

THE SUPREME COURT OF PENNSYLVANIA
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
REPORT ON 2010 - 2011 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, 2011, 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, 2010 through June 30, 2011.¹

A. As of the Start of the 2010-2011 Fiscal Year

The Fund commenced the 2010-2011 fiscal year with 144 pending claims, involving 72 attorneys, carrying an award potential of \$2,423,758. This dollar amount is calculated after applying the Fund's \$75,000 award limitation at the start of the fiscal year. There were 16 claims in excess of \$75,000 among the pending claims and the gross total amount claimed of the Fund was \$4,938,205.

B. Activity During the Fiscal Year

The Fund received a total of 193 claims from July 1, 2010 through June 30, 2011, alleging a total loss of \$7,261,024. This was a decrease of 57 claims from the amount received during the prior fiscal year. 14 of these claims alleged losses in excess of \$100,000². 111 lawyers were accused of dishonest conduct.

During the 2010-2011 fiscal year, the Board of the Fund made disposition of 196 claims. One hundred thirty-one of these claims resulted in the approval of awards, which awards totaled \$2,250,472. This amount reflects an increase of \$149,337 in the amount of approved awards compared with the prior fiscal year. Five claimants received the Fund's maximum award of \$75,000 prior to December 30, 2010. Four claimants received the Fund's maximum award of \$100,000 after December 30, 2010.

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, 2010 and June 30, 2011, and the attorneys involved with these awards, follows the Report on Operations.

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

² By Order dated November 30, 2010, the Supreme Court of Pennsylvania amended Rule 514(b) to increase the maximum award to \$100,000 for awards approved after December 30, 2010.

Forty-seven claims with an aggregate alleged loss of \$1,267,968 were denied after review and consideration by the Board. Eighteen claims with an aggregate alleged loss of \$191,789 were discontinued by the claimants. There were 2 more denials during this fiscal year than in the previous fiscal year. The number of claims which were discontinued by the claimants remained the same as in the prior fiscal year.

C. As of the End of the Fiscal Year

On June 30, 2011, the Fund had 141 pending claims alleging an aggregate total loss in the amount of \$7,325,819. Fourteen of these claims allege a loss of \$100,000 or more, seeking an aggregate total of \$5,334,278 in awards. The Fund's potential maximum exposure from all pending claims as of June 30, 2011, given the \$100,000 maximum award is approximately \$3,391,541.

Since the establishment of the Fund in April 1982, through the period ending June 30, 2011, the Fund has approved 4,148 awards in the aggregate amount of \$46,045,066 as a result of the actions of 749 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 2010-2011 fiscal year, these two types of claims cost the Fund \$1,321,728 or 58.73% of the total award dollars. \$876,921 of this amount were estate funds, with the \$444,807 balance being funds that were to have been held in escrow or trust by the attorney. Twenty-eight claims alleging attorney theft from estate or trust/escrow monies resulted in awards. Approximately 66% of the estate funds were converted by two attorneys.

2. Embezzlement of Lawsuit Settlement Proceeds - The Fund approved awards totaling \$500,303 to 25 claimants resulting from the misappropriation of lawsuit settlements. The misappropriation of lawsuit settlement funds accounted for 22.23% of the awards approved by the Board during the 2010-2011 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. \$432,332, or 86.41%, of the total approved awards in this category were approved to 11 former clients of two attorneys.

3. Nonperformance - The acceptance of unearned fees or retainers represents the third highest payment category, with approved awards totaling \$205,813, representing 9.15% of the Fund's total approved awards for this fiscal year. Awards in this category were approved to 74 claimants. \$37,933, or 18.43% of the total approved awards in this category were approved to 13 former clients of one attorney, which funds had been collected to perform criminal defense representation. The attorney passed away prior to providing the representation. At the time of the attorney's death, there were no funds in the attorney's escrow account and no estate from which the clients could recover the unearned fee.

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.

The remaining awards approved by the Board were comprised of claims categorized as (a) an embezzlement of real estate settlement proceeds and (b) fraud. The Fund paid a \$100,000 award 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.

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 2010-2011 fiscal year, the Fund provided \$313,798 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 2011-2012 in the amount of \$322,578.

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 9 pending inquiries. The Fund received 251 overdraft notices during the 2010-2011 fiscal year, which resulted in 47 overdraft notices being referred to the Office of Disciplinary Counsel for further inquiry. 207 overdraft notices were reviewed and closed based upon a satisfactory explanation. The fiscal year ended with 6 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 2010-2011 fiscal year, the Fund recovered \$332,063 in restitution payments.

H. Board Meetings and Locations

The Board of the Fund continued during the 2010-2011 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, 2000-2011); 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, 2004-2010); 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, 2003-2011).

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, Robert A. Rovner, Esquire was originally appointed to the Board in April 2006 and was subsequently reappointed in March 2009. He was appointed as Board Chair in May 2011. Mr. Rovner is the founding senior partner of Rovner, Allen, Rovner, Zimmerman & Nash in Feasterville, Pennsylvania.

Other members of the Board include attorneys Eric N. Anderson from Pittsburgh, who serves as Vice-Chair, 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. 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,

Robert A. Rovner, Board Chair

Eric N. Anderson

Robert K. Reitzel

Hon. Robert A. Graci

Grace R. Schuyler

Edwin H. Beachler, III

Bishop Keith W. Reed, Sr.

AWARDS APPROVED JULY 1, 2010 THROUGH JUNE 30, 2011

<u>Last Name</u>	<u>First Name</u>	<u>ID #</u>	<u>County</u>	<u>Claims Resulting in Awards</u>	<u>Total Awards</u>
Abramowitz	Jeffrey	52571	Philadelphia	4	\$213,628
Apple	James R.	37942	Allegheny	1	\$1,634
Bart	Michael	16004	Luzerne	1	\$100,000
Beachy III	Wilbert H.	21698	Somerset	1	\$18,614
Burke	Michael	92235	Philadelphia	3	\$4,100
Caney	Joel D.	12036	Philadelphia	1	\$1,209
Carlitz	Debbie Ann	49128	Bucks	6	\$252,245
Chandler	Carol	33026	Out of state	2	\$5,470
Croom	John H.	68473	Out of state	1	\$550
Delpero	Stephen G.	51168	Lawrence	1	\$500
DeSantis	Joseph J.	76349	Erie	1	\$1,400
DeSimone	Michael M.	46383	Delaware	1	\$82,500
Eshelman	Matthew	72655	Cumberland	5	\$14,600
Fields	Scott	47519	Montgomery	1	\$3,350
Fudor	Stanley	83563	Butler	1	\$26,092
Gabriel	Jeffrey	85157	Allegheny	2	\$1,100
Gan	Richard R.	68721	Dauphin	1	40,218
Gefsky	James	37880	Westmoreland	3	\$2,820
Gibson	John Walter	32166	Allegheny	1	\$1,500
Glanby	Lois E.	80784	Washington	2	\$6,500
Gordon	Michael P.	90793	Lackawanna	1	\$2,500
Greenberg	Stephen	62691	Allegheny	17	\$80,423
Hallock	Richard	92578	Lackawanna	2	\$22,447
Hayward, Jr.	James D.	93618	Luzerne	2	\$700
Hughes	Bernard	201586	Philadelphia	1	\$1,307
Kashimba	Raymond	12780	Monroe	2	\$3,500
Kovel	E. Larry	23573	Allegheny	1	\$3,500
Langton	Stephen	53497	Westmoreland	5	\$5,738
Lennert	Brett	92780	Northampton	1	\$1,400
Licari	John F.	55679	Delaware	1	\$500
Lynn	Kate	88953	Northampton	2	\$6,000
Marchewka	James A.	70928	Washington	10	\$207,674
Marcone	Frank J.	08967	Delaware	1	\$3,000
McGogney	Glenn D.	19856	Lehigh	1	\$21,000
McGrath	Mark	46813	Lackawanna	2	\$397,376
Morgan, Jr.	David A.	64333	Tioga	1	\$4,300
Nolan	Dennis M.	08983	Delaware	1	\$58,000
Ogilvie	Mariama O.	202375	Philadelphia	1	\$5,000
Perrine	D. Scott	94302	Philadelphia	2	\$7,000
Picconi	John	19207	Dauphin	2	\$52,702
Povanda	Peter C.	24448	Lackawanna	1	\$5,000

<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	1	\$9,667
Rupp	Richard	34832	Cumberland	1	\$15,400
Scholl, Jr.	William V.	24516	Allegheny	3	\$138,469
Schwab	Gregory G.	43918	Allegheny	3	\$11,000
Seiken	Jeffry	31650	Philadelphia	5	\$180,087
Sexton	Forest C.	33620	Allegheny	1	\$800
Sharpe, Jr.	Melvin T.	43312	Philadelphia	2	\$31,767
Sigal	Steven L.	54959	Philadelphia	1	\$3,000
Slampak	Faith Dean	76981	Allegheny	1	\$100,000
Sporrer	Daniel J.	65221	Allegheny	1	\$3,000
Staunton	Peter	81646	Philadelphia	12	\$73,336
Test, Jr.	George S.	15915	Centre	1	\$14,000
Urbanski	Stephen K.	54032	Luzerne	1	\$450
Wassil	Gerald	25234	Luzerne	1	\$2,000
Weiss	James S.	62619	Out of state	1	\$1,499

FORMER BOARD CHAIRS

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. 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, 2011 AND 2010
AND
INDEPENDENT AUDITOR'S REPORT

HAMILTON & MUSSER, P.C.
Certified Public Accountants

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
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For the Years Ended June 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010 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 22, 2011

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and Cash Equivalents	\$ 1,215,108	\$ 334,919
Investments (Note 2)	<u>9,925,115</u>	<u>9,350,043</u>
Total Assets	<u>\$ 11,140,223</u>	<u>\$ 9,684,962</u>
Liabilities		
Accrued Payroll Taxes	\$ <u>62</u>	\$ <u>441</u>
Total Liabilities	<u>62</u>	<u>441</u>
Net Assets		
Unrestricted	<u>11,140,161</u>	<u>9,684,521</u>
Total Net Assets	<u>11,140,161</u>	<u>9,684,521</u>
Total Liabilities and Net Assets	<u>\$ 11,140,223</u>	<u>\$ 9,684,962</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenue:		
Annual Fees	\$ 2,598,250	\$ 2,173,835
Restitution	322,823	138,466
Other Income	67,893	69,702
Interest Income	1,246	367
Realized Gain on Investments	236,617	89,196
Unrealized Gain on Investments	<u>1,338,455</u>	<u>781,966</u>
Total Revenue	<u>4,565,284</u>	<u>3,253,532</u>
Expenses:		
Program		
Awards	2,227,283	2,505,355
Funding of Lawyers Concerned for Lawyers, Inc. (Note 3)	<u>313,798</u>	<u>299,783</u>
Total Program Expenses	2,541,081	2,805,138
Management and General	<u>568,563</u>	<u>502,043</u>
Total Expenses	<u>3,109,644</u>	<u>3,307,181</u>
Change in Net Assets	1,455,640	(53,649)
Net Assets, Beginning of Year	<u>9,684,521</u>	<u>9,738,170</u>
Net Assets, End of Year	<u>\$ 11,140,161</u>	<u>\$ 9,684,521</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Increase (Decrease) in Net Assets	\$ 1,455,640	\$ (53,649)
Adjustments to Reconcile Decrease in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Realized Gain on Investments	(236,617)	(89,196)
Unrealized Gain on Investments	(1,338,455)	(781,966)
Increase (Decrease) in:		
Accrued Payroll Taxes	<u>(379)</u>	<u>214</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>(119,811)</u>	<u>(924,597)</u>
Cash Flows From Investing Activities:		
Sale of Investments	<u>1,000,000</u>	<u>500,000</u>
Net Cash and Cash Equivalents Provided by Investing Activities	<u>1,000,000</u>	<u>500,000</u>
Increase (Decrease) in Cash and Cash Equivalents	880,189	(424,597)
Cash and Cash Equivalents, Beginning of Year	<u>334,919</u>	<u>759,516</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,215,108</u>	<u>\$ 334,919</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, 2011 and 2010

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 *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 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.

The Fund's applicable federal returns for the years ended June 30, 2008, 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after being filed.

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:

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010

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. 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, 2011:

	<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>

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	<u>\$ 8,036,764</u>	<u>\$ 9,350,043</u>	<u>\$ 1,313,279</u>

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010

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 2011 and 2010 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$313,798 and \$299,783, respectively.

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Fund had the following outstanding commitments at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Awards	\$ <u>542,805</u>	\$ <u>397,352</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.

During November 2010, the Board increased the maximum reimbursement limit to \$100,000, effective for all awards approved after December 30, 2010.

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 entered into an operating lease for its former office space. Rent expenditures were \$0 and \$4,132 for the years ended June 30, 2011 and 2010, respectively. The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund was assessed shared occupancy costs totaling \$31,706 and \$29,884 for the years ending June 30, 2011 and 2010, 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, 2011 and 2010, respectively. Future minimum lease payments are as follows for the years ended June 30:

2012	\$ 2,268
2013	2,268
2014	<u>1,134</u>
Total	<u>\$ 5,670</u>

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010

NOTE 6 EXPENDITURES

Expenditures by natural classification for the years ended June 30, 2011 and 2010 were:

	<u>2011</u>	<u>2010</u>
Program:		
Awards	\$ 2,227,283	\$ 2,505,355
Funding of Lawyers Concerned For Lawyers, Inc.	<u>313,798</u>	<u>299,783</u>
Total Program Expenses	<u>2,541,081</u>	<u>2,805,138</u>
Management and General:		
Advertising	1,024	973
Bank Custodial Fees and Service Charges	71,035	71,492
Benefits and Taxes	43,468	45,786
Dues and Publications	1,501	1,973
Insurance	1,970	1,476
Investigation	268	117
Janitorial Expense	-	100
Occupancy	37,107	34,466
Office, Stationery, Supplies, and Postage	43,710	33,989
Professional Fees:		
General Counsel	54,000	52,000
Other	84,731	64,132
Registration and Assessment	40,853	-
Relocation	-	19,407
Salaries	163,039	149,000
Telephone	717	1,533
Travel	<u>25,140</u>	<u>25,599</u>
Total Management and General Expenses	<u>568,563</u>	<u>502,043</u>
Total Expenses	<u>\$ 3,109,644</u>	<u>\$ 3,307,181</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 \$40,853 and \$0 for the years ended June 30, 2011 and 2010, 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 \$15,700 and \$14,900 for the years ended June 30, 2011 and 2010, respectively.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY
Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010

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, 2011 and 2010, respectively. 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 \$970,116 and \$0 at June 30, 2011 and 2010, 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 and \$329,875 for the years ended June 30, 2011 and 2010, respectively.

NOTE 10 ADVERTISING

The Fund expenses advertising costs as incurred. Advertising costs were \$1,024 and \$973 for the years ending June 30, 2011 and 2010, respectively.

NOTE 11 SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 22, 2011, which is the date the financial statements were available to be issued.