

THE SUPREME COURT OF PENNSYLVANIA
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
REPORT ON 2009 - 2010 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, 2010, 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, 2009 through June 30, 2010.¹

A. As of the Start of the 2009-2010 Fiscal Year

The Fund commenced the 2009-2010 fiscal year with 105 pending claims, involving 53 attorneys, carrying an award potential of \$2,112,594. This dollar amount is calculated after applying the Fund's \$75,000 award limitation. There were 12 claims in excess of \$75,000 among the pending claims and the gross total amount claimed of the Fund was \$53,756,399².

B. Activity During the Fiscal Year

The Fund received a total of 250 claims from July 1, 2009 through June 30, 2010, alleging a total loss of \$6,195,844. This was an increase of 55 claims from the amount received during the prior fiscal year. 20 of these claims alleged losses in excess of \$75,000. 117 lawyers were accused of dishonest conduct.

During the 2009-2010 fiscal year, the Board of the Fund made disposition of 211 claims. One hundred forty-eight of these claims resulted in the approval of awards, which awards totaled \$2,101,135. This amount reflects a decrease of \$514,833 in the amount of approved awards compared with the prior fiscal year, and involved 22 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, 2009 and June 30, 2010, and the attorneys involved with these awards, follows the Report on Operations.

Forty-five claims with an aggregate alleged loss of \$51,816,558 were denied after review and consideration by the Board. Eighteen claims with an aggregate

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

² One claim alleges a loss of \$50,000,000.

alleged loss of \$247,731 were discontinued by the claimants. There were 32 fewer denials during this fiscal year than in the previous fiscal year. The number of claims which were discontinued by the claimants increased by 4 compared with the prior fiscal year.

C. As of the End of the Fiscal Year

On June 30, 2010, the Fund had 144 pending claims alleging an aggregate total loss in the amount of \$4,938,205. Sixteen of these claims allege a loss of \$75,000 or more, seeking an aggregate total of \$3,714,447 in awards. The Fund's potential maximum exposure from these pending claims, given the \$75,000 maximum award is approximately \$2,423,758.

Since the establishment of the Fund in April 1982, through the period ending June 30, 2010, the Fund has approved 4,017 awards in the aggregate amount of \$43,794,594 as a result of the actions of 724 attorneys.

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

D. Claims Experience

1. Fiduciary Funds – The conversion of (a) estate funds and (b) trust/escrow funds continues to be the largest categories of claims. During the 2009-2010 fiscal year, these two types of claims cost the Fund \$914,954 or 43.55% of the total award dollars. Forty-seven claimants who alleged attorney theft from estate or trust/escrow monies received awards. \$187,904, or 20.54%, of the total awards approved in this category were approved to 17 former clients of one attorney who collected the funds for the purposes of making distributions to estate beneficiaries.

2. Embezzlement of Lawsuit Settlement Proceeds - The Fund approved awards totaling \$718,132 to 35 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 34.18% of the awards approved by the Board during the 2009-2010 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. \$226,660, or 31.56%, of the total approved awards in this category were approved to 5 former clients of one attorney. An additional \$147,783, representing 20.58% of the total approved awards in this category were approved to 16 former clients of one attorney.

3. Fraud – The conversion of funds through fraudulent representation or activities by the attorney represented the third highest payment category with awards totaling \$202,366.13. Three claims were paid representing 9.63% of the Fund's total dollar awards for the fiscal year.

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

The remaining awards approved by the Board were comprised of claims categorized as (a) an embezzlement of real estate settlement proceeds and (b) nonperformance. The Fund paid \$150,000 in awards for funds that were received by an attorney as part of a real estate settlement. The attorney failed to pay off the existing mortgages and converted the funds for the attorney's own use.

The retention of unearned fees or retainers is the final category of awards, with approved awards totaling \$115,683, representing 5.51% of the Fund's total approved awards for this fiscal year. Awards in this category were approved to 62 claimants. \$17,045, or 14.73% of the total approved awards in this category were approved to 14 former clients of one attorney. An additional \$15,344, or 13.26% of the total approved

awards in this category were approved to 6 former clients of another attorney. Both of these attorneys passed away prior to beginning or completing the legal services for which they had been retained. In both instances, the attorney's escrow account was without sufficient funds to refund the unearned fees. No estate was opened for either attorney from which the clients could have pursued refunds.

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 2009-2010 fiscal year, the Fund provided \$299,783 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 2010-2011 in the amount of \$313,798.

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 7 pending inquiries. The Fund received 271 overdraft notices during the 2009-2010 fiscal year, which resulted in 43 overdraft notices being referred to the Office of Disciplinary Counsel for further inquiry. 226 overdraft notices were reviewed and closed based upon a satisfactory explanation. The fiscal year ended with 9 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 2009-2010 fiscal year, the Fund recovered \$117,590 in restitution payments.

H. Board Meetings and Locations

The Board of the Fund continued during the 2009-2010 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, Philadelphia and Pittsburgh. 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, 2000-2010); 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, 2004-2009); 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, 2003-2010).

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 Orrstown Bank, in Carlisle 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,

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, 2009 THROUGH JUNE 30, 2010

<u>Last Name</u>	<u>First Name</u>	<u>ID #</u>	<u>County</u>	<u>Claims Resulting in Awards</u>	<u>Total Awards</u>
Bart	Michael	16004	Luzerne	1	\$150,000
Berkowitz	Malcolm	11916	Philadelphia	1	\$32,734
Bianchini	Michael	07371	York	2	\$150,000
Black	Carol A.	32742	Philadelphia	1	\$150,000
Bloom	Arthur	10731	Allegheny	1	\$22,031
Burke	Michael	92235	Philadelphia	1	\$800
Carlitz	Debbie	49128	Bucks	5	\$226,660
Corcoran	Richard	75280	Cambria	1	\$3,000
Crosby	Richard	64803	Mercer	6	\$4,940
Daniels	Robert	01190	Allegheny	1	\$400
DeMarco	Christopher	72126	Lancaster	1	\$4,970
English	James	16466	Blair	6	\$3,574
Epps-Poole	Doreen	32867	Philadelphia	1	\$2,626
Eshelman	Matthew	72655	Cumberland	3	\$5,999
Fields	Scott	47519	Montgomery	2	\$1,974
Frey, Jr.	Robert	87299	Cambria	1	\$15,000
Gahr	Richard A.	17683	Lycoming	1	\$1,000
Garfold	Daniel	53162	Allegheny	1	\$525
Gefsky	James	37880	Westmoreland	1	\$4,941
Goldhaber	Douglas	72174	Bedford	1	\$525
Goldman	Steven	35476	Bucks	2	\$6,400
Greenberg	Stephen	62691	Allegheny	9	\$98,544
Grimm	LeRoy	24728	Allegheny	1	\$8,000
Hirsch	David J.	31864	Philadelphia	1	\$1,107
Hohenadel	Michael	27687	Lancaster	1	\$1,143
Karoly, Jr.	John P.	22224	Lehigh	1	\$5,000
Kashimba	Raymond	12780	Monroe	4	\$3,345
Kovacik	Matthew	62295	Indiana	1	\$500
Kovel	E. Larry	23573	Allegheny	3	\$25,154
Langella	Ronald	29949	Bradford	1	\$20,199
Langton	Stephen	53496	Westmoreland	16	\$20,145
Lennert	Brett	92780	Northampton	1	\$1,500
Lynn	Kate	88953	Northampton	1	\$1,500
McGrath	Mark	46813	Lackawanna	2	\$7,250
Moore	James G.	26048	Erie	6	\$238,742
Nardelli	Michael	69388	Allegheny	18	\$262,904
Osmond	Jeffrey	65662	Bradford	1	\$3,000
Perrine	D. Scott	94302	Philadelphia	2	\$2,810
Picconi	John	19207	Dauphin	2	\$127,366
Prokoff	William	13337	Philadelphia	16	\$147,783
Restifo	Joseph	03182	Delaware	1	\$3,000

<u>Last Name</u>	<u>First Name</u>	<u>ID #</u>	<u>County</u>	<u>Claims Resulting in Awards</u>	<u>Total Awards</u>
Rubin	Kenneth A.	71949	Philadelphia	2	\$38,073
Schwartz	Madeline	53888	Philadelphia	1	\$4,918
Seiken	Jeffry	31650	Philadelphia	5	\$164,066
Snowden	Darlene	72328	Philadelphia	1	\$17,720
Staunton	Peter	81646	Philadelphia	5	\$86,252
Steinberg	Arnold	26495	Allegheny	1	\$5,000
Timperio	Nicholas	69207	Fayette	1	\$500
Vollmer	Charles	22049	Allegheny	3	\$16,464
Wassil	Gerald	25234	Luzerne	1	\$1,050

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. Lichtenenwalner, 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, 2010 AND 2009
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
Harrisburg, 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, 2010 and 2009, 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, 2010 and 2009 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 22, 2010

Mechanicsburg, Pennsylvania

Hamilton & Musser, P.C.

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and Cash Equivalents	\$ 334,919	\$ 759,516
Investments (Note 2)	<u>9,350,043</u>	<u>8,978,881</u>
Total Assets	<u>\$ 9,684,962</u>	<u>\$ 9,738,397</u>
Liabilities		
Accrued Payroll Taxes	<u>\$ 441</u>	<u>\$ 227</u>
Total Liabilities	<u>441</u>	<u>227</u>
Net Assets		
Unrestricted	<u>9,684,521</u>	<u>9,738,170</u>
Total Net Assets	<u>9,684,521</u>	<u>9,738,170</u>
Total Liabilities and Net Assets	<u>\$ 9,684,962</u>	<u>\$ 9,738,397</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue:		
Annual Fees	\$ 2,173,835	\$ 1,642,175
Restitution	138,466	187,587
Other Income	69,702	61,810
Interest Income	367	27,982
Realized Gain on Investments	89,196	-
Unrealized Gain (Loss) on Investments	<u>781,966</u>	<u>(845,433)</u>
 Total Revenue	 <u>3,253,532</u>	 <u>1,074,121</u>
Expenses:		
Program		
Awards	2,505,355	1,869,798
Funding of Lawyers Concerned for Lawyers, Inc. (Note 3)	<u>299,783</u>	<u>289,523</u>
 Total Program Expenses	 2,805,138	 2,159,321
 Management and General	 <u>502,043</u>	 <u>498,163</u>
 Total Expenses	 <u>3,307,181</u>	 <u>2,657,484</u>
 Decrease in Net Assets	 (53,649)	 (1,583,363)
 Net Assets, Beginning of Year	 <u>9,738,170</u>	 <u>11,321,533</u>
 Net Assets, End of Year	 <u>\$ 9,684,521</u>	 <u>\$ 9,738,170</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities:		
Decrease in Net Assets	\$ (53,649)	\$ (1,583,363)
Adjustments to Reconcile Decrease in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Realized (Gain) Loss on Investments	(89,196)	-
Unrealized (Gain) Loss on Investments	(781,966)	845,433
Increase (Decrease) in:		
Accrued Payroll Taxes	<u>214</u>	<u>(157)</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>(924,597)</u>	<u>(738,087)</u>
Cash Flows From Investing Activities:		
Sale of Investments	<u>500,000</u>	-
Net Cash and Cash Equivalents Provided by Investing Activities	<u>500,000</u>	-
Decrease in Cash and Cash Equivalents	(424,597)	(738,087)
Cash and Cash Equivalents, Beginning of Year	<u>759,516</u>	<u>1,497,603</u>
Cash and Cash Equivalents, End of Year	<u>\$ 334,919</u>	<u>\$ 759,516</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, 2010 and 2009

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 Statements 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, 2010 and 2009

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, 2010:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	\$ 8,036,764	\$ 9,350,043	\$ 1,313,279

Investments consisted of the following at June 30, 2009:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	\$ 8,447,568	\$ 8,978,881	\$ 531,313

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

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 2010 and 2009 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$299,783 and \$289,523, respectively.

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Awards	\$ <u>397,352</u>	\$ <u>982,261</u>

On June 30, 2010, the Fund had 144 pending claims alleging an aggregate total loss in the amount of \$4,938,205. Sixteen of these claims exceed the \$75,000 maximum reimbursement limit and are seeking a total of \$3,714,447 in awards. The Fund's potential maximum exposure from the pending claims, given the \$75,000 maximum award, is approximately \$2,423,758.

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.

NOTE 5 LEASES

The Fund entered into an operating lease for its former office space. Rent expenditures were \$4,132 and \$48,716 for the years ended June 30, 2010 and 2009, respectively. The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund was assessed shared occupancy costs totaling \$29,884 for the year ending June 30, 2010. It is anticipated that the shared occupancy costs to be paid for the fiscal year ending 2011 will be \$32,946.

The Fund also leased a facsimile machine under an operating lease. Rent expenditures were \$0 and \$504 for the years ended June 30, 2010 and 2009, respectively.

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, 2010 and 2009, respectively. Future minimum lease payments are as follows for the years ended June 30:

2011	\$ 2,268
2012	2,268
2013	2,268
2014	<u>1,134</u>
Total	<u>\$ 7,938</u>

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

NOTE 6 EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2010 and 2009 were:

	<u>2010</u>	<u>2009</u>
Program:		
Awards	\$ 2,505,355	\$ 1,869,798
Funding of Lawyers Concerned For Lawyers, Inc.	<u>299,783</u>	<u>289,523</u>
Total Program Expenses	<u>2,805,138</u>	<u>2,159,321</u>
Management and General:		
Registration and Assessment	-	36,314
Travel	25,599	24,978
Salaries	149,000	149,160
Benefits and Taxes	45,786	46,794
Office, Stationery, Supplies, and Postage	33,989	38,467
Telephone	1,533	4,995
Relocation	19,407	-
Occupancy	34,466	51,878
Bank Custodial Fees and Service Charges	71,492	63,920
Professional Fees:		
General Counsel	52,000	52,000
Other	64,132	21,912
Dues and Publications	1,973	903
Insurance	1,476	1,403
Janitorial Expense	100	4,412
Investigation	117	54
Advertising	<u>973</u>	<u>973</u>
Total Management and General Expenses	<u>502,043</u>	<u>498,163</u>
Total Expenses	<u>\$ 3,307,181</u>	<u>\$ 2,657,484</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 \$0 and \$36,314 for the years ended June 30, 2010 and 2009, 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 for the years ended June 30, 2010 and 2009.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

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 \$1,390 and \$1,389 for the years ended June 30, 2010 and 2009, respectively.

NOTE 10 ADVERTISING

The Fund expenses advertising costs as incurred. Advertising costs were \$973 for the years ending June 30, 2010 and 2009.

NOTE 11 SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 22, 2010, which is the date the financial statements were available to be issued.