

THE SUPREME COURT OF PENNSYLVANIA  
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY  
REPORT ON 2008 - 2009 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, 2009, the Fund’s portion of the annual 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. 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, 2008 through June 30, 2009.<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 2008-2009 Fiscal Year

The Fund commenced the 2008-2009 fiscal year with 129 pending claims, involving 71 attorneys, carrying an award potential of \$2,569,066. This dollar amount is calculated after applying the Fund's \$75,000 award limitation. There were 21 claims in excess of \$75,000 among the pending claims and the gross total amount claimed of the Fund was \$57,935,582<sup>2</sup>.

B. Activity During the Fiscal Year

The Fund received a total of 195 claims from July 1, 2008 through June 30, 2009, alleging a total loss of \$6,343,362. This was an increase of 17 claims from the amount received during the prior fiscal year. 19 of these claims alleged losses in excess of \$75,000. 107 lawyers were accused of dishonest conduct.

During the 2008-2009 fiscal year, the Board of the Fund made disposition of 219 claims. One hundred twenty-nine of these claims resulted in the approval of awards, which awards totaled \$2,615,968. This amount reflects an increase of \$1,439,371 in the amount of approved awards compared with the prior fiscal year, and involved 30 more claimants than the prior fiscal year. Thirteen 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 July 1, 2008 and June 30, 2009, and the attorneys involved with these awards, follows the Report on Operations.

Seventy-six claims with an aggregate alleged loss of \$3,269,746 were denied after review and consideration by the Board. Fourteen claims with an aggregate alleged loss of \$594,222 were discontinued by the claimants. There were 16 fewer denials during this fiscal year than in the previous fiscal year. The number of claims which were discontinued by the claimants decreased by 5 compared with the prior fiscal year.

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<sup>2</sup> One claim alleges a loss of \$50,000,000.

C. As of the End of the Fiscal Year

On June 30, 2009, the Fund had 105 pending claims alleging an aggregate total loss in the amount of \$53,756,399<sup>3</sup>. Twelve of these claims allege a loss in excess of the \$75,000 maximum reimbursement limit and seek an aggregate total of \$52,543,805 in awards. The Fund's potential maximum exposure from these pending claims is approximately \$2,112,594.

Since the establishment of the Fund in April 1982, through the period ending June 30, 2009, the Fund has approved 3,868 awards in the aggregate amount of \$41,692,959 as a result of the actions of 688 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 2008-2009 fiscal year, these two types of theft cost the Fund \$1,774,003 or 66.82% of its total award dollars. Fifty-nine claimants who alleged attorney theft from estate or trust/escrow monies received awards. \$431,856, or 24.35%, of the total awards approved in this category were approved to 14 former clients of one attorney who collected the funds for the purposes of making distributions to estate beneficiaries or to be placed into small business pension accounts for which the attorney was acting as the trustee.

2. Embezzlement of Lawsuit Settlement Proceeds - The Fund approved awards totaling \$635,907 to 25 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 23.95% of the awards approved by the Board during the 2008-2009 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>3</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. \$284,951, or 44.81%, of the total approved awards in this category were approved to 14 former clients of one attorney.

3. Nonperformance - The acceptance of unearned fees or retainers represents the third highest payment category, with approved awards totaling \$117,024, representing 4.41% of the Fund's total approved awards for this fiscal year. Awards in this category were approved to 49 claimants. \$23,867, or 20.40% of the total approved awards in this category were approved to 3 former clients of one attorney, which funds had been collected to perform immigration work which work was not performed. \$18,521, or 15.83% of the total approved awards in this category were approved to 16 former clients of an attorney who had died prior to performing legal services relating to trademark applications. At the time of the attorney's death, there were no funds in the attorney's escrow account

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 2008-2009 fiscal year, the Fund provided \$289,523 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 2009-2010 in the amount of \$299,783.

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 15 pending notices. The Fund received 221 overdraft notices during the 2008-2009 fiscal year, which resulted in 49 overdraft notices being referred to the Office of Disciplinary Counsel for further inquiry. 180 overdraft notices were reviewed, dismissed with a satisfactory explanation, and scheduled for destruction one year thereafter. The fiscal year ended with 7 overdraft inquiries pending.

G. Restitution and Subrogation Efforts

All claimants are required to execute a subrogation agreement prior to the receipt of an approved award, which subrogation agreement assigns to the Fund the right to collect the award amount. The Fund may subsequently receive restitution through civil collection efforts or through criminal restitution payments. During the 2008-2009 fiscal year, the Fund recovered \$113,241 in restitution payments.

H. Board Meetings and Locations

The Board of the Fund continued during the 2008-2009 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, 2000-2009); 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-

2008); 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, 2003-2008).

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 and at that same time, was appointed as Board Chair. Mr. Mead, from Camp Hill, Pennsylvania, is the retired President and CEO of Capital Blue Cross. Mr. Mead is the second non-lawyer member to serve as Board Chair of the Fund.

Other members of the Board include attorneys Eric N. Anderson from Pittsburgh, who serves as Vice-Chair, Robert A. Rovner, from Feasterville, the Honorable Robert A. Graci, from Harrisburg, Grace R. Schuyler from Camp Hill and, Edwin H. Beachler, III from Pittsburgh.

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, currently serving as the Board Chair for the Fund, and Robert K. Reitzel, a Vice President and Trust Officer with Hershey Trust Company, in Hershey are the non-lawyer appointees. 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, 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  
Eric N. Anderson  
Robert A. Rovner  
Robert K. Reitzel  
Hon. Robert A. Graci  
Grace R. Schuyler  
Edwin H. Beachler, III

AWARDS APPROVED JULY 1, 2008 THROUGH JUNE 30, 2009

<u>Last Name</u>	<u>First Name</u>	<u>ID #</u>	<u>County</u>	<u>Claims Resulting in Awards</u>	<u>Total Awards</u>
Abramowitz	Jeffrey	52571	Philadelphia	1	\$63,285
Apple	James R.	37942	Allegheny	2	\$150,000
Artist	Sterling	48672	Philadelphia	1	\$5,000
Bart	Michael D.	16004	Luzerne	2	\$84,000
Black	Carol A.	32742	Philadelphia	3	\$142,443
Blackman	James C.	15596	Warren	1	\$1,000
Buckley, Jr.	Joseph E.	49827	Jefferson	1	\$2,521
Charles	Larry	47848	Philadelphia	1	\$1,000
Croom	John H.	68473	Philadelphia	2	\$2,300
Devine	Jill A.	54700	Westmoreland	2	\$2,831
Donovan	William F.	06754	Centre	5	\$149,667
Durney	Joseph J.	31676	York	1	\$2,239
Ferry	James P.	38871	Luzerne	1	\$6,220
Fields	Scott J.	47519	Montgomery	19	\$69,497
Gerber	A. Richard	09400	Montgomery	1	\$15,000
Glanby	Lois E.	80784	Allegheny	3	\$20,150
Glassman	Richard S.	18644	Philadelphia	1	\$7,073
Goldman	Steven	35476	Bucks	4	\$24,997
Iler	Daniel J.	46300	Washington	2	\$36,667
Jackson	Anthony D.	35596	Philadelphia	2	\$9,830
Katz	David S.	10272	Montgomery	1	\$40,000
Keller	John J.	10282	Lehigh	1	\$75,000
Kosseff	Robert A.	20387	Philadelphia	1	\$75,000
Kovel	E. Larry	23573	Allegheny	2	\$2,551
Langella	Ronald P.	29949	McKean	6	\$41,859
Levine	Michael	20802	Dauphin	1	\$1,600
Levitt	Marc E.	49533	Philadelphia	1	\$500
Lewis	F. Lee	49189	Philadelphia	4	\$6,900
Lewis	Lance D.	80791	Montgomery	1	\$12,500
McDonald-Hamer	Joye	34541	Chester	1	\$1,000
Mirarchi	Ralph E.	04858	Chester	14	\$431,856
Papas	William E.	29319	Allegheny	1	\$300
Pierce	R. Eric	43813	Dauphin	2	\$37,000
Prokoff	William W.	13337	Philadelphia	1	\$29,432
Quinn	William B.	10301	Carbon	6	\$240,000
Rose	Meyer C.	13391	Philadelphia	3	\$5,750
Rupp	Richard C.	34832	Cumberland	3	\$5,838
Sanders	Neal A.	54618	Butler	1	\$75,000
Seiken	Jeffry M.	31650	Philadelphia	18	\$380,161
Simpson	Stephen W.	13570	Montgomery	1	\$9,500
Smith	William T.	06887	Dauphin	2	\$20,350
Sye-Payne	Vivian A.	35665	Philadelphia	1	\$1,500



<u>Last Name</u>	<u>First Name</u>	<u>ID #</u>	<u>County</u>	<u>Claims Resulting in Awards</u>	<u>Total Awards</u>
Thompson	Theodore Q.	17826	Montgomery	1	\$3,000
Van Scyoc, Jr.	William C.	77500	Erie	1	\$750
Vollmer	Charles J.	22049	Allegheny	4	\$57,033
Wang	Helen	51972	Philadelphia	4	\$40,867
Welch	Robert G.	17002	Delaware	3	\$225,000

## FORMER BOARD CHAIRS

Zygmunt R. Bialkowski Jr., Esquire (2006-2008)  
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

Maureen Murphy McBride, Esquire  
Joan O'Connor Shoemaker, Esquire  
Beth Lang  
Morris M. Shuster, Esquire  
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. Sciallo  
Paula Green Bregman, Esquire  
Harold S. Irwin, Esquire  
Joseph P. Scottino, Ph.D.  
David S. Gifford

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2009 AND 2008  
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, 2009 and 2008, 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, 2009 and 2008 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 23, 2009

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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 759,516	\$ 1,497,603
Investments (Note 2)	<u>8,978,881</u>	<u>9,824,314</u>
Total Assets	<u>\$ 9,738,397</u>	<u>\$ 11,321,917</u>
 <b>Liabilities</b>		
Accrued Payroll Taxes	<u>\$ 227</u>	<u>\$ 384</u>
Total Liabilities	<u>227</u>	<u>384</u>
 <b>Net Assets</b>		
Unrestricted	<u>9,738,170</u>	<u>11,321,533</u>
Total Net Assets	<u>9,738,170</u>	<u>11,321,533</u>
Total Liabilities and Net Assets	<u>\$ 9,738,397</u>	<u>\$ 11,321,917</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenue:		
Annual Fees	\$ 1,642,175	\$ 1,674,150
Restitution	187,587	115,032
Other Income	61,810	53,319
Interest Income	27,982	70,044
Unrealized Loss on Investments	<u>(845,433)</u>	<u>(330,486)</u>
Total Revenue	<u>1,074,121</u>	<u>1,582,059</u>
Expenses:		
Program		
Awards	1,869,798	1,193,352
Funding of Lawyers Concerned for Lawyers, Inc.	<u>289,523</u>	<u>280,700</u>
Total Program Expenses	2,159,321	1,474,052
Management and General	<u>498,163</u>	<u>537,989</u>
Total Expenses	<u>2,657,484</u>	<u>2,012,041</u>
Decrease in Net Assets	(1,583,363)	(429,982)
Net Assets, Beginning of Year	<u>11,321,533</u>	<u>11,751,515</u>
Net Assets, End of Year	<u>\$ 9,738,170</u>	<u>\$ 11,321,533</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Decrease in Net Assets	\$ (1,583,363)	\$ (429,982)
Adjustments to Reconcile Decrease in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Unrealized Loss on Investments	845,433	330,486
Increase (Decrease) in:		
Accrued Payroll Taxes	<u>(157)</u>	<u>(164)</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>(738,087)</u>	<u>(99,660)</u>
Decrease in Cash and Cash Equivalents	(738,087)	(99,660)
Cash and Cash Equivalents, Beginning of Year	<u>1,497,603</u>	<u>1,597,263</u>
Cash and Cash Equivalents, End of Year	<u>\$ 759,516</u>	<u>\$ 1,497,603</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, 2009 and 2008

**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:**

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:**

Investments are valued at their fair market values in the Statement of Financial Position.

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

- Level 1 – Quoted prices in active markets for identical assets and liabilities
- Level 2 – Directly or indirectly observable inputs other than Level 1 quoted prices
- Level 3 – Unobservable inputs not corroborated by market data

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2009 and 2008

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

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

Investment income, including realized and unrealized gains restricted by donors, is reported as an increase in unrestricted net assets if the restrictions are met (either a stipulated time period or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term would materially affect investment assets reported in the Statements of Financial Position and Activities.

**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, 2009:

	<u>Cost</u>	<u>Market Value</u>
PA Supreme Court Unitized Asset	<u>\$ 8,447,568</u>	<u>\$ 8,978,881</u>

Investments consisted of the following at June 30, 2008:

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

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
Notes to Financial Statements  
For the Years Ended June 30, 2009 and 2008

**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 2009 and 2008 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$289,523 and \$280,700, respectively.

**NOTE 4 COMMITMENTS AND CONTINGENCIES**

The Fund had the following outstanding commitments at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Awards	<u>\$ 982,261</u>	<u>\$ 543,623</u>

On June 30, 2009, the Fund had 105 pending claims alleging an aggregate total loss in the amount of \$53,756,399. Twelve of these claims exceed the \$75,000 maximum reimbursement limit and are seeking a total of \$52,543,805 in awards. The Fund's potential maximum exposure from the pending claims, given the \$75,000 maximum award, is approximately \$2,112,594.

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.

**NOTE 5 LEASES**

The Fund entered into an operating lease for its former office space. Rent expenditures were \$48,716 and \$47,870 for the years ended June 30, 2009 and 2008, respectively. The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund will be assessed shared occupancy costs. It is anticipated that the shared occupancy costs to be paid for the fiscal year ending 2010 will be \$32,946.

The Fund also leases a facsimile machine under an operating lease. Rent expenditures were \$504 and \$504 for the years ended June 30, 2009 and 2008, respectively. Future minimum lease payments are as follows for the years ended June 30:

2010	<u>\$ 126</u>
Total	<u>\$ 126</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, 2009 and 2008, respectively. Future minimum lease payments are as follows for the years ended June 30:

2010	\$ 2,760
2011	<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, 2009 and 2008

**NOTE 6 EXPENDITURES**

Expenditures by natural classification for the years ended June 30, 2009 and 2008 were:

	<u>2009</u>	<u>2008</u>
Program:		
Awards	\$ 1,869,798	\$ 1,193,352
Funding of Lawyers Concerned For Lawyers, Inc.	<u>289,523</u>	<u>280,700</u>
Total Program Expenses	<u>2,159,321</u>	<u>1,474,052</u>
Management and General:		
Registration and Assessment	36,314	44,758
Travel	24,978	23,257
Salaries	149,160	143,501
Benefits and Taxes	46,794	43,542
Office, Stationery, Supplies, and Postage	38,467	33,528
Telephone	4,995	5,631
Occupancy	51,878	52,009
Bank Custodial Fees and Service Charges	63,920	82,040
Professional Fees:		
General Counsel	52,000	51,066
Other	21,912	47,174
Dues and Publications	903	1,730
Insurance	1,403	3,930
Janitorial Expense	4,412	4,654
Investigation	54	196
Advertising	<u>973</u>	<u>973</u>
Total Management and General Expenses	<u>498,163</u>	<u>537,989</u>
Total Expenses	<u>\$ 2,657,484</u>	<u>\$ 2,012,041</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 \$36,314 and \$44,758 for the years ended June 30, 2009 and 2008, respectively.

**NOTE 8 EMPLOYEE BENEFIT PLANS**

The Fund has a simplified employee pension plan which is available to all employees after one year of employment. The plan permits contributions, including employee and employer, to a maximum of 10% of employee compensation limited to a contribution of \$30,000. The employer contributions were \$14,900 and \$14,360 for the years ended June 30, 2009 and 2008, 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 was \$1,389 and \$1,364 for the years ended June 30, 2009 and 2008, respectively.