

Introduction

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 claims alleging malpractice, negligence, or ineffective representation. The Board of the Fund does not adjudicate what the Board determines to be a fee dispute.

Funding is derived from an annual fee paid by every active-licensed Pennsylvania attorney. The Fund does not receive any tax dollars. For the fiscal year ending June 30, 2022, the Fund’s portion of the \$225 annual fee paid by each Pennsylvania-licensed attorney was \$50. The Fund received a total of \$3,077,800 in fee revenue for the fiscal year ending June 30, 2022. The Fund’s assets at year end reflect a decrease of approximately \$1.075 million compared to a restated beginning year value as of July 1, 2021 of \$15.36 million. At the direction of the Supreme Court of Pennsylvania, the Fund switched from a modified cash basis of accounting to an accrual basis as of July 1, 2021. The pending claims at the end of the fiscal year alleged losses totaling \$1,642,421. The Fund’s maximum exposure, given the \$100,000 maximum award is approximately \$963,314.

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 the audited financial statements 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, 2021 through June 30, 2022. This Report has not been submitted to the Supreme Court of Pennsylvania for review prior to publication.

Beginning of the Fiscal Year

The Fund commenced the 2021-2022 fiscal year with 87 pending claims, carrying an award potential of \$1,488,353. This dollar amount was calculated after applying the Fund's \$100,000 award limitation. There were seven claims alleging a loss of \$100,000 or more among the pending claims. The aggregate total of the alleged losses for the 87 pending claims was \$2,154,005.

Activity During Fiscal Year

The Fund received a total of 129 claims against 99 attorneys during the period July 1, 2021 through June 30, 2022, alleging losses totaling \$5,557,741. This was a decrease of nine claims from the number of claims received during the prior fiscal year. Nine of these claims alleged losses of \$100,000 or greater.

During the 2021-2022 fiscal year, the Board of the Fund made disposition of 163 claims. Seventy-six claims reviewed resulted in the approval of awards, which awards totaled \$1,632,244. This amount reflects an increase of \$945,472 in the amount of approved awards compared with the prior fiscal year. The Board approved 12 awards in the amount of \$100,000, the Fund's maximum award. The amount of the alleged losses in the claims where awards were approved was \$4,247,396. Two awards totaling \$7,000 were subsequently rescinded due to the attorney paying the claimant the amount of the approved award prior to the Fund paying the award, or the claimant failed to comply with the conditions imposed by the Board as a condition of payment. Three claims alleging losses totaling \$2,775 were administratively closed when the attorney paid the claimant the amount of the alleged loss prior to the Board's review of the claim.

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, 2021 and June 30, 2022, follows this Report on Operations.

The Board denied 69 claims which alleged aggregate losses totaling \$1,387,441. Many of the claims that were denied were determined by the Board to be fee disputes. Several of the claims denied were claims alleging ineffective assistance of counsel. Fifteen claims with aggregate alleged losses totaling \$1,207,524 were discontinued by the claimants. There were nine fewer denials during this fiscal year than in the previous fiscal

year. The number of claims which were discontinued by the claimants increased by one compared with the prior fiscal year.

Fiscal Year End

On June 30, 2022, the Fund had 53 pending claims alleging aggregate total losses in the amount of \$1,642,421. Four of the pending claims allege a loss of \$100,000 or more, seeking an aggregate total of \$1,079,107. The Fund's potential maximum exposure from all pending claims as of June 30, 2022, given the \$100,000 maximum award, is approximately \$963,314.

Then to Now

Since the establishment of the Fund in April 1982, through the period ending June 30, 2022, a period of 40 years, the Fund has approved awards in the aggregate amount of \$76,696,977 as a result of the actions of approximately 1,075 attorneys.

Conduct Underlying Awards

Estates/Trusts – The conversion of funds held by a lawyer on behalf of an estate or trust, or funds being held in trust, was the largest category of approved awards as measured by dollar amount. During the 2021-2022 fiscal year, these types of fiduciary claims resulted in the Fund approving awards totaling \$1,277,926 or 78.29% of the total award dollars. \$65,959 of this amount represents estate funds, with the \$536,360 representing funds that were to have been held in escrow or trust by the attorney. Four of these claims received the maximum award of \$100,000. \$675,608 of this amount represents funds converted where the attorney had been acting as a personal representative for an estate or as a trustee for a trust. Six claimants in this category received the maximum award of \$100,000. Twenty-five claims alleging attorney theft from trust/escrow monies or where an attorney was acting in a fiduciary capacity resulted in awards.

Nonperformance or Unearned Fees – The acceptance and retention of unearned fees or retainers accounted for the second largest category of awards paid during the 2021-2022 fiscal year. Approved awards for this category totaled \$135,630 or 8.31% of the total approved awards during this fiscal year. Forty-eight claimants received awards representing the return of unearned fees.

Lawsuit Settlement Proceeds - The conversion of lawsuit settlement proceeds accounted for the third largest category of awards paid during the 2021-2022 fiscal year. Two awards were approved in this category totaling \$118,688, and represented 7.27% of total awards approved during the fiscal year. One claimant received the maximum \$100,000 award.

Balance of Awards - The \$100,000 balance of approved awards resulted from an attorney fraudulently obtaining funds from a client. This award represented 6.13% of the total awards approved during the fiscal year.

Notwithstanding the award amounts reported herein, it should be noted that in Fiscal Year Ending 2022, these awards were due to the actions of only 47 of the over 60,000 attorneys licensed in Pennsylvania, or less than one in one thousand. This very small percentage speaks highly of the integrity of the Pennsylvania Bar.

Preventative Measures

Lawyers Concerned for Lawyers - During the 2021-2022 fiscal year, the Fund provided \$417,315 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. Oftentimes 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 suffered by clients by providing a resource for impaired attorneys. The Fund anticipates that it will continue to support Lawyers Concerned for Lawyers during the fiscal year 2022-2023 in the amount of \$425,661.

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 to the Fund the occurrence of an item being presented against insufficient funds, when the item involves an attorney trust account. The approved financial institutions are required to submit a report to the Fund even when the financial institution chooses to honor the item that was presented against insufficient funds. The fiscal year began with 14 pending inquiries. The Fund received 136 negative balance reports during the 2021-2022 fiscal year. Twenty-seven matters were referred to the appropriate Office of Disciplinary Counsel for further inquiry, either due to an unsatisfactory explanation, or as a result of the attorney failing to cooperate with the Fund's inquiry. 123 negative balance reports were reviewed and closed based upon a satisfactory explanation. The fiscal year ended with nine negative balance inquiries pending.

Restitution and Subrogation

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 from the Covered Attorney or other responsible parties. The Fund may

subsequently receive restitution through civil collection efforts or through criminal restitution payments. The Fund also receives restitution from formerly admitted attorneys who desire to seek reinstatement in accordance with Pa.R.D.E. 531. During the 2021-2022 fiscal year, the Fund recovered \$218,778 through subrogation and Rule 531 restitution. Additionally, the Fund received a total of \$45,000 in accordance with Rule of Disciplinary Enforcement 324(c)(1), which requires a conservator for the practice of an absent attorney to petition the appointing court to distribute to the Fund, the funds in an absent attorney's trust account for which ownership cannot be determined.

Board Meetings and Locations

During this fiscal year, Board meetings were held in Dauphin and Allegheny Counties. Informational dinners were held on the evening prior to the Board meeting date. Invitations to these informational dinners are extended to the Judiciary, Bar leaders and *prominent local citizens from the county* where the Board meets, as well as from the surrounding counties. Through these dinners, through various bar events, and through continuing legal education courses and publications, the Fund continues to educate the legal community and the public about the Fund, its mission and activities.

Respectfully submitted,

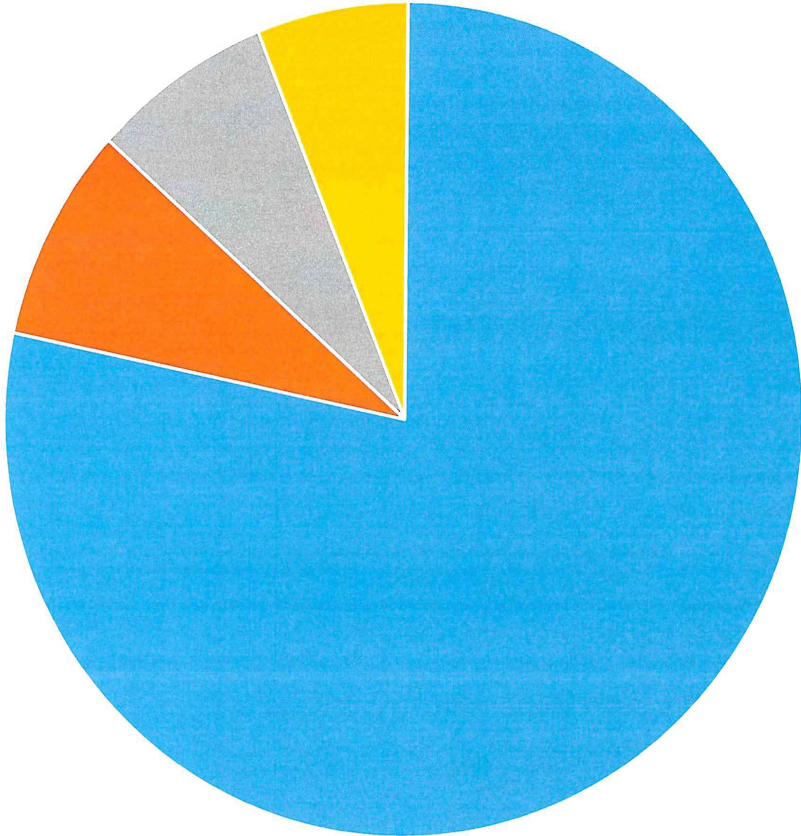
Barbara E. Griffin, Esquire, Board Chair
George P. Hartwick, III, Vice Chair and Treasurer
William J. Joyce
Bruce S. Zero, Esquire
Daniel W. Coleman, Esquire
Arthur H. Stroyd, Jr., Esquire
John P. Kopesky, Esquire

<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>ID #</u>	<u>COUNTY</u>	<u>NUMBER OF CLAIMS RESULTING IN AWARDS</u>	<u>TOTAL AWARDS</u>
Adler	Michael E.	82205	Montgomery	1	\$875
Barbin	Andrew W. Michael	43571	Cumberland	3	\$25,777
Bradley	Francis	77283	Philadelphia	1	\$100,000
Burzawa	Jeffrey W.	41558	Westmoreland	1	\$9,685
Calabrese	Tancredi W.	315687	Fayette	1	\$1,500
Caldbeck	Waldon S.	32027	Out of State	2	\$4,960
Cammarano, Jr.	Michael J.	308844	Berks	2	\$96,738
Champagne	Leon H.	29068	Out of State	1	\$100,000
Clewell	Robert S.	63600	Philadelphia	1	\$775
Cooper	Benjamin	58914	Philadelphia	1	\$500
Eddy	John W.	209046	Fayette	1	\$3,418
Friedman	Aaron S.	40596	Philadelphia	1*	\$671,608
Fulmer	Joshua D.	202239	Northampton	1	\$2,500
Gearty, Jr.	Justin C.	308851	Lancaster	4	\$5,932
Goodstein	Ricki	67050	Montgomery	1	\$3,245
Graban	David J.	13136	Mercer	1	\$425
Greenstein	Michael B.	62950	Allegheny	1	\$2,500
Hibbert	Valerie A.	76306	Delaware	2	\$1,575
Hundtermark	Wayne H.	35158	Venango	1	\$1,500
Kleber	John L.	85846	Philadelphia	1	\$4,000
Lacks	Stanton M.	26774	Bucks	1	\$1,600
Lally	Douglas R. Robert	59802	Montgomery	1	\$100,000
Leite-Young	Captain	312616	Philadelphia	2	\$5,295
Longenhagen	Michael G.	48811	Berks	2	\$10,400
Manchel	Donald F.	3046	Philadelphia	1	\$18,687
McCague	Richard J.	58106	Allegheny	1	\$6,000
McHale	Michael E.	201826	Lancaster	1	\$3,500
Middleton	Coleen F.	86969	Philadelphia	1	\$10,000
Musselman	Ian J.	313166	Bucks	1	\$1,500
Pangburn	Samuel S.	10823	Washington	3	\$1,850
Passarello	Steven P.	63233	Blair	1	\$13,215
Perrucci, Jr.	Angelo M.	56546	Northampton	2	\$17,520
Peruto, Jr.	A. Charles	30634	Philadelphia	1	\$10,000
Porsch	Matthew G.	93666	Erie	1	\$4,000
Potter	Sean A.	92102	Perry	4	\$4,625
Rachuba, IV	Anthony S.	88378	Bucks	2	\$31,137
Reed	Gregory R.	21450	Northampton	6	\$17,256
Reed	James K.	50075	Out of State	2	\$103,000
Sagot	Alan	21646	Philadelphia	2	\$6,750
Schindler	Thomas K.	52279	Chester	2	\$200,000

<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>ID #</u>	<u>COUNTY</u>	<u>NUMBER OF CLAIMS RESULTING IN AWARDS</u>	<u>TOTAL AWARDS</u>
Sheffield	Christopher E.	82548	Cumberland	1	\$4,250
Stein	Neil	13648	Montgomery	1	\$4,562
Urick	Nicholas	307225	Beaver	1	\$1,750
Vittorelli, Jr.	Donald L.	68761	Philadelphia	1	\$684
Waldron	Elissa Griffith	52425	Lehigh	1	\$3,298
Zeigler	Matthew J.	83367	Lycoming	4	\$9,500
Zerillo	James W.	40499	Montgomery	<u>2</u>	<u>\$4,351</u>
				<u>76</u>	<u>\$1,632,244</u>

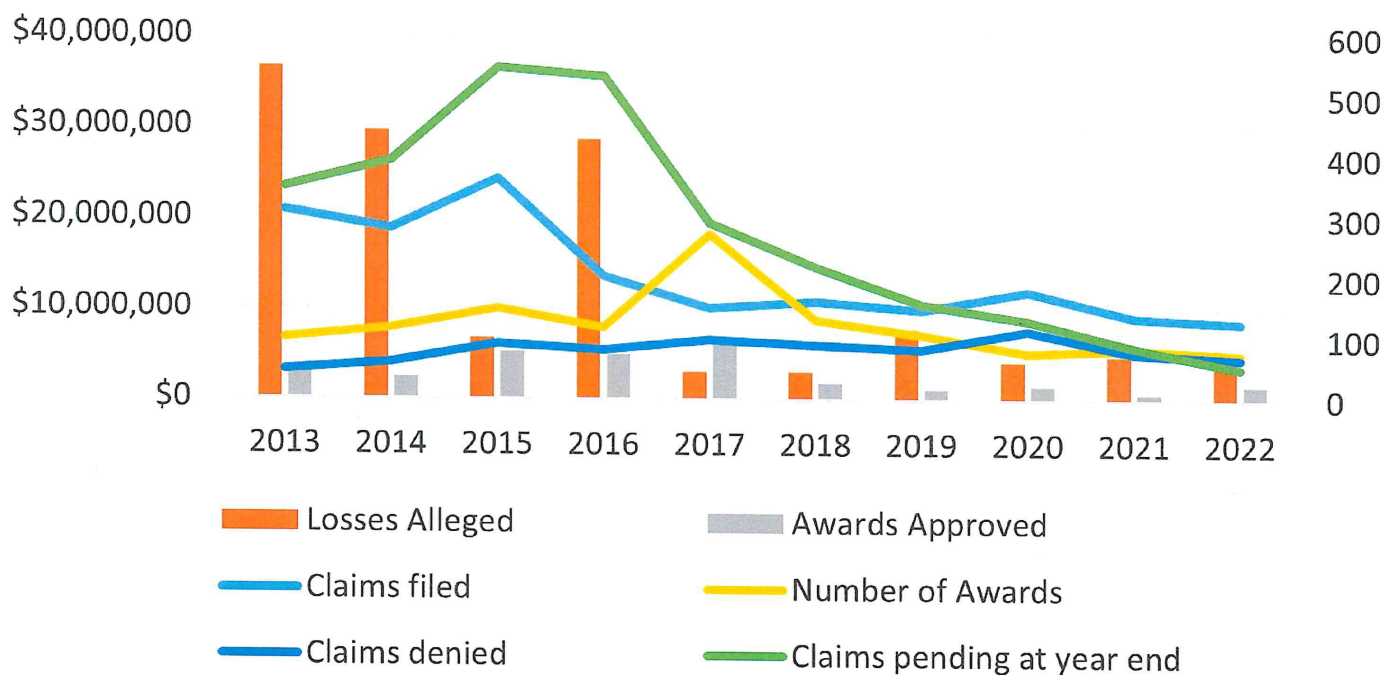
*This claim involved several beneficiaries of an estate, each of whom were treated as a separate claimant.

Dollar Amount of Awards By Category
Approved in FYE 2022

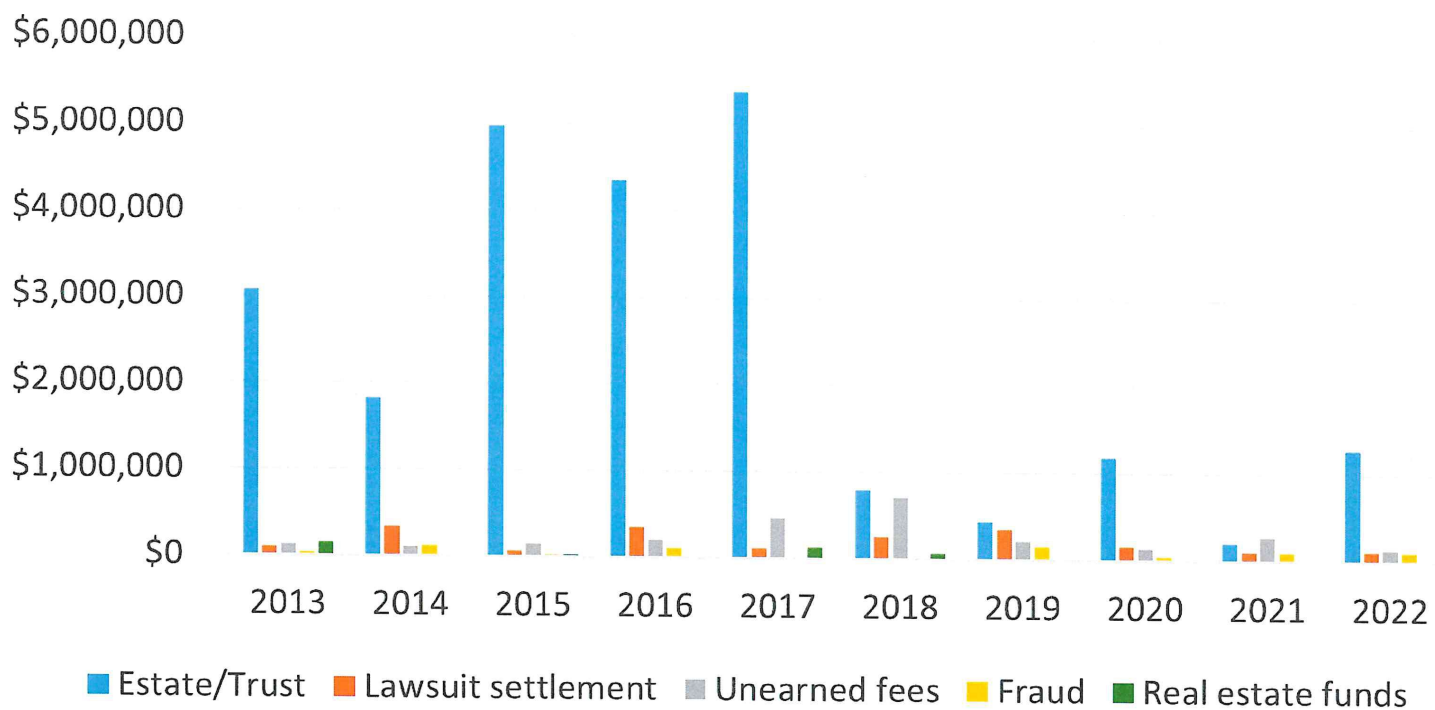


■ Estate/Trusts ■ Unearned Fees ■ Lawsuit settlements ■ Other

10 Year History



Conduct Underlying Awards



**Pennsylvania Lawyers Fund
For Client Security**

Financial Statements

Year Ended June 30, 2022
with Independent Auditor's Report

MaherDuessel

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

YEAR ENDED JUNE 30, 2022

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Independent Auditor's Report

**Board of Trustees
Pennsylvania Lawyers Fund for Client Security**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Pennsylvania Lawyers Fund for Client Security (Fund), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 1 to the financial statements, management has elected to change its basis of accounting from the modified cash basis of accounting to the accrual basis of accounting. This change resulted in a restatement of beginning net assets in the financial statements of the Fund. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of

America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Maier Duessel

Harrisburg, Pennsylvania
September 14, 2022

**PENNSYLVANIA LAWYERS FUND
FOR CLIENT SECURITY**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022

Assets	
Cash and cash equivalents	\$ 4,320,650
Investments	13,096,503
Accounts receivable	167,714
Total Assets	<u>\$ 17,584,867</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable	\$ 864,770
Deferred revenue	2,362,250
Accrued vacation	68,068
Payroll taxes payable	3,746
Total Liabilities	<u>3,298,834</u>
Net Assets:	
Without donor restrictions:	
Undesignated	14,286,033
Total Net Assets	<u>14,286,033</u>
Total Liabilities and Net Assets	<u>\$ 17,584,867</u>

The accompanying notes are an integral part of these financial statements.

**PENNSYLVANIA LAWYERS FUND
FOR CLIENT SECURITY**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

Operating Revenues:

Without donor restrictions:

Annual attorney fees	\$ 3,077,800
Restitution	218,778
Rule 324 income	45,070
Investment income (loss)	<u>(2,024,922)</u>
Total Operating Revenues	<u>1,316,726</u>

Operating Expenses:

Program expenses:

Awards	1,560,690
Funding of Lawyers Concerned for Lawyers, Inc.	417,315
Salaries and benefits	<u>173,462</u>
Total program expenses	2,151,467

Supporting service expenses:

Management and general	240,274
Fundraising	<u>-</u>
Total supporting service expenses	240,274

Total Operating Expenses 2,391,741

Change in Net assets Without Donor Restrictions (1,075,015)

Net Assets:

Beginning of year - restated	15,361,048
End of year	<u>\$ 14,286,033</u>

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program	Supporting Services		Total
		Management and General	Fundraising	
Awards	\$ 1,560,690	\$ -	\$ -	\$ 1,560,690
Benefits and taxes	-	38,823	-	38,823
Dues and publications	-	4,204	-	4,204
Funding of Lawyers Concerned for Lawyers, Inc.	417,315	-	-	417,315
Insurance	-	1,035	-	1,035
Investigation	-	230	-	230
Occupancy	-	35,278	-	35,278
Office, stationary, supplies, and postage	-	23,897	-	23,897
Professional fees	-	80,690	-	80,690
Salaries	173,462	43,366	-	216,828
Telephone	-	155	-	155
Travel	-	12,596	-	12,596
Total	\$ 2,151,467	\$ 240,274	\$ -	\$ 2,391,741

The accompanying notes are an integral part of these financial statements.

**PENNSYLVANIA LAWYERS FUND
FOR CLIENT SECURITY**

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

Cash Flows From Operating Activities:

Change in net assets	\$ (1,075,015)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:	
Unrealized loss on investments	2,039,097
Changes in assets and liabilities	
Increase (decrease) in:	
Accounts receivable	(36,283)
Accounts payable	486,517
Deferred revenue	117,850
Accrued vacation	2,031
Payroll taxes payable	2,880
Net cash and cash equivalents provided by operating activities	<u>1,537,077</u>

Cash Flows From Investing Activities:

Purchase of investments	<u>(4,000,000)</u>
Net cash and cash equivalents (used in) investing activities	<u>(4,000,000)</u>

Net Decrease in Cash and Cash Equivalents

(2,462,923)

Cash and Cash Equivalents:

Beginning of Year	<u>6,783,573</u>
End of Year	<u><u>\$ 4,320,650</u></u>

Supplemental Cash Flow Disclosures

Interest paid	\$ -
Income taxes paid	-

The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

1. Nature of Activities and Significant Accounting Policies

Nature of Activities

The Pennsylvania Lawyers Fund for Client Security (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. The Fund's support comes primarily from annual fees.

Basis of Accounting

The financial statements of the Fund have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and, consequently, revenue is recognized when earned and expenses are recognized when incurred. Previously, the Fund reported on the modified cash basis of accounting.

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Fund had no net assets with donor restrictions.

Change of Accounting Principle

The Fund changed from modified cash basis of accounting to the accrual basis of accounting during the year ended June 30, 2022. The effect of the change for the beginning net assets as of July 1, 2021, was a decrease in net position of \$2,557,259. Overall assets increased by \$131,431, while liabilities increased by \$2,688,690.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Fund considers all cash on hand, money market accounts, and all highly liquid investments with an initial maturity date of three months or less to be cash and cash equivalents.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

Investments

Investments are recorded and valued at fair market value on a recurring basis in the statement of financial position. The use of observable inputs are maximized, and the use of unobservable inputs are minimized by using observable inputs when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently, and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 — Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Investment income (loss), including realized and unrealized gains/(losses) are reported as a change in net assets without donor restrictions on the statement of activities.

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 statement of financial position.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

Risks and Uncertainties

Financial instruments, which potentially expose the Fund to concentrations of credit risk, include cash and investments in marketable securities. As a matter of policy, the Fund maintains cash balances only with financial institutions having a high credit quality. Investment securities are exposed to risks such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such changes could materially affect the amount reported on the statement of financial position.

Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from outstanding accounts (restitution) as of June 30, 2022, in the amount of \$167,714. Accounts receivable includes attorneys who have an executed forbearance agreement signed between the Fund and the attorney, all other amounts are fully reserved under the allowance for doubtful accounts, as Management believes it is highly unlikely that those amounts will be collected.

Deferred Revenue

Deferred revenue consists of annual attorney fees, which are received prior to the fiscal year to which they apply. Revenue is not recognized until the year earned.

Compensated Absences

Full-time employees of the Fund are entitled to paid time off (PTO) (sick leave, vacation, and personal leave). Employees are allowed to carryover a maximum 100 vacation days and 200 sick days from year to year, no carryover of personal leave occurs. Any unused vacation or personal days at termination will be paid out to the employee. Accrued vacation is calculated based on the employee's annual salary rate in effect at the statement of financial position date.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions- Net assets available for use in general operations and not subject to donor- or certain grantor- imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity.

Contributions

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition

Annual attorney fee revenue is recognized in the applicable period, which runs within the Fund's fiscal year. Revenue received prior to the fiscal year in which it applies, is recorded as deferred revenue.

Restitution revenue is recognized when payments are received from attorneys. If there is an executed forbearance agreement between the fund and the attorney that restitution revenue is recognized in the period the forbearance is signed.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

Functional Allocation of Expenses

The Fund's expenses have been allocated by function in the statements of functional expenses. Management has reviewed each expense line to determine the allocation to program services, management and general, and fundraising. Allocation of salary expense was based on an estimate of the amount of time spend on claims. The Fund has no fundraising expenses.

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, 2019.

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates based on management's knowledge and experience. Accordingly, actual results could differ from those estimates.

Pending Standards Updates

FASB has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of this update on the financial statements.

ASU 2016-02, "*Leases (Topic 842)*," is effective, as delayed, for the financial statements for the year beginning after December 15, 2021. These amendments and related amendments will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months.

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Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Subsequent Events

Management has evaluated subsequent events through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

2. Liquidity and Availability

The following represents the Fund's financial assets at June 30:

Financial assets:		
Cash and cash equivalents	\$	4,320,650
Investments		13,096,503
Accounts receivable		<u>167,714</u>
Total financial assets		<u>17,584,867</u>
Financial assets available to meet expenses over the next year	\$	<u>17,584,867</u>

3. Cash and Cash Equivalents

The Fund has cash and cash equivalents with a book value and bank balance of \$4,320,650, and \$4,320,591, respectively, at June 30, 2022.

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. 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 \$3,820,591 at June 30, 2022.

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4. Investments

IAB Combined Fund Pool

The Fund's investments are part of the Supreme Court of Pennsylvania Investment Advisory Board (IAB) Combined Fund. The IAB Combined Fund was established in 2005. This combined fund is an internal investment pool consisting of contributions from the Board, the Disciplinary Board of the Supreme Court, the Pennsylvania Continuing Legal Education Board, and the Pennsylvania Board of Law Examiners. Pursuant to the IAB's Investment Policy, as agreed to by the Board, investments are held in custody by a third-party investment manager and must comply with stated allocations between asset classes, and prescribed guidelines for portfolio holdings. The investments of this internal investment pool, as of June 30, 2022, consist of a variety of investment types.

Cash and cash equivalents	\$	11,111,725
Fixed income and corporate bonds		6,707,720
Equities		12,425,400
Mutual funds - international		5,406,710
Total	\$	<u>35,651,555</u>

Investment policies related to the IAB Combined Fund Pool are as follows:

Cash and cash equivalents- Cash and short-term investments maintain maturities of 360 days or less and are restricted to a maximum of 10% of total assets at all times. Cash equivalent reserves consist of cash instruments having a quality rating of A-2, P-2, or higher, as established by Moody's or Standard & Poor's. Bankers' acceptances, certificates of deposit, and saving accounts must be made at United States banks or financial institutions or foreign branches of United States' banks, which are federally insured with unrestricted capital of at least \$50 million. Short-term obligations must be rated "A" or better by Moody's or Standard & Poor's. The internal investment pool held approximately 31% in cash and cash equivalents as of June 30, 2022.

Fixed income and corporate bonds - These investments are high-quality, marketable securities with a preponderance of the investments in (1) U.S. Treasury bonds and notes, federal agencies, and U.S. government- guaranteed obligations and (2) investment-grade municipal or corporate issues including convertibles. Fixed income securities of any one issuer may not exceed 5% of the total bond portfolio at the time of purchase. However, this

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guideline does not apply to issues of the U.S. Treasury or other federal agencies. The overall rating of fixed income assets must be equal to or greater than an "A" rating, according to Fitch, Moody's, or Standard & Poor's. The IAB may also permit specific fixed income managers to invest up to 15% of the market value of the funds in fixed income securities rated in the "BBB" credit rating category, subject to the IAB and the Investment Consultant's approval. As of June 30, 2022, the internal investment pool held approximately 74% in fixed income investments with overall ratings equal or greater than "A" and had approximately 26% invested in "Baa" bonds. Maturities in years and percentage of investments are as follows: 0-5 years represented 58%; 6-10 years represented 37%; and 11-15 years represented 4%. As of June 30, 2022 the internal investment pool held approximately 12% and 7%, respectively, of its portfolio in fixed income and corporate bonds. The following table discloses the ratings of the bonds held as of June 30, 2022.

Moody's Aaa	\$	4,068,498
Moody's Aa2		318,926
Moody's Aa3		137,320
Moody's Aa1		407,751
Other		1,775,225
Total	\$	<u>6,707,720</u>

Equities- Equities are made up of common stocks, preferred stocks, and publicly traded real estate investments. Not more than 5% of the stock portfolio valued at fair value is invested in the common stock of any one company. Ownership of the shares of one company does not exceed 2% of those outstanding. Not more than 25% of stock valued at fair value can be held in any one industry category per the investment policy. As of June 30, 2022, the internal investment pool held approximately 35% of its portfolio in equities.

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The following table discloses equity sectors represented as of June 30, 2022:

<u>Equity Sectors</u>	<u>% Allocation</u>
Industrials	8.56%
Consumer discretionary	9.92%
Consumer staples	3.64%
Energy	2.24%
Financial	9.41%
Materials	2.57%
Information technology	28.18%
Real estate	2.07%
Utilities	1.03%
Healthcare	22.36%
Telecommunication services	10.02%
Total	<u>100.00%</u>

Mutual Funds - These investments are represented by investments in equity mutual funds. The internal investment pool held approximately 15% in mutual funds as of June 30, 2022.

Following is a description of the valuation methodologies used for assets measured at fair value. The hierarchy of investments is explained in Note 1 of the financial statements.

Money market mutual funds classified as cash and cash equivalents, fixed income, and equities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Fixed Income classified in Level 2 of the fair value hierarchy are valued based on appraisal by pricing service. Pricing services categorize comparable bonds and calculate general and derived yield levels.

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The following table sets forth by level, within the fair value hierarchy, the IAB Combined Fund investments at June 30, 2022. The Fund's share of the IAB Combined Funds investments at June 30, 2022, is approximately 36.75%.

	Level 1	Level 2	Level 3	Total
Money market mutual funds classified as cash and cash equivalents	\$ 11,111,725	\$ -	\$ -	\$ 11,111,725
Fixed Income:				
Corporate bonds	-	2,447,630	-	2,447,630
U.S. Treasury bonds	3,856,521	-	-	3,856,521
Agency bonds	-	283,108	-	283,108
Asset backed	-	120,461	-	120,461
Total fixed income	<u>3,856,521</u>	<u>2,851,199</u>	<u>-</u>	<u>6,707,720</u>
Equities:				
Industrials	1,063,449	-	-	1,063,449
Consumer discretionary	1,232,995	-	-	1,232,995
Consumer staples	451,849	-	-	451,849
Energy	278,121	-	-	278,121
Financial	1,168,828	-	-	1,168,828
Materials	319,520	-	-	319,520
Information technology	3,501,909	-	-	3,501,909
Real estate	256,817	-	-	256,817
Utilities	127,456	-	-	127,456
Healthcare	2,778,124	-	-	2,778,124
Telecommunication services	1,246,332	-	-	1,246,332
Mutual funds - equity	5,406,710	-	-	5,406,710
Total equities	<u>17,832,110</u>	<u>-</u>	<u>-</u>	<u>17,832,110</u>
Total investments in the Fair Value Hierarchy	<u>\$ 32,800,356</u>	<u>\$ 2,851,199</u>	<u>\$ -</u>	<u>35,651,555</u>
Total investments at Fair Value				<u>\$ 35,651,555</u>

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The Fund's investments consisted of the following at June 30:

	Cost	Market Value	Unrealized Gain
Money market - mutual funds	\$ 4,166	\$ 4,166	\$ -
PA Supreme Court unitized asset	10,002,492	13,096,503	3,094,011
Total	\$ 10,006,658	\$ 13,100,669	\$ 3,094,011

Fair values of investments measured on a recurring basis at June 30, 2022 is as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market - mutual funds	\$ 4,166	\$ 4,166	\$ -	\$ -
PA Supreme Court unitized asset	13,096,503	-	13,096,503	-
Total	\$ 13,100,669	\$ 4,166	\$ 13,096,503	\$ -

Investment income (loss) consisted of the following for the year ended June 30:

Interest	\$ 14,175
Dividends	87,187
Unrealized gain (loss) on investments	(2,039,097)
Investment fees	(87,187)
Total	\$ (2,024,922)

5. Revenue from Contracts with Customers

Deferred revenue consisted solely of annual attorney fees which are received prior to the fiscal year to which they apply as the year runs from July 1st through June 30th. The

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following table provides information about significant changes in deferred revenue for the year ended June 30, 2022:

Deferred revenue, beginning of year	\$ 2,244,400
Revenue recognized that was included in deferred revenue at the beginning of year	(2,244,400)
Increases in deferred revenue due to cash received during the year	2,362,250
Deferred revenue, end of year	\$ 2,362,250

6. 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 operations of Lawyers Concerned for Lawyers, Inc. in the amount of \$417,315 for the year ended June 30, 2022. This is considered a program expense on the statement of functional expenses.

7. Commitments and Contingencies

The Fund had the following outstanding commitments at June 30, 2022, which are included in the accounts payable amount on the statement of financial position:

Description	Amount
Awards	\$ 854,932
Occupancy	3,007
Legal	2,677
Office supplies	1,802
Miscellaneous	1,048
Benefits	715
Meetings	375
Utilities	134
Postage	80
Total	\$ 864,770

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On June 30, 2022, the Fund had 53 pending claims alleging an aggregate total loss in the amount of \$1,642,421. Claims are not considered a valid claim and booked as an expense until the claims has been accepted by the board of trustees through a defined process. Three of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$979,107 in awards. The Fund's maximum potential exposure from the pending claims, given the \$100,000 maximum award is approximately \$963,314. However, the Fund's exposure may be further limited by the \$1,000,000 per attorney aggregate cap per Pa.R.D.E. 514(b). There are no claims pending that would be affected by Rule 514(b).

8. Leases

The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund has assessed shared occupancy costs totaling \$35,278 for the year ending June 30, 2022.

The Fund leases a digital copier under a 60-month operating lease beginning in March 2018 requiring monthly payments of \$199. Future minimum lease payments are as follows for the year ended June 30, 2023:

2023	<u>\$</u>	<u>1,591</u>
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Lease expense was \$2,387 for the year ended June 30, 2022.

The Fund leases printers under a 39-month operating lease beginning in October 2019 requiring monthly payments of \$317. Future minimum lease payments are as follows for the year ended June 30, 2023:

2023	<u>\$</u>	<u>2,222</u>
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Lease expense was \$3,809 for the year ended June 30, 2022.

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The Fund also leases a postage meter under a 63-month operating lease beginning in March 2021 requiring monthly payments of \$424. Future minimum lease payments are as follows for the year ended June 30:

2023	\$	5,083
2024		5,083
2025		5,083
2026		<u>5,083</u>
Total	\$	<u><u>20,332</u></u>

Lease expense was \$5,083 for the year ended June 30, 2022.

9. Employee Benefit Plan

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 contribution was \$20,701 for the year ended June 30, 2022.