	52945	Cambria	1	\$209.00
McGreal	Michael K.	55938	Allegheny	1	\$19,000.00
Mirarchi	Ralph E.	4858	Chester	13	\$410,033.56
Morrison	Mark F.	43044	Fayette	1	\$1,580.00



AWARDS APPROVED SEPTEMBER 4, 2007 THROUGH JUNE 30, 2008

<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>ID #</u>	<u>COUNTY</u>	<u>CLAIMS RESULTING IN AWARDS</u>	<u>TOTAL AWARDS</u>
Pierce	R. Eric	43813	Dauphin	2	\$2,400.00
Radakovich	Raymond	10156	Allegheny	1	\$3,750.00
Rose	Meyer Charles	13391	Philadelphia	2	\$1,500.00
Rupp	Richard C.	34832	Cumberland	1	\$600.00
Stever	Carol S.	44250	Philadelphia	1	\$1,400.00
Thomas	Anthony Norman	85150	Dauphin	1	\$2,000.00
Van Scyoc	William C.	77500	Erie	4	\$5,850.00
Wang	Helen	51972	Philadelphia	1	\$5,500.00
Weiss	Michael S.	85535	Allegheny	2	\$3,375.00
Yurcheshen	Michael J.	10173	Allegheny	1	\$550.00

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2008 AND 2007**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**

**HAMILTON & MUSSER, P.C.**  
*Certified Public Accountants*

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

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# HAMILTON & MUSSER, P.C.

*Certified Public Accountants • Consultants to Management*

DAVID A. HAMILTON, CPA  
BARRY E. MUSSER, CPA, CFP®

JAMES A. KRIMMEL, MBA, CPA, CFE  
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 assets, liabilities, and net assets—modified cash basis of the Pennsylvania Lawyers Fund for Client Security as of June 30, 2008 and 2007, and the related statements of revenue, expenses, and changes in net assets—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 assets, liabilities, and net assets of the Pennsylvania Lawyers Fund for Client Security as of June 30, 2008 and 2007 and its revenue and expenses and changes in its net assets and its cash flows for the years then ended in conformity with the basis of accounting described in Note 1.

September 24, 2008

Mechanicsburg, Pennsylvania

*Certified Public Accountants*

*Members of the American and Pennsylvania Institutes of CPAs*

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
 Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis  
 June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,497,603	\$ 1,597,263
Investments (Note 2)	<u>9,824,314</u>	<u>10,154,800</u>
Total Assets	<u>\$ 11,321,917</u>	<u>\$ 11,752,063</u>
<b>Liabilities</b>		
Accrued Payroll Taxes	<u>\$ 384</u>	<u>\$ 548</u>
Total Liabilities	<u>384</u>	<u>548</u>
<b>Net Assets</b>		
Unrestricted	<u>11,321,533</u>	<u>11,751,515</u>
Total Net Assets	<u>11,321,533</u>	<u>11,751,515</u>
Total Liabilities and Net Assets	<u>\$ 11,321,917</u>	<u>\$ 11,752,063</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
 Statements of Revenue, Expenses, and Changes in Net Assets – Modified Cash Basis  
 For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue:		
Annual Fees	\$ 1,674,150	\$ 2,957,483
Restitution	115,032	172,778
Other Income	53,319	-
Interest Income	70,044	43,112
Realized Gain on Investments	-	144,138
Unrealized Gain (Loss) on Investments	<u>(330,486)</u>	<u>1,143,330</u>
Total Revenue	<u>1,582,059</u>	<u>4,460,841</u>
Expenses:		
Program		
Awards	1,193,352	2,329,951
Funding of Lawyers Concerned for Lawyers, Inc.	<u>280,700</u>	<u>277,875</u>
Total Program Expenses	<u>1,474,052</u>	<u>2,607,826</u>
Management and General	<u>537,989</u>	<u>498,434</u>
Total Expenses	<u>2,012,041</u>	<u>3,106,260</u>
Increase (Decrease) in Net Assets	(429,982)	1,354,581
Net Assets, Beginning of Year	<u>11,751,515</u>	<u>10,396,934</u>
Net Assets, End of Year	<u>\$ 11,321,533</u>	<u>\$ 11,751,515</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Increase (Decrease) in Net Assets	\$ (429,982)	\$ 1,354,581
Adjustments to Reconcile Increase (Decrease) in Net Assets to		
Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Realized (Gain) on Investments	-	(144,138)
Unrealized (Gain) Loss on Investments	330,486	(1,143,330)
Increase (Decrease) in:		
Accrued Payroll Taxes	<u>(164)</u>	<u>213</u>
Net Cash and Cash Equivalents		
Provided (Used) by Operating Activities	<u>(99,660)</u>	<u>67,326</u>
Cash Flows From Investing Activities:		
Proceeds from Sale of Investments	-	1,400,000
Purchase of Investments	<u>-</u>	<u>(700,000)</u>
Net Cash and Cash Equivalents		
Provided by Investing Activities	<u>-</u>	<u>700,000</u>
Increase (Decrease) in Cash and Cash Equivalents	(99,660)	767,326
Cash and Cash Equivalents, Beginning of Year	<u>1,597,263</u>	<u>829,937</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,497,603</u>	<u>\$ 1,597,263</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, 2008 and 2007

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, 2008 and 2007

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

**Concentration of Credit Risk:**

The Fund maintains a portion of 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 at June 30, 2008:

	<u>Cost</u>	<u>Market Value</u>
PA Supreme Court Unitized Asset	\$ 8,447,568	\$ 9,824,314

Investments consisted of the following at June 30, 2007:

	<u>Cost</u>	<u>Market Value</u>
PA Supreme Court Unitized Asset	\$ 8,447,568	\$ 10,154,800

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 2008 and 2007 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$280,700 and \$277,875, respectively.

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Awards	\$ 543,623	\$ 496,290

On June 30, 2008, the Fund had 127 pending claims alleging an aggregate total loss in the amount of \$57,930,582. Twenty-one of these claims exceed the \$75,000 maximum reimbursement limit and are seeking a total of \$56,936,516 in awards. The Fund's potential maximum exposure from the pending claims, given the \$75,000 maximum award, is approximately \$2,569,066.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes To Financial Statements

For the Years Ended June 30, 2008 and 2007

**NOTE 4 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

On June 30, 2007, the Fund had 160 pending claims alleging an aggregate total loss in the amount of \$55,657,501. Fifteen of these claims exceed the \$75,000 maximum reimbursement limit and are seeking a total of \$54,309,917 in awards. The Fund's potential maximum exposure from the pending claims, given the \$75,000 maximum award, is approximately \$1,347,583.

**NOTE 5 LEASES**

The Fund entered into an operating lease for its office space. Rent expenditures were \$47,870 and \$45,576 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease payments are as follows for the years ended June 30:

2009	\$ 40,340
2010	<u>3,304</u>
Total	<u>\$ 43,644</u>

The Fund also leases a facsimile machine under an operating lease. Rent expenditures were \$504 and \$504 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease payments are as follows for the years ended June 30:

2009	\$ 504
2010	<u>126</u>
Total	<u>\$ 630</u>

The Fund also leases a digital copier under an operating lease. Rent expenditures were \$2,760 and \$2,760 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease payments are as follows for the years ended June 30:

2009	\$ 2,760
2010	2,760
2011	<u>2,070</u>
Total	<u>\$ 7,590</u>

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes To Financial Statements

For the Years Ended June 30, 2008 and 2007

**NOTE 6 EXPENDITURES**

Expenditures by natural classification for the years ended June 30, 2008 and 2007 were:

	<u>2008</u>	<u>2007</u>
Program:		
Awards	\$ 1,193,352	\$ 2,329,951
Funding of Lawyers Concerned For Lawyers, Inc.	<u>280,700</u>	<u>277,875</u>
Total Program Expenses	<u>1,474,052</u>	<u>2,607,826</u>
Management and General:		
Registration and Assessment	44,758	48,341
Travel	23,257	21,424
Salaries	143,501	139,096
Benefits and Taxes	43,542	39,436
Office, Stationery, Supplies, and Postage	33,528	40,896
Telephone	5,631	5,522
Occupancy	52,009	49,871
Bank Custodial Fees and Service Charges	82,040	44,824
Professional Fees:		
General Counsel	51,066	49,666
Other	47,174	47,217
Dues and Publications	1,730	1,211
Insurance	3,930	3,801
Janitorial Expense	4,654	4,877
Investigation	196	370
Advertising	<u>973</u>	<u>1,882</u>
Total Management and General Expenses	<u>537,989</u>	<u>498,434</u>
Total Expenses	<u>\$ 2,012,041</u>	<u>\$ 3,106,260</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 \$44,758 and \$48,341 for the years ended June 30, 2008 and 2007, 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 \$14,360 and \$13,930 for the years ended June 30, 2008 and 2007, respectively.

**NOTE 9 CONCENTRATED CREDIT RISK**

The Fund maintains a portion of its cash in money market accounts which are not insured by the FDIC. The uninsured amount as of June 30, 2008 totaled \$1,492,127.