

THE SUPREME COURT OF PENNSYLVANIA
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
REPORT ON 2011 - 2012 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, 2012, the Fund’s portion of the annual assessment was \$40. 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, 2011 through June 30, 2012.¹

A. As of the Start of the 2011-2012 Fiscal Year

The Fund commenced the 2011-2012 fiscal year with 141 pending claims, carrying an award potential of \$3,391,541. This dollar amount is calculated after applying the Fund's \$100,000 award limitation. There were 14 claims in excess of \$100,000 among the pending claims and the gross total amount claimed of the Fund was \$7,325,819.

B. Activity During the Fiscal Year

The Fund received a total of 245 claims from July 1, 2011 through June 30, 2012, alleging a total loss of \$17,738,854. This was an increase of 52 claims from the amount received during the prior fiscal year. 40 of these claims alleged losses in excess of \$100,000. 116 lawyers were accused of dishonest conduct.

During the 2011-2012 fiscal year, the Board of the Fund made disposition of 176 claims. Ninety-two of these claims resulted in the approval of awards, which awards totaled \$2,272,570. This amount reflects an increase of \$22,098 in the amount of approved awards compared with the prior fiscal year. Eleven claimants received the Fund's maximum award of \$100,000.

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, 2011 and June 30, 2012, and the attorneys involved with these awards, follows the Report on Operations.

Sixty-eight claims with an aggregate alleged loss of \$2,491,831 were denied after review and consideration by the Board. Sixteen claims with an aggregate alleged loss of \$507,804 were discontinued by the claimants. There were 21 more denials during this fiscal year than in the previous fiscal year. The number of claims which

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

were discontinued by the claimants decreased by two compared with the prior fiscal year.

C. As of the End of the Fiscal Year

On June 30, 2012, the Fund had 210 pending claims alleging an aggregate total loss in the amount of \$17,003,191. Forty-four of these claims allege a loss of \$100,000 or more, seeking an aggregate total of \$14,141,813 in awards. The Fund's potential maximum exposure from all pending claims as of June 30, 2012, given the \$100,000 maximum award is approximately \$7,261,378.

Since the establishment of the Fund in April 1982, through the period ending June 30, 2012, the Fund has approved 4,240 awards in the aggregate amount of \$48,317,636 as a result of the actions of 772 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 2011-2012 fiscal year, these two types of claims cost the Fund \$1,538,745 or 67.7% of the total award dollars. \$1,243,347 of this amount were estate funds, with the \$295,398 balance being funds that were to have been held in escrow or trust by the attorney. Thirty claims alleging attorney theft from estate or trust/escrow monies resulted in awards. Approximately 63.6% of the estate funds were converted by one attorney.

2. Embezzlement of Lawsuit Settlement Proceeds - The Fund approved awards totaling \$324,006 to 5 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 14.25% of the awards approved by the Board during the 2011-2012 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. \$137,490, or 42.43%, of the total approved awards in this category were approved to 2 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 \$263,512. Seven claims were paid representing 11.6% of the Fund's total dollar awards for the fiscal year. 87.6% of the total awards paid in this category were paid to former clients of one attorney.

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 retention of unearned fees or retainers is the final category of awards, with approved awards totaling \$146,307 representing 6.43% of the Fund's total approved awards for this fiscal year. Awards in this category were approved to 49 claimants.

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 2011-2012 fiscal year, the Fund provided \$322,578 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 2012-2013 in the amount of \$328,745.

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 6 pending inquiries. The Fund received 221 overdraft notices during the 2011-2012 fiscal year, which resulted in 29 overdraft notices being referred to the Office of Disciplinary Counsel for further inquiry. 197 overdraft notices were reviewed and closed based upon a satisfactory explanation. The fiscal year ended with 1 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 2011-2012 fiscal year, the Fund recovered \$127,034 in restitution payments.

H. Board Meetings and Locations

The Board of the Fund continued during the 2011-2012 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, 2000-2012); 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, 2004-2011); 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, 2003-2012).

I. National Ranking

According to the American Bar Association's Survey of Lawyers' Funds for Client Protection for the years 2008 through 2010, among those client protection funds that responded, the Fund ranks in the top 6 funds in the United States for claims received and in the top 4 funds in the United States in total amount paid in awards during that three year period. The funds in California, Florida, Illinois, New York, and Ohio received more claims during this time period. The New York, New Jersey and Massachusetts funds paid out more in awards during this three-year time period.

J. Board Membership and Fund Personnel

Board Chair, Eric N. Anderson, Esquire was originally appointed to the Board in March 2007. Mr. Anderson was reappointed to serve a second three-year term on the Board in April 2010 and was appointed as Vice Chair. He was appointed Board Chair in March 2012. Mr. Anderson is a partner and executive committee member of the law firm of Meyer, Darragh, Buckler, Bebenek and Eck in Pittsburgh, Pennsylvania.

Other attorney members of the Board include the Honorable Robert A. Graci, from Harrisburg, Grace R. Schuyler from Camp Hill, Edwin H. Beachler, III from Pittsburgh and, Lewis F. Gould, Jr. from Philadelphia.

By Supreme Court Rule, the Board consists of two non-lawyer members. Robert K. Reitzel, a Vice President and Trust Officer with Orrstown Bank, in Carlisle and Bishop Keith W. Reed, Sr. from Philadelphia 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,

Eric N. Anderson, Esq., Board Chair
Robert K. Reitzel
Hon. Robert A. Graci
Grace R. Schuyler, Esq.
Edwin H. Beachler, III, Esq.
Bishop Keith W. Reed, Sr.
Lewis F. Gould, Jr., Esq.

AWARDS APPROVED JULY 1, 2011 THROUGH JUNE 30, 2012

<u>Last Name</u>	<u>First Name</u>	<u>ID #</u>	<u>County</u>	<u>Claims Resulting in Awards</u>	<u>Total Awards</u>
Apple	James R.	37942	Allegheny	3	\$101,102
Baker	Thomas H.	55623	Bucks	1	\$2,000
Barto, Jr.	Charles O.	9941	Dauphin	2	\$12,817
Bianchini	Michael P.	7371	York	2	\$84,841
Burke	Michael	92235	Philadelphia	1	\$400
Carabello, Jr.	Natale F.	615	Philadelphia	2	\$32,000
Carlitz	Debbie Ann	49128	Bucks	1	\$26,667
Choi	Michael	77424	Montgomery	1	\$70,350
Corcoran	Richard M.	75280	Cambria	1	\$2,000
D'Alfonso	Mario J.	30612	Out of state	1	\$1,000
DeSimone	Michael M.	46383	Philadelphia	1	\$4,117
Detwiler	James F.	29722	Montgomery	1	\$42,742
Dougherty	Raymond J.	170284	Montgomery	1	\$1,800
Elam	James E.	80716	Philadelphia	1	\$5,000
Eshelman	Matthew J.	72655	Cumberland	3	\$4,700
Frisk, Jr.	Michael A.	89176	Lawrence	1	\$55,000
Ganz	Jonathan	27796	Philadelphia	1	\$50,000
Gefsky	James G.	37880	Westmoreland	1	\$650
Gembala	Joseph A.	44063	Philadelphia	8	\$10,718
Glanby	Lois E.	80784	Allegheny	2	\$1,900
Gordon	Michael P.	90793	Lackawanna	1	\$3,000
Hallock	Richard	92578	Lackawanna	1	\$2,700
Hayward, Jr.	James D.	93618	Luzerne	2	\$1,450
Jackson	Anthony D.	35596	Philadelphia	1	\$1,500
Kanfoush	Joseph G.	10446	Allegheny	1	\$4,000
Klur	Nilmini	208489	Philadelphia	1	\$1,000
Langella	Ronald P.	29949	McKean	1	\$989
Langton	Stephen	53497	Westmoreland	5	\$900
Mandale	Michael Z.	200124	Philadelphia	2	\$4,150
Marchewka	James A.	70928	Washington	6	\$107,850
McBride	James F.	19459	Philadelphia	2	\$890,833
Morgan, Jr.	David A.	64333	Lackawanna	1	\$500
Nardelli	Michael D.	69388	Allegheny	2	\$35,386
Nattiel, Jr.	Willie Lee	52579	Philadelphia	1	\$5,200
Novasitis, Jr.	Anthony W.	2454	Philadelphia	1	\$20,000
Nunez	Angel	29495	Out of state	1	\$4,500
Osmond	Jeffrey P.	65662	Bradford	2	\$100,799
Perrine	D. Scott	94302	Philadelphia	1	\$500
Picconi	John S.	19207	Dauphin	11	\$300,982
Quinn	Brian S.	17602	Delaware	1	\$2,440
Robinson	Cheri S.	88507	Montgomery	1	\$26,800

<u>Last Name</u>	<u>First Name</u>	<u>ID #</u>	<u>County</u>	<u>Claims Resulting in Awards</u>	<u>Total Awards</u>
Russell	Ronald L.	42572	Westmoreland	1	\$1,200
Schwab	Gregory G.	43918	Allegheny	5	\$12,600
Seay	Geoffrey V.	57744	Philadelphia	1	\$3,500
Seiken	Jeffry	31650	Philadelphia	2	\$137,490
Timperio, Jr.	Nicholas E.	69207	Fayette	1	1,200
Weiler	William	11166	Allegheny	5	\$89,799
Wezorek	Lisa M.	62219	Allegheny	1	\$1,500

FORMER BOARD CHAIRS

Robert A. Rovner, Esquire (2011-2012)

James M. Mead (2008-2011)

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. Sciullo

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, 2012 AND 2011
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, 2012 and 2011, 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, 2012 and 2011 and its revenue, expenses, and changes in net assets and its cash flows for the years then ended, on the basis of accounting described in Note 1.

September 24, 2012

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and Cash Equivalents	\$ 987,398	\$ 1,215,108
Investments (Note 2)	<u>9,049,904</u>	<u>9,925,115</u>
Total Assets	<u>\$ 10,037,302</u>	<u>\$ 11,140,223</u>
 Liabilities		
Payroll Taxes Payable	<u>\$ 886</u>	<u>\$ 62</u>
Total Liabilities	<u>886</u>	<u>62</u>
 Net Assets		
Unrestricted	<u>10,036,416</u>	<u>11,140,161</u>
Total Net Assets	<u>10,036,416</u>	<u>11,140,161</u>
Total Liabilities and Net Assets	<u>\$ 10,037,302</u>	<u>\$ 11,140,223</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenue:		
Annual Fees	\$ 2,231,405	\$ 2,598,250
Restitution	127,034	322,823
Other Income	56,272	67,893
Investment Income (Loss) (Note 2)	<u>(122,971)</u>	<u>1,576,318</u>
Total Revenue	<u>2,291,740</u>	<u>4,565,284</u>
Expenses:		
Program		
Awards	2,546,319	2,227,283
Funding of Lawyers Concerned for Lawyers, Inc. (Note 3)	<u>322,578</u>	<u>313,798</u>
Total Program Expenses	2,868,897	2,541,081
Management and General Fundraising	526,588	568,563
	<u>-</u>	<u>-</u>
Total Expenses	<u>3,395,485</u>	<u>3,109,644</u>
Change in Net Assets	(1,103,745)	1,455,640
Net Assets, Beginning of Year	<u>11,140,161</u>	<u>9,684,521</u>
Net Assets, End of Year	<u>\$ 10,036,416</u>	<u>\$ 11,140,161</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Increase (Decrease) in Net Assets	\$ (1,103,745)	\$ 1,455,640
Adjustments to Reconcile Decrease in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Realized Gain on Investments	(202,359)	(236,617)
Unrealized (Gain) Loss on Investments	327,570	(1,338,455)
Increase (Decrease) in:		
Payroll Taxes Payable	<u>824</u>	<u>(379)</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>(977,710)</u>	<u>(119,811)</u>
Cash Flows From Investing Activities:		
Proceeds from Sale of Investments	<u>750,000</u>	<u>1,000,000</u>
Net Cash and Cash Equivalents Provided by Investing Activities	<u>750,000</u>	<u>1,000,000</u>
Increase (Decrease) in Cash and Cash Equivalents	(227,710)	880,189
Cash and Cash Equivalents, Beginning of Year	<u>1,215,108</u>	<u>334,919</u>
Cash and Cash Equivalents, End of Year	<u>\$ 987,398</u>	<u>\$ 1,215,108</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, 2012 and 2011

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 payroll taxes payable.

Basis of Presentation:

Financial statement presentation follows the *Not-for-Profit Entities* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) which requires the Fund 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 Statements of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis 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.

The Fund's applicable federal returns for the years ended June 30, 2009, 2010, 2011 and 2012 are subject to examination by the IRS, generally for three years after being filed.

Investments:

Investments are valued at fair market value on a recurring basis in the Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis.

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:

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

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

- 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

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.

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 Assets, Liabilities, and Net Assets – Modified Cash Basis and the Statements of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis.

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 Statements of Cash Flows – Modified Cash Basis, 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, 2012 and 2011:

<u>June 30, 2012</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	<u>\$ 6,725,740</u>	<u>\$ 9,049,904</u>	<u>\$ 2,324,164</u>
<u>June 30, 2011</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	<u>\$ 7,273,381</u>	<u>\$ 9,925,115</u>	<u>\$ 2,651,734</u>

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

NOTE 2 INVESTMENTS (CONTINUED)

Fair values of investments measured on a recurring basis at June 30, 2012 and 2011 are as follows:

		Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2012</u>				
PA Supreme Court Unitized Asset	\$ 9,049,904	\$ -	\$ 9,049,904	\$ -
<u>June 30, 2011</u>				
PA Supreme Court Unitized Asset	\$ 9,925,115	\$ -	\$ 9,925,115	\$ -

Level 2 – PA Supreme Court Unitized Asset

The PA Supreme Court Unitized Asset is considered a pooled equity investment. This investment is not considered a publicly traded security. The value of this investment is based on its reported net asset values (NAV) per share determined by the financial institution where the investment is held. The Fund uses this NAV per share, or its equivalent, as a practical expedient for measuring the fair value of this investment as of June 30, 2012 and 2011.

Investment income consisted of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest	\$ 2,240	\$ 1,246
Realized Gain on Sale of Investments	202,359	236,617
Unrealized Gain (Loss) on Investments	<u>(327,570)</u>	<u>1,338,455</u>
Total	<u>\$ (122,971)</u>	<u>\$ 1,576,318</u>

NOTE 3 FUNDING OF LAWYERS CONCERNED FOR LAWYERS, INC.

At the direction of the Supreme Court of Pennsylvania, the Fund has agreed to fund a portion of the 2012 and 2011 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$322,578 and \$313,798, respectively.

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Awards	<u>\$ 201,826</u>	<u>\$ 542,805</u>

On June 30, 2012, the Fund had 208 pending claims alleging an aggregate total loss in the amount of \$17,654,438. Forty-two of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$14,387,810 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$7,466,628.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

NOTE 4 COMMITMENTS AND CONTINGENCIES (CONTINUED)

On June 30, 2011, the Fund had 139 pending claims alleging an aggregate total loss in the amount of \$7,342,330. Thirteen of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$5,410,707 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$3,231,662.

NOTE 5 LEASES

The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund was assessed shared occupancy costs totaling \$37,528 and \$37,107 for the years ending June 30, 2012 and 2011, 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, 2012 and 2011, respectively. Future minimum lease payments are as follows for the years ended June 30:

2013	\$ 2,268
2014	<u>1,134</u>
Total	<u>\$ 3,402</u>

NOTE 6 EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2012 and 2011 were:

	<u>2012</u>	<u>2011</u>
Program:		
Awards	\$ 2,546,319	\$ 2,227,283
Funding of Lawyers Concerned For Lawyers, Inc.	<u>322,578</u>	<u>313,798</u>
Total Program Expenses	<u>2,868,897</u>	<u>2,541,081</u>
Management and General:		
Advertising	-	1,024
Bank Custodial Fees and Service Charges	56,587	71,035
Benefits and Taxes	46,414	43,468
Dues and Publications	2,050	1,501
Insurance	811	1,970
Investigation	388	268
Occupancy	37,528	37,107
Office, Stationery, Supplies, and Postage	43,285	43,710
Professional Fees:		
General Counsel	52,000	54,000
Other	37,649	84,731
Registration and Assessment	53,687	40,853
Salaries	162,500	163,039
Telephone	5,274	717
Travel	<u>28,415</u>	<u>25,140</u>
Total Management and General Expenses	<u>526,588</u>	<u>568,563</u>
Fundraising	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 3,395,485</u>	<u>\$ 3,109,644</u>

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

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 \$53,687 and \$40,853 for the years ended June 30, 2012 and 2011, 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 \$16,250 and \$15,700 for the years ended June 30, 2012 and 2011, respectively.

NOTE 9 CONCENTRATED CREDIT RISK

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents held with financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution for the years ended June 30, 2012 and 2011. From time to time throughout the year, amounts at one financial institution exceeded the limit of insurance provided by the FDIC. The amount in excess of the FDIC limit was \$743,235 and \$970,116 at June 30, 2012 and 2011, respectively.

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 for the years ended June 30, 2012 and 2011.

NOTE 10 ADVERTISING

The Fund expenses advertising costs as incurred. Advertising costs were \$0 and \$1,024 for the years ending June 30, 2012 and 2011, respectively.

NOTE 11 SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 24, 2012, which is the date the financial statements were available to be issued.