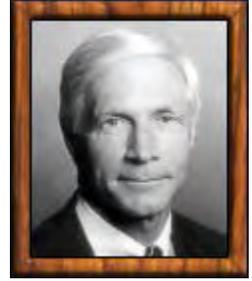


Letter from the Board Chair

As the Board Chair of the Pennsylvania Lawyers Fund for Client Security, I am pleased to present, on behalf of the entire Board of the Fund, the Fund's Annual Report for 2003-2004. This Annual Report provides information regarding the types of claims that are covered by the Fund, as well as information regarding awards that have been paid by the Fund.



The Pennsylvania Lawyers Fund for Client Security was created by the Supreme Court of Pennsylvania in 1982 to reimburse individuals whose lawyers have misappropriated their clients' funds. The Fund receives its financial resources to make these payments from the members of the Pennsylvania Bar. The Fund is overseen by a seven member Board comprised of five lawyers and two non-lawyers, all of whom are appointed by the Supreme Court of Pennsylvania and all of whom serve without compensation. The Board members give careful consideration to each and every claim received by the Fund, whether the claim is for \$100.00 or for \$75,000.00.

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

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

Carl D. Buchholz, III, Esquire
Board Chair

Executive Director's Report

The Pennsylvania Lawyers Fund for Client Security seeks to reimburse clients who have lost funds as a result of a misappropriation by their Pennsylvania attorney. The loss must have occurred because there was an attorney/client relationship or a fiduciary relationship, which is customary to the practice of law, between the claimant and the attorney. The Fund does not arbitrate fee disputes, nor does the Fund have jurisdiction over negligence or malpractice claims. The Fund's maximum award is \$75,000 per claimant.

The Fund experienced a slight decrease in the number of claims received during the 2003 - 2004 fiscal year. 259 claims were filed with the Fund during the fiscal year, representing a 13% decrease from the number of claims received in the prior year. The Board made disposition of 239 claims during the fiscal year. This number represents 51% of the total claims that were pending at the start of the fiscal year and received during the fiscal year. This result was achieved through the dedication of the seven-member volunteer Board comprised of 5 lawyer members and 2 non-lawyer members.



The Fund continues to place a high priority in educating the public regarding its activities. The publication of this Annual Report and maintaining a web site are two means of providing information regarding the Fund and its activities. Informational dinners are held the evening before each Board meeting to provide an opportunity for Board members and Staff to meet one-on-one with members of the judiciary and local bar associations, as well as members of the local business community.

During the Fund's twenty-two years of existence, 3,210 claimants have received awards totaling \$31.75 million. These awards were made as a result of the actions of 529 attorneys. With an excess of 50,000 attorneys currently licensed in Pennsylvania, it is clear that the vast majority of attorneys in Pennsylvania are honest, ethical professionals.

Kathryn J. Peifer, Esquire
Executive Director

Board Members



Carl D. Buchholz, III, an attorney member, is a senior partner with Rawle & Henderson, LLP in Philadelphia, Pennsylvania. Mr. Buchholz was appointed as Chair of the Fund in March 2004. He has previously served as Vice Chair and Treasurer for the Fund. Mr. Buchholz is a graduate of Muhlenberg College and Villanova Law School. He serves as the Chairman of Rawle & Henderson's Appellate Practice and Maritime Departments. He is a member of the Philadelphia, Pennsylvania and American Bar Associations and the Maritime Law Association of the United States. Mr. Buchholz was appointed to the Board in April 2000 and reappointed to serve a second three year term in March 2003. His current term expires in March 2006.

Derek C. Hathaway, a non-lawyer member, was originally appointed to the Board in April 1999. He is the Chairman, President and CEO of Harsco Corporation in Camp Hill, Pennsylvania. Mr. Hathaway was appointed as Vice Chair of the Fund in March 2004. He is a recent recipient of the Ellis Island Medal of Honor for his exceptional humanitarian efforts and outstanding contributions to society. Mr. Hathaway was awarded an honorary Doctor of Humane Letters from Messiah College and an honorary Doctor of Laws degree from the Dickinson School of Law in recognition of his leadership in business and the community. Mr. Hathaway was reappointed to the Board in April 2002. His current term expires in March 2005.



Joseph H. Jacovini, an attorney member, is a senior partner and Chairman of Dilworth Paxson, LLP in Philadelphia, Pennsylvania. He is a graduate of Holy Cross (B.A.), Harvard Law School (LL.B.) and Villanova University (M.A.) Mr. Jacovini specializes in corporate law and corporate litigation. He has been a visiting Professor of Law at Lewis & Clark Law School and has guest-lectured and authored on a wide variety of legal subjects. Mr. Jacovini was appointed to the Board in August 2000 to serve the remaining term of Stuart D. Fiel, Esquire, who passed away in July 2000 and was subsequently reappointed to the Board in March 2003. Mr. Jacovini's current term expires in March 2006.

Beth Lang, a non-lawyer member, was appointed to the Board in March 2001. She is the Chief Operating Officer of Gateway Financial Group, Inc. in Pittsburgh, Pennsylvania. Ms. Lang currently serves as the Treasurer of the Fund. Ms. Lang is a graduate of Pennsylvania State University and has earned a Masters of Business Administration from Duquesne University and a Chartered Life Underwriter degree from The American College at Bryn Mawr. As a veteran in the insurance and financial services industries, Ms. Lang is a frequent speaker at industry seminars and has authored articles for estate and business planning periodicals. She serves on the Board of Women Initiating Regional Economic Development in Western Pennsylvania. Ms. Lang was reappointed to the Board in March 2004. Her current term expires in March 2007.



Zygmunt R. Bialkowski, Jr., an attorney member, is a partner with Margolis Edelstein in Scranton, Pennsylvania. He is a graduate of Marietta College and acquired his Juris Doctorate from Dickinson School of Law, serving as a permanent Governor to the law school. Mr. Bialkowski practices in the areas of corporate and business law, wills, estate planning and administration, real estate and civil litigation. He is certified as a civil trial advocate by the National Board of Trial Advocacy. Mr. Bialkowski is a member of the Lackawanna, Pennsylvania, American and Federal Bar Associations. Mr. Bialkowski was appointed to the Board in April 2002. His current term expires in March 2005.

Kelly Beaudin Stapleton, an attorney member, is a partner with Stapleton & Stapleton, LLP in Indiana, Pennsylvania. She is a graduate of the University of California and acquired her Juris Doctorate from Georgetown University Law Center. Ms. Stapleton represents both individuals and businesses in the areas of personal injury, general litigation at both the trial and appellate levels, business entity formation, real estate transactions and contract and employment issues. She is a member of the Pennsylvania, New York and Connecticut bars, a member of the Indiana County and Pennsylvania Bar Associations, where she is a member of the Executive Council of Women in the Profession. Ms. Stapleton's current term expires in March 2006.



Morris M. Shuster, an attorney member, is Of Counsel with the firm of Chimicles & Tikellis, LLP in Haverford, Pennsylvania. He is a graduate of University of Pennsylvania, acquired his Juris Doctorate from the University of Pennsylvania Law School and, a Master's degree from Temple University. Mr. Shuster has extensive experience in trial preparation and settlement negotiations in consumer class actions, anti-trust and truth-in-lending litigation, as well as employment discrimination litigation, medical malpractice, products liability and general tort litigation. He is also a mediator in the Federal courts and in private dispute resolution. Mr. Shuster is a member of the Philadelphia, Pennsylvania and American Bar Associations. Mr. Shuster was appointed to the Board in April 2004. His current term expires in March 2007.

Former Board Chairs

Paul S. Diamond, Esquire (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

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
Honorable Maxwell E. Davison
Rev. Edmund J. Dobbin
Timothy R. Thyreen
Lois H. Lichtenwalner, Esquire
Victor R. Delle Donne, Esquire
Rev. John M. Driscoll
Niara Sudarkasa, M.D.
Janet S. Dickerson
Dean John J. Sciuillo
Paula Geen Bregman, Esquire
Harold S. Irwin, Esquire
Joseph P. Scottino, Ph.D.
David S. Gifford

Staff



Kathryn J. Peifer, is the Executive Director for the Fund. Ms. Peifer assumed this position in April 1997. She is a graduate of Central Penn College, Penn State University and Widener University School of Law. Ms. Peifer served as a panelist at the American Bar Association's 17th National Forum on Client Protection on the topic of "Funding Your Fund: Where is it Coming From?" (June 2001) and has co-authored materials for the Pennsylvania Bar Institute's Ethics Potpourri, "The Client Security Fund: Why & How it Operates" (August 2001). She most recently served as a faculty member for the Difficult Claims Workshop at the American Bar Association's 19th National Forum on Client Protection (May 2003). Ms. Peifer is a member of the Dauphin County, Pennsylvania and American Bar Associations.

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



Susan L. Erdman, is the Administrative Assistant for the Fund. Ms. Erdman is a graduate of Thompson Institute and has been with the Fund since 1995.

2003 – 2004 Operations

THE SUPREME COURT OF PENNSYLVANIA PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY REPORT ON 2003 - 2004 OPERATIONS

The Pennsylvania Lawyers Fund for Client Security (the “Fund”) was established by Order of the Supreme Court of Pennsylvania dated April 30, 1982. The Fund was originally established as the “Pennsylvania Client Security Fund.” The name was changed to the “Pennsylvania Lawyers Fund for Client Security” by Supreme Court Order dated March 11, 1993. The Fund operates under Pennsylvania Rules of Disciplinary Enforcement, Section 501, et seq.

The Fund was established to reimburse clients who have suffered losses as a result of a misappropriation of funds by their Pennsylvania attorney. There must have been an attorney/client relationship or a fiduciary relationship between the client and the attorney. Funding is received through an annual assessment paid by every licensed Pennsylvania attorney. For the fiscal year ending June 30, 2004, the assessment was \$45. The Fund does not have jurisdiction over malpractice or negligence claims.

In accordance with Pennsylvania Rule of Disciplinary Enforcement 502(d), an independent audit of the Pennsylvania Lawyers Fund for Client Security has been conducted by a certified public accountant and a copy of such audit has been filed with the Supreme Court of Pennsylvania and is a part of this report.

This Annual Report is prepared and published for the Supreme Court of Pennsylvania and all members of the Pennsylvania Judiciary and Bar. The period covered by this Annual Report is for the Fund’s fiscal year, July 1, 2003 through June 30, 2004.¹

A. As of the Start of the 2003-2004 Fiscal Year

The Fund commenced the 2003-2004 fiscal year with 214 pending claims, involving 86 attorneys, carrying an award potential of \$2,054,814. 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 \$3,054,353.

B. During the Fiscal Year

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

The Fund received a total of 259 claims from July 1, 2003 through June 30, 2004, alleging a total loss of \$4,920,304. This was a decrease of 38 claims from the amount received during the prior fiscal year. 16 claims received alleged losses in excess of \$75,000. 116 lawyers were accused of dishonest conduct.

During the 2003-2004 fiscal year, the Fund disposed of 239 claims, awarding \$1,484,314 to 173 claimants. The dollar amount awarded reflects a decrease of \$1,419,277 which was awarded to 2 more claimants than the prior fiscal year. 8 claimants received the Fund's maximum award of \$75,000. 60 claims with an aggregate alleged loss of \$1,155,017 were denied. 11 claims with an aggregate alleged loss of \$113,130 were discontinued. There were 15 more denials this year than in the previous fiscal year. The number of discontinued claims decreased by 5.

C. As of the End of the Fiscal Year

On June 30, 2004, the Fund had 234 pending claims alleging an aggregate total loss in the amount of \$5,090,557. Seventeen of these claims exceed the \$75,000 maximum reimbursement limit and seek \$3,549,758 in awards. The Fund's potential maximum exposure from the pending claims is approximately \$2,815,799.

Since the establishment of the Fund in April 1982, through June 30, 2004, the Fund has approved 3,210 awards in the aggregate amount of \$31,745,980 as a result of the actions of 529 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 are the largest categories of claims. During the 2003-2004 fiscal year, these two types of theft cost the Fund \$1,117,508 or 75.29% of its total award dollars. 36 claimants who alleged attorney theft from estate or trust/escrow monies received awards. \$218,118, or 19.52%, of the total awards approved in this category were approved to 8 former clients of one attorney.

2. Embezzlement of Lawsuit Settlement Proceeds - The Fund approved awards totaling \$118,117 to 13 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 12.20% of the awards approved by the Fund during the 2003 - 2004 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. \$56,200, or 47.58%, of the total approved awards in this category were approved to 5 former clients of one attorney.

3. Nonperformance – The acceptance of unearned fees or retainers represents the third highest payment category, with approved awards totaling \$149,466. Awards were approved to 120 claimants representing 10.07% of the Fund's total approved awards for the fiscal year. Since the Fund does not arbitrate fee disputes, for an award to be considered when the attorney performed any services of value, the claimant must typically first file a complaint with the local bar association's fee disputes committee. If the committee determines that all or a portion of the fees or retainer were not earned, and the attorney does not refund the unearned fee, the Board will consider this type of claim and categorize the award as nonperformance by the attorney. \$89,322, or 59.76%, of the total approved awards in this category were approved to 80 former clients of one attorney.

Notwithstanding the award amounts reported herein, it should be noted that claims are filed against less than one percent of all Pennsylvania licensed attorneys. This very small percentage speaks highly of the integrity of the Pennsylvania Bar.

E. Lawyers Concerned for Lawyers

During the 2003-2004 fiscal year, the Fund provided \$240,000 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 2004-2005 in the approximate amount of \$245,000.

F. Mandatory Overdraft Notification

Pennsylvania Rule of Disciplinary Enforcement 221 was promulgated by the Supreme Court of Pennsylvania on April 24, 1995, requiring the reporting by financial institutions to the Fund of checks drawn on attorney fiduciary accounts which are presented against insufficient funds. The fiscal year began with no pending notices. The Fund received 320 overdraft notices during the 2003-2004 fiscal year, which resulted in 40 overdraft notices being referred to the Office of Disciplinary Counsel for further inquiry. The remaining 280 overdraft notices were reviewed, dismissed with a satisfactory

explanation, and scheduled for destruction 6 months thereafter. The fiscal year ended with zero overdraft notices pending.

G. Restitution and Subrogation Efforts

The Fund recovered \$1,114,399 in restitution payments during the 2003-2004 fiscal year.

H. Board Meetings and Locations

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

I. National Ranking

According to the American Bar Association's Survey of Lawyers' Funds for Client Protection for the years 1999 through 2001, the Fund ranks in the top 5 funds in the United States for claims received and processed during that three year period. The funds in California, Florida, New Jersey and New York are the other most active organizations in the United States.

J. Board Membership and Fund Personnel

Board Chair, Carl D. Buchholz, III, Esquire was originally appointed to the Board in April 2000. He had served as Vice Chair of the Fund from February 2003 to March 2004 and, as Treasurer from April 2002 to February 2003. Mr. Buchholz was reappointed to the Board in March 2003 and was subsequently appointed as

Board Chair in March 2004 when the then Board Chair, Paul S. Diamond, completed a maximum 6 years of service on the Board. Mr. Buchholz is a partner with Rawle & Henderson in Philadelphia, Pennsylvania.

Other members of the Board include attorneys Joseph H. Jacovini and Morris M. Shuster, both from Philadelphia, Zygmunt R. Bialkowski, Jr., from Scranton, and Kelly Beaudin Stapleton from Indiana, Pennsylvania.

By Supreme Court Rule, the Board consists of two non-lawyer members. Derek C. Hathaway of Camp Hill is the Chairman and CEO of Harsco Corporation. Mr. Hathaway currently serves as Vice Chair of the Fund. The second non-lawyer Board member is Beth Lang, the Chief Operating Officer of Gateway Financial Group, Inc., in Pittsburgh. Ms. Lang currently serves as Treasurer of the Fund.

Kathryn J. Peifer, Esquire, Executive Director of the Fund, is in charge of the Fund's headquarters, its daily administrative affairs, the processing and investigation of claims received by the Fund, preparing summaries thereof for Board consideration, scheduling and attending meetings and, when necessary, hearings. The Fund employs one administrative assistant, Susan L. Erdman, who has made a significant contribution to the operations of the Fund through her thoughtful and professional demeanor in dealing with all those who have reason to contact the Fund.

Lisa A. Watkins, Esquire, of Wyncote, Pennsylvania serves as Counsel to the Board. Ms. Watkins reviews summaries of claims with regard to legal issues, oversees the collection and litigation matters involving the Fund, attends meetings and hearings of the Board, as well as advising the Board on all legal matters.

Respectfully submitted,

Carl D. Buchholz, III, Board Chair
Derek C. Hathaway
Joseph H. Jacovini
Beth Lang
Zygmunt R. Bialkowski, Jr.
Kelly Beaudin Stapleton
Morris M. Shuster

Financial Statements

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2004 AND 2003
AND
INDEPENDENT AUDITORS' REPORT

HAMILTON & MUSSER, P.C.
Certified Public Accountants

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
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For the Years Ended June 30, 2004 and 2003

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HAMILTON & MUSSER, P.C.

Certified Public Accountants • Consultants to Management

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

JAMES A. KRIMMEL, MBA, CPA, CFE
ROBERT D. MAST, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Pennsylvania Lawyers Fund for Client Security
Mechanicsburg, Pennsylvania

We have audited the accompanying statements of financial position – modified cash basis of the Pennsylvania Lawyers Fund for Client Security, Inc. as of June 30, 2004 and 2003, and the related statements of activities – modified cash basis and cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the Pennsylvania Lawyers Fund for Client Security as of June 30, 2004 and 2003 and the changes in its net assets – modified cash basis and its cash flows – modified cash basis for the year then ended in conformity with the basis of accounting described in note 1.

August 13, 2004

Mechanicsburg, Pennsylvania

Certified Public Accountants

Members of the American and Pennsylvania Institutes of CPA's

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MECHANICSBURG (717) 697-3888 • HERSHEY (717) 533-6892

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Statements of Financial Position – Modified Cash Basis

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and Cash Equivalents	\$ 8,443,396	\$ 5,575,835
Investments (Note 2)	<u>1,549,065</u>	<u>4,161,095</u>
Total Assets	<u>\$ 9,992,461</u>	<u>\$ 9,736,930</u>
Liabilities		
Accrued Payroll Taxes	\$ 29	\$ 484
Net Assets		
Unrestricted	<u>9,992,432</u>	<u>9,736,446</u>
Total Liabilities and Net Assets	<u>\$ 9,992,461</u>	<u>\$ 9,736,930</u>

The Accompanying Notes are an Integral Part of the Financial Statements

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Statements of Activities – Modified Cash Basis

For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenue:		
Annual Fees	\$ 2,911,935	\$ 1,750,390
Restitution	1,114,399	112,018
Investment Income	214,342	291,843
Realized Gain (Loss) on Investments	3,750	(12,226)
Unrealized Loss on Investments	<u>(115,780)</u>	<u>(10,758)</u>
Total Revenue	<u>4,128,646</u>	<u>2,131,267</u>
Expenditures:		
Program:		
Awards	1,851,914	2,539,984
Funding of Lawyers Concerned for Lawyers, Inc.	240,000	240,000
Funding for the IOLTA Board	<u>1,400,000</u>	<u>-</u>
Total Program Expenditures	<u>3,491,914</u>	<u>2,779,984</u>
Management and General	<u>380,746</u>	<u>357,870</u>
Total Expenditures	<u>3,872,660</u>	<u>3,137,854</u>
Increase (Decrease) in Net Assets – Unrestricted	255,986	(1,006,587)
Net Assets – Unrestricted, Beginning of Year	<u>9,736,446</u>	<u>10,743,033</u>
Net Assets – Unrestricted, End of Year	<u>\$ 9,992,432</u>	<u>\$ 9,736,446</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 255,986	\$ (1,006,587)
Realized (Gain) Loss on Investments	(3,750)	12,226
Unrealized (Gain) Loss on Investments	115,780	10,758
Increase (Decrease) in:		
Accrued Payroll Taxes	<u>(455)</u>	<u>27</u>
Net Cash Provided (Used) by Operating Activities	<u>367,561</u>	<u>(983,576)</u>
Cash Flows From Investing Activities:		
Redemption of U.S. Treasury Notes	2,500,000	1,500,000
Purchase of U.S. Treasury Notes	<u>-</u>	<u>(2,030,019)</u>
Net Cash Provided (Used) by Investing Activities	<u>2,500,000</u>	<u>(530,019)</u>
Net Change in Cash and Cash Equivalents	2,867,561	(1,513,595)
Cash and Cash Equivalents, Beginning of Year	<u>5,575,835</u>	<u>7,089,430</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,443,396</u>	<u>\$ 5,575,835</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, 2004 and 2003

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The Pennsylvania Lawyers Fund for Client Security (the Fund) was established by the Supreme Court of Pennsylvania to reimburse clients who have suffered a loss of money or other property as a result of the dishonest conduct of Pennsylvania attorneys. The Fund is a remedy for clients who are unable to obtain reimbursement from other sources, such as third parties or the attorney involved.

Basis of Accounting:

The financial statements of the Fund have been prepared on the modified cash basis of accounting and, consequently, revenue is recognized when received and expenses are recognized when paid. The Fund has elected to record investments and accrued payroll taxes.

Basis of Presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Fund had no temporarily or permanently restricted net assets.

Revenue Recognition:

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Fund had no temporarily or permanently restricted net assets.

Fixed Assets:

Fixed assets purchased are recorded as an expense at the time of purchase. Accordingly, no depreciation expense has been provided.

Taxation:

The Fund is exempt from Federal Income Tax as provided by Code Section 501(c)(4) of the Internal Revenue Code. Accordingly, no income tax is incurred unless the Fund earns income considered to be unrelated business income. The Fund conducted no activities that were subject to income taxes.

Investments:

The Fund records investments based upon the recommendation of Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. The provisions of the standard require that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the balance sheet. The unrealized gain or loss on investments is reflected in the statement of activities.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes To Financial Statements

For the Years Ended June 30, 2004 and 2003

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

Concentration of Credit Risk:

The Fund maintains its cash in a money market account which is not insured by the FDIC. This money market account invests in short-term debt instruments consisting of A1/P1 commercial paper, repos and similar investments.

Use of Estimates:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents:

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

Cash and cash equivalents consisted of the following at June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Cash	\$ 68	\$ 35
Money Market Fund	<u>8,443,328</u>	<u>5,575,800</u>
Total	<u>\$ 8,443,396</u>	<u>\$ 5,575,835</u>

NOTE 2 INVESTMENTS

Investments consisted of the following U.S. Treasury Notes at June 30, 2004:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Value</u>	<u>Cost</u>	<u>Market Value</u>
2.250	7/31/04	\$ 500,000	\$ 502,656	\$ 500,470
5.875	11/15/05	500,000	496,992	523,595
5.625	2/15/06	<u>500,000</u>	<u>490,176</u>	<u>525,000</u>
		<u>\$ 1,500,000</u>	<u>\$ 1,489,824</u>	<u>\$ 1,549,065</u>

Investments consisted of the following U.S. Treasury Notes at June 30, 2003:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Value</u>	<u>Cost</u>	<u>Market Value</u>
5.250	8/15/03	\$ 500,000	\$ 500,722	\$ 502,655
3.000	11/30/03	500,000	509,023	504,220
3.000	2/29/04	500,000	509,629	506,720
2.250	7/31/04	500,000	502,656	506,405
5.250	5/15/04	1,000,000	976,875	1,036,560
5.875	11/15/05	500,000	496,992	551,720
5.625	2/15/06	<u>500,000</u>	<u>490,176</u>	<u>552,815</u>
		<u>\$ 4,000,000</u>	<u>\$ 3,986,073</u>	<u>\$ 4,161,095</u>

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes To Financial Statements
For the Years Ended June 30, 2004 and 2003

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 2004 and 2003 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$240,000 and \$240,000 respectively.

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Awards	\$ 560,218	\$ 864,217
Award Potential	<u>2,815,799</u>	<u>2,102,236</u>
Total	<u>\$ 3,376,017</u>	<u>\$ 2,966,453</u>

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

NOTE 5 LEASES

The Fund entered into an operating lease for its office space. Rent expenditures were \$42,896 and \$41,343 for the years ended June 30, 2004 and 2003, respectively. Future minimum lease payments are as follows for the years ended June 30:

2005	\$ 43,160
2006	44,192
2007	<u>22,358</u>
Total	<u>\$ 109,710</u>

The Fund also leases a copier under an operating lease. Rent expenditures were \$2,400 and \$2,400 for the years ended June 30, 2004 and 2003, respectively. Future minimum lease payments are as follows for the years ended June 30:

2005	\$ 2,400
2006	<u>800</u>
Total	<u>\$ 3,200</u>

The fund also leases a mailing machine under an operating lease. Rent expenditures were \$1,660 and \$0 for the years ended June 30, 2004 and 2003, respectively. Future minimum lease payments are as follows for the years ended June 30:

2005	\$ 2,213
2006	2,213
2007	2,213
2008	<u>1,106</u>
Total	<u>\$ 7,745</u>

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

Notes To Financial Statements

For the Years Ended June 30, 2004 and 2003

NOTE 6 EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2004 and 2003 were:

	<u>2004</u>	<u>2003</u>
Program:		
Awards	\$ 1,851,914	\$ 2,539,984
Funding of Lawyers Concerned For Lawyers, Inc.	240,000	240,000
Funding for the IOLTA Board	<u>1,400,000</u>	<u>-</u>
Total Program	<u>3,491,914</u>	<u>2,779,984</u>
Management and General:		
Registration and assessment	-	41,131
Travel	19,086	17,525
Salaries	120,000	107,250
Benefits and taxes	36,484	31,382
Office, stationery, supplies, and postage	28,098	24,016
Telephone	4,242	3,120
Occupancy	46,078	43,198
Bank custodial fees and service charges	20,006	20,443
Professional fees:		
General counsel	40,000	46,699
Other	56,279	16,890
Dues and publications	812	200
Insurance	1,505	1,340
Janitorial Expense	4,409	4,434
Investigation	1,072	242
Equipment Purchases	<u>2,675</u>	<u>-</u>
Total Management and General	<u>380,746</u>	<u>357,870</u>
Total Expenditures	<u>\$ 3,872,660</u>	<u>\$ 3,137,854</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 \$41,131 for the years ended June 30, 2004 and 2003, respectively.

NOTE 8 EMPLOYEE BENEFIT PLANS

The Fund has a simplified employee pension plan which is available to all employees after one year of employment. The plan permits contributions, including employee and employer, to a maximum of 15% of employee compensation limited to a contribution of \$30,000. The employer contributions amount to \$12,000 and \$10,725 for the years ended June 30, 2004 and 2003, respectively.