

**THE SUPREME COURT OF PENNSYLVANIA  
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

**REPORT ON 2013 - 2014 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. The Fund does not have jurisdiction over malpractice or negligence claims.

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, 2014, the Fund's portion of the \$200 annual fee was \$35. The Fund received a total of \$2,624,575 in assessment revenue for the fiscal year ending June 30, 2014.

By Order dated January 24, 2014, effective February 24, 2014, Rule of Disciplinary Enforcement 514(b) was amended to implement a \$1,000,000 maximum disbursement by the Fund as the result of any one Covered Attorney. The amendment does provide the Board with the discretion to request a waiver of that maximum, if such a waiver would be necessary to adequately compensate all victims of the Dishonest Conduct of the Covered Attorney and, exceeding the maximum will not unduly burden the Fund. At the June 2014 Board meeting, the Board addressed the first of several situations that are currently pending with the Fund, which situations

have been impacted by the Rule 514(b) amendment. The Board reviewed 64 claims that have been filed against one attorney in order to determine the compensability of those 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.

The period covered by this Report is the Fund's fiscal year July 1, 2013 through June 30, 2014. This Report has not been submitted to the Supreme Court of Pennsylvania for review prior to publication.

**A. At the Start of the 2013-2014 Fiscal Year**

The Fund commenced the 2013-2014 fiscal year with 350 pending claims, carrying an award potential of \$11,400,510. This dollar amount is calculated after applying the Fund's \$100,000 award limitation. There were 65 claims alleging a loss in excess of \$100,000 among the pending claims. The aggregate total of the alleged losses for these 350 pending claims was \$40,785,401.

**B. Activity During the Fiscal Year**

The Fund received a total of 282 claims during the period July 1, 2013 through June 30, 2014, alleging losses totaling \$29,585,329. This was a decrease of 30 claims from the amount received during the prior fiscal year. 77 of these claims allege losses of \$100,000 or greater. Of these 77 claims, nine allege losses between \$500,000 and \$1,000,000. Four claims allege a loss of \$1,000,000 or more. 126 lawyers were accused of dishonest conduct.

During the 2013-2014 fiscal year, the Board of the Fund made disposition of 238 claims. 117 of these claims resulted in the approval of awards, which awards totaled \$2,372,002. This amount reflects a decrease of \$1,092,578 in

the amount of approved awards compared with the prior fiscal year. Eight claimants received the Fund's maximum award of \$100,000.

An additional 49 claims reviewed at the June 2014 Board meeting were found to be compensable. The amount of the award to be approved for each of those 49 claims will be determined in accordance with the procedures for processing claims impacted by Pa.R.D.E. 514(b) relating to the \$1,000,000 maximum disbursement per attorney. Since the final amount of the approved award had not been determined by June 30, 2014, the \$2,372,002 in approved awards does not include any of the 49 compensable claims that have been impacted by the amendment to Rule 514(b).

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 the attorney and the amount of the approved award. A list of attorneys involved with the awards approved between July 1, 2013 and June 30, 2014, follows the Report on Operations.

The Board denied 60 claims, which claims alleged aggregate losses totaling \$17,075,295. One of the claims that was denied alleged a loss in the amount of \$15,158,000. Eleven claims with aggregate alleged losses of \$836,879 were discontinued by the claimants. There were 12 more denials during this fiscal year than in the previous fiscal year. The number of claims which were discontinued by the claimants decreased by 13 compared with the prior fiscal year.

**C. At the End of the Fiscal Year**

On June 30, 2014, the Fund had 394 pending claims alleging aggregate total losses in the amount of \$31,525,860. 89 of these claims allege a loss of \$100,000 or more, seeking an aggregate total of \$26,932,153 in awards. The Fund's potential maximum exposure from all pending claims as of June 30, 2014, given the \$100,000 maximum award is approximately \$13,543,707.

Since the establishment of the Fund in April 1982, through the period ending June 30, 2014, the Fund has approved awards in the aggregate amount of \$53,728,462 as a result of the actions of approximately 800 attorneys.

**D. Awards**

1. Fiduciary Funds – The conversion of (a) estate funds and (b) trust or escrow funds continues to be the largest categories of approved awards. During the 2013-2014 fiscal year, these two types of claims resulted in the Fund approving awards totaling \$1,814,094 or 76.47% of the total award dollars. \$515,427 of this amount were estate funds, with the \$1,298,667 balance being funds that were to have been held in escrow or trust by the attorney. 41 claims alleging attorney theft from estate or trust/escrow monies resulted in awards. Approximately 47.19% of the funds that were to have been held in trust were converted by one attorney. The 49 claims that were found to be compensable, with the award amounts to be determined in accordance with Pa.R.D.E. 514(b), are all trust-related claims.

2. Lawsuit Settlement Proceeds - The conversion of lawsuit settlement proceeds was the second highest category of awards paid during the 2013-2014 fiscal year. Awards in this category totaled \$333,168. \$254,451 or 76.37% of total awards in the category were paid as a result of one attorney.

3. Fraud - \$114,660 was obtained by three attorneys as a result of fraudulent misrepresentations, which funds were then converted by those attorneys. \$32,968 of this amount was paid to former clients of an attorney who handled patent matters before the U.S. Patent and Trademark Office and had never been licensed as a patent attorney. 4.83% of the approved awards were in this category.

4. Nonperformance or Unearned Fees – The acceptance and retention of unearned fees or retainers represents the remaining award category. Approved awards for this category totaled \$110,080, or 4.64% of the total approved awards

during this fiscal year. 49 claimants received awards representing the return of unearned fees.

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 2013-2014 fiscal year, the Fund provided \$328,745 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 alcohol or substance abuse or a gambling addiction. 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 2014-2015 in the amount of \$343,798.

**F. Mandatory Overdraft Notification**

Pennsylvania Rule of Disciplinary Enforcement 221 was promulgated by the Supreme Court of Pennsylvania on April 24, 1995, requiring approved financial institutions to report the occurrence of an item being presented against insufficient funds, when the item involves an attorney trust account. The fiscal year began with 15 pending inquiries. The Fund received 267 overdraft notices during the 2013-2014 fiscal year, which resulted in 31 overdraft notices being referred to the appropriate Office of Disciplinary Counsel for further inquiry. Five notices were forwarded to other states for appropriate review. 230 overdraft notices were reviewed and closed based

upon a satisfactory explanation. The fiscal year ended with 16 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. The Fund also receives reimbursements from formerly admitted attorneys who desire to seek reinstatement in accordance with Pa.R.D.E. 531. During the 2013-2014 fiscal year, the Fund recovered \$171,933 through subrogation and Rule 531 reimbursements.

**H. Board Meetings and Locations**

The Board of the Fund continued during the 2013-2014 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.

Respectfully submitted,

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Edwin H. Beachler, III, Esq., Board Chair  
Grace R. Schuyler, Esq., Vice Chair  
Bishop Keith W. Reed, Sr.  
Lewis F. Gould, Jr., Esq., Treasurer  
Hon. Stefanie J. Salavantis  
Robert A. Gleason, Jr.  
Daniel I. Booker, Esq.

**AWARDS APPROVED JULY 1, 2013 THROUGH JUNE 30, 2014**

<b><u>LAST NAME</u></b>	<b><u>FIRST NAME</u></b>	<b><u>ID #</u></b>	<b><u>COUNTY</u></b>	<b><u>CLAIMANTS RECEIVING AWARDS</u></b>	<b><u>TOTAL AWARDS</u></b>
Banke II	John R.	59933	Westmoreland	1	\$325
Dougherty, Jr.	Raymond J.	170284	Montgomery	1	\$1,500
Dubin	Steven G.	29562	Bucks	7	\$137,940
Frisk, Jr.	Michael A.	89176	Lawrence	7	\$13,944
Gates	John R.	6702	Huntingdon	9	\$152,310
Gaudio	David P.	77010	Allegheny	5	\$49,163
Gembala, III	Joseph A.	44063	Philadelphia	4	\$4,300
Grimm	Leroy F.	24728	Allegheny	1	\$2,165
Gultanoff	Barry F.	25731	Montgomery	9	\$321,720
Hayward, Jr.	James D.	93618	Luzerne	1	\$51
Iseman	Edward T.	90627	Somerset/York	1	\$2,000
Jackson	Anthony D.	35596	Philadelphia	1	\$750
Jamison	Chris M.	35597	Delaware	1	\$27,237
King	Marsha L.	68438	Philadelphia	1	\$9,495
Lupas, Jr.	Anthony J.	1849	Luzerne	14	\$1,056,166
Mandale	Michael Z.	200124	Philadelphia	2	\$7,000
Marchewka	James A.	70928	Washington	2	\$5,900
Marrazzo	Michael J.	37151	Lackawanna	1	\$72,003
Martino	Anthony J.	46444	Northampton	3	\$90,078
McCormick	Timothy J.	29490	Westmoreland	4	\$9,100
Mirin	Robert S.	25305	Dauphin	7	\$25,533
Morgan, Jr.	David A.	64333	Lackawanna	11	\$95,754
Nattiel, Jr.	Willie Lee	52579	Philadelphia	2	\$6,500
Pruchnik, Jr.	Walter C.	30336	Allegheny	1	\$2,500
Robinson, Jr.	William H.	7242	Monroe	1	\$8,090
Rodgers	Adam J.	64987	Philadelphia	1	\$1,750
Rowlands, Jr.	Hopkin T.	1818	Luzerne	1	\$25,900
Schappell	Mark T.	83524	Lebanon	1	\$1,901
Schwartz	Howard L.	66190	Delaware	1	\$90,750
Seiken	Jeffry M.	31650	Philadelphia	1	\$6,714
Siegel	David M.	79013	Delaware	4	\$7,800
Steinberg	Arnold Y.	26495	Allegheny	1	\$3,192
Stosic	Michael E.	90763	Philadelphia	1	\$2,000
Thompson	John C.	20798	Allegheny	2	\$114,321
Timperio, Jr.	Nicholas E.	69207	Fayette	6	\$10,150
Tyler	Brian J.	77958	Dauphin	1	\$6,000

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2014 AND 2013  
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*

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DAVID A. HAMILTON, CPA • BARRY E. MUSSER, CPA, CFP®  
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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Lawyers Fund for Client Security (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of June 30, 2014 and 2013, 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, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Members of the American and Pennsylvania Institutes of CPAs*

**Opinion**

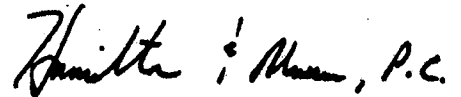
In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Pennsylvania Lawyers Fund for Client Security as of June 30, 2014 and 2013, and its revenue, expenses, and changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

September 30, 2014

Mechanicsburg, Pennsylvania



*Certified Public Accountants*

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
 Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis  
 June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and Cash Equivalents		
Unrestricted	\$ 1,991,728	\$ 2,188,293
Temporarily Restricted	15,206	-
Certificate of Deposit – Temporarily Restricted	-	151,503
Investments (Note 2)	<u>8,823,803</u>	<u>9,203,036</u>
 Total Assets	 <u>\$ 10,830,737</u>	 <u>\$ 11,542,832</u>
 <b>Liabilities</b>		
Payroll Taxes Payable	\$ <u>3,350</u>	\$ <u>3,259</u>
 Total Liabilities	 <u>3,350</u>	 <u>3,259</u>
 <b>Net Assets</b>		
Temporarily Restricted (Note 10)	15,206	151,503
Unrestricted	<u>10,812,181</u>	<u>11,388,070</u>
 Total Net Assets	 <u>10,827,387</u>	 <u>11,539,573</u>
 Total Liabilities and Net Assets	 <u>\$ 10,830,737</u>	 <u>\$ 11,542,832</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
Statement of Revenue, Expenses, and Changes in Net Assets – Modified Cash Basis  
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue:</b>			
Annual Fees	\$ 2,624,575	\$ -	\$ 2,624,575
Restitution	171,933	15,206	187,139
Other Income	50,157	-	50,157
Investment Income (Note 2)	1,122,366	-	1,122,366
Net Assets Released From Restrictions	<u>151,503</u>	<u>(151,503)</u>	<u>-</u>
 Total Revenue	 <u>4,120,534</u>	 <u>(136,297)</u>	 <u>3,984,237</u>
<b>Expenses:</b>			
Program			
Awards	3,849,743	-	3,849,743
Funding of Lawyers Concerned for Lawyers, Inc. (Note 3)	<u>328,745</u>	<u>-</u>	<u>328,745</u>
 Total Program Expenses	 4,178,488	 -	 4,178,488
Management and General	517,935	-	517,935
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
 Total Expenses	 <u>4,696,423</u>	 <u>-</u>	 <u>4,696,423</u>
 Change in Net Assets	 (575,889)	 (136,297)	 (712,186)
Net Assets, Beginning of Year	<u>11,388,070</u>	<u>151,503</u>	<u>11,539,573</u>
Net Assets, End of Year	<u>\$ 10,812,181</u>	<u>\$ 15,206</u>	<u>\$ 10,827,387</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
Statement of Revenue, Expenses, and Changes in Net Assets – Modified Cash Basis  
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue:</b>			
Annual Fees	\$ 2,888,266	\$ -	\$ 2,888,266
Restitution	128,916	-	128,916
Other Income	81,210	151,503	232,713
Investment Income (Note 2)	<u>904,976</u>	<u>-</u>	<u>904,976</u>
Total Revenue	<u>4,003,368</u>	<u>151,503</u>	<u>4,154,871</u>
<b>Expenses:</b>			
<b>Program</b>			
Awards	1,801,216	-	1,801,216
Funding of Lawyers Concerned for Lawyers, Inc. (Note 3)	<u>328,745</u>	<u>-</u>	<u>328,745</u>
Total Program Expenses	2,129,961	-	2,129,961
Management and General	521,753	-	521,753
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>2,651,714</u>	<u>-</u>	<u>2,651,714</u>
Change in Net Assets	1,351,654	151,503	1,503,157
Net Assets, Beginning of Year	<u>10,036,416</u>	<u>-</u>	<u>10,036,416</u>
Net Assets, End of Year	<u>\$ 11,388,070</u>	<u>\$ 151,503</u>	<u>\$ 11,539,573</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ (712,186)	\$ 1,503,157
Adjustments to Reconcile Change in Net Assets to		
Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Realized Gain on Sale of Investments	(564,338)	(244,199)
Unrealized Gain on Investments	(556,428)	(658,933)
Increase (Decrease) in:		
Payroll Taxes Payable	<u>91</u>	<u>2,373</u>
Net Cash and Cash Equivalents Provided (Used) by		
Operating Activities	<u>(1,832,861)</u>	<u>602,398</u>
Cash Flows From Investing Activities:		
Purchase of Certificate of Deposit	-	(151,503)
Proceeds from Maturity of Certificate of Deposit	151,503	-
Proceeds from Sale of Investments	<u>1,499,999</u>	<u>750,000</u>
Net Cash and Cash Equivalents Provided by Investing Activities	<u>1,651,502</u>	<u>598,497</u>
Increase (Decrease) in Cash and Cash Equivalents	(181,359)	1,200,895
Cash and Cash Equivalents, Beginning of Year	<u>2,188,293</u>	<u>987,398</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,006,934</u>	<u>\$ 2,188,293</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, 2014 and 2013

**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 certificates of deposit, 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 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 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.

Management evaluated the tax positions taken and concluded that the Fund had taken no uncertain tax positions that require recognition or disclosure in the financial statements. With few exceptions, the Fund is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years through June 30, 2011.



**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

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

**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:

- 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.

**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.

**Certificates of Deposit:**

Certificates of deposit include all non-brokered certificates held at financial institutions with a maturity of greater than three months and are recorded at cost.

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

**NOTE 2 INVESTMENTS**

Investments consisted of the following at June 30, 2014 and 2013:

<u>June 30, 2014</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	\$ <u>5,284,277</u>	\$ <u>8,823,803</u>	\$ <u>3,539,526</u>
<u>June 30, 2013</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	\$ <u>6,219,938</u>	\$ <u>9,203,036</u>	\$ <u>2,983,098</u>

Fair values of investments measured on a recurring basis at June 30, 2014 and 2013 are as follows:

Fair Value Measurements at <u>Reporting Date Using:</u>				
<u>June 30, 2014</u>	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
PA Supreme Court Unitized Asset	\$ <u>8,823,803</u>	\$ _____ -	\$ <u>8,823,803</u>	\$ _____ -
<u>June 30, 2013</u>				
PA Supreme Court Unitized Asset	\$ <u>9,203,036</u>	\$ _____ -	\$ <u>9,203,036</u>	\$ _____ -

**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 at June 30, 2014 and 2013.

Investment income consisted of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest	\$ 1,600	\$ 1,844
Realized Gain on Sale of Investments	564,338	244,199
Unrealized Gain on Investments	<u>556,428</u>	<u>658,933</u>
 Total	 <u>\$ 1,122,366</u>	 <u>\$ 904,976</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 2014 and 2013 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$328,745 and \$328,745, respectively.

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements  
For the Years Ended June 30, 2014 and 2013

**NOTE 4 COMMITMENTS AND CONTINGENCIES**

The Fund had the following outstanding commitments at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Awards	\$ <u>157,505</u>	\$ <u>1,534,807</u>

On June 30, 2014, the Fund had 394 pending claims alleging an aggregate total loss in the amount of \$31,525,860. Eighty-two of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$26,932,153 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$13,453,707. However, the Fund's exposure may be further limited by the \$1 million per attorney aggregate cap per Pa.R.D.E.514(6).

On June 30, 2013, the Fund had 360 pending claims alleging an aggregate total loss in the amount of \$40,726,400. Sixty-two of these claims exceeded the \$100,000 maximum reimbursement limit and are seeking a total of \$35,315,890 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$11,710,510.

**NOTE 5 LEASES**

The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund was assessed shared occupancy costs totaling \$39,993 and \$37,326 for the years ending June 30, 2014 and 2013, respectively.

The Fund also leases a digital copier under an operating lease requiring monthly payments of \$210. Future minimum lease payments are as follows for the years ended June 30:

2015	\$ 2,522
2016	2,522
2017	2,522
2018	<u>2,312</u>
Total	<u>\$ 9,878</u>

Rent expenditures were \$2,522 and \$2,289 for the years ended June 30, 2014 and 2013, respectively.

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

**NOTE 6 EXPENDITURES**

Expenditures by natural classification for the years ended June 30, 2014 and 2013 were:

	<u>2014</u>	<u>2013</u>
Program:		
Awards	\$ 3,849,743	\$ 1,801,216
Funding of Lawyers Concerned For Lawyers, Inc.	<u>328,745</u>	<u>328,745</u>
Total Program Expenses	<u>4,178,488</u>	<u>2,129,961</u>
Management and General:		
Bank Custodial Fees and Service Charges	48,835	48,757
Benefits and Taxes	50,188	47,401
Dues and Publications	1,692	1,787
Insurance	692	732
Investigation	267	359
Occupancy	39,993	37,326
Office, Stationery, Supplies, and Postage	36,604	32,473
Professional Fees:		
General Counsel	53,000	52,000
Other	41,983	52,270
Registration and Assessment	48,919	54,214
Salaries	171,000	166,500
Telephone	818	949
Travel	<u>23,944</u>	<u>26,985</u>
Total Management and General Expenses	<u>517,935</u>	<u>521,753</u>
Fundraising	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 4,696,423</u>	<u>\$ 2,651,714</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 amount of \$48,919 and \$54,214 for the years ended June 30, 2014 and 2013, 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 \$17,100 and \$16,650 for the years ended June 30, 2014 and 2013, respectively.

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

**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, 2014 and 2013. 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 \$1,755,516 and \$1,938,293 at June 30, 2014 and 2013, 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 at June 30, 2014 and 2013.

**NOTE 10          TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2014 consist of a segregated account containing \$15,206 in funds from a particular attorney that are restricted to pay particular awards.

Temporarily restricted net assets at June 30, 2013 consisted of \$151,503 in funds from an abandoned law practice which were legally negotiated to the Fund with a stipulation that they be held by the Fund for a minimum of one year.

**NOTE 11          SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 30, 2014, which is the date the financial statements were available to be issued.