

**THE SUPREME COURT OF PENNSYLVANIA  
PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY  
REPORT ON 2020 - 2021 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 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, 2021, the Fund's portion of the \$225 annual fee paid by each Pennsylvania-licensed attorney was \$60. The Fund received a total of \$3,875,295 in fee revenue for the fiscal year ending June 30, 2021. The Fund's assets at year end reflect an increase of approximately \$4.7 million compared to the prior year end, with a June 30, 2021 value of \$17.91 million. The pending claims at the end of the fiscal year alleged losses totaling \$2,943,133. The Fund's maximum exposure, given the \$100,000 maximum award is approximately \$1.49 million.

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, 2020 through June 30, 2021. This Report has not been submitted to the Supreme Court of Pennsylvania for review prior to publication.

**A. At the Start of the 2020-2021 Fiscal Year**

The Fund commenced the 2020-2021 fiscal year with 131 pending claims, carrying an award potential of \$1,673,565. This dollar amount is calculated after applying the Fund's \$100,000 award limitation. There were six claims alleging a loss of \$100,000 or more among the pending claims. The aggregate total of the alleged losses for the 131 pending claims was \$3,632,402.

**B. Activity During the Fiscal Year**

The Fund received a total of 137 claims against 107 attorneys during the period July 1, 2020 through June 30, 2021, alleging losses totaling \$4,912,203. This was a decrease of 42 claims from the number of claims received during the prior fiscal year. Ten of these claims alleged losses of \$100,000 or greater.

During the 2020-2021 fiscal year, the Board of the Fund made disposition of 180 claims. Eighty-five of the 182 claims reviewed resulted in the approval of awards, which awards totaled \$686,772. This amount reflects a decrease of \$829,564 in the amount of approved awards compared with the prior fiscal year. One claim resulted in an award 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 \$686,772. Five awards totaling \$17,537.86 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 \$4,800 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, 2020 and June 30, 2021, follows this Report on Operations.

The Board denied 78 claims which alleged aggregate losses totaling \$3,156,113. 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. Fourteen claims with aggregate alleged losses totaling \$83,297 were discontinued by the claimants. There were 36 fewer denials during this fiscal year than in the previous fiscal year. The number of claims which were discontinued by the claimants increased by two compared with the prior fiscal year.

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

On June 30, 2021, the Fund had 87 pending claims alleging aggregate total losses in the amount of \$2,942,358. Seven of the pending claims allege a loss of \$100,000 or more, seeking an aggregate total of \$2,154,005. The Fund's potential maximum exposure from all pending claims as of June 30, 2021, given the \$100,000 maximum award, is approximately \$1,488,353.

**D. From Creation of the Fund Through Fiscal Year 2020-2021**

Since the establishment of the Fund in April 1982, through the period ending June 30, 2021, a period of 39 years, the Fund has approved awards in the aggregate amount of \$75,064,733 as a result of the actions of approximately 1,046 attorneys.

**E. Conduct Underlying Awards**

1. Nonperformance or Unearned Fees – The acceptance and retention of unearned fees or retainers accounted for the largest category of awards paid during the 2020-2021 fiscal year. Approved awards for this category totaled \$276,256 or 40.23% of the total approved awards during this fiscal year. Fifty-six claimants received awards representing the return of unearned fees.

2. 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 second largest category of approved awards as measured by dollar amount. During the 2020-2021 fiscal year, these types of fiduciary claims resulted in the Fund approving awards totaling \$200,787 or 29.24% of the total award dollars. \$80,478 of this amount represents estate funds, with the \$120,309 balance being funds that were to have been held in escrow or trust by the attorney, or where the attorney had been acting as a trustee for a trust. Twenty-four claims alleging attorney theft from estate or trust/escrow monies resulted in awards.

3. Lawsuit Settlement Proceeds - The conversion of lawsuit settlement proceeds accounted for the third largest category of awards paid during the 2020-2021 fiscal year. One award was approved in this category in the amount \$100,000 and represented 14.56% of total awards approved during the fiscal year.

4. Balance of Awards - The \$109,729 balance of approved awards resulted from claims involving an attorney acting as a settlement agent and failing to disburse funds to the claimant or third parties, two attorneys who misappropriated funds from existing clients based upon fraudulent use of a debit card or a Power of Attorney, and one attorney who disbursed equitable distribution funds to a third party without confirmation from the client, which third party was unknown to the client. These awards represented 15.98% of the total awards approved during the fiscal year.

Notwithstanding the award amounts reported herein, it should be noted that in Fiscal Year 2021, these awards were due to the actions of only 37 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.

**F. Lawyers Concerned for Lawyers**

During the 2020-2021 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 2021-2022 in the amount of \$417,315.

**G. 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 three pending inquiries. The Fund received 154 negative balance reports during the 2020-2021 fiscal year. Thirteen 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. One hundred thirty negative balance reports were reviewed and closed based upon a satisfactory explanation. The fiscal year ended with 14 negative balance inquiries pending.

#### **H. 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 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 reimbursements from formerly admitted attorneys who desire to seek reinstatement in accordance with Pa.R.D.E. 531. During the 2020-2021 fiscal year, the Fund recovered \$288,918 through subrogation and Rule 531 reimbursements. Additionally, the Fund received a total of \$39,325 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.

#### **I. Board Meetings and Locations**

During this fiscal year, all Board meetings were held virtually due to the COVID-19 restrictions. The Board anticipates resuming in-person meetings during the 2021-2022 fiscal year. The Board is also hoping to resume the Fund's informational dinners, which are held on the eve of the Board's in-person meetings. 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,

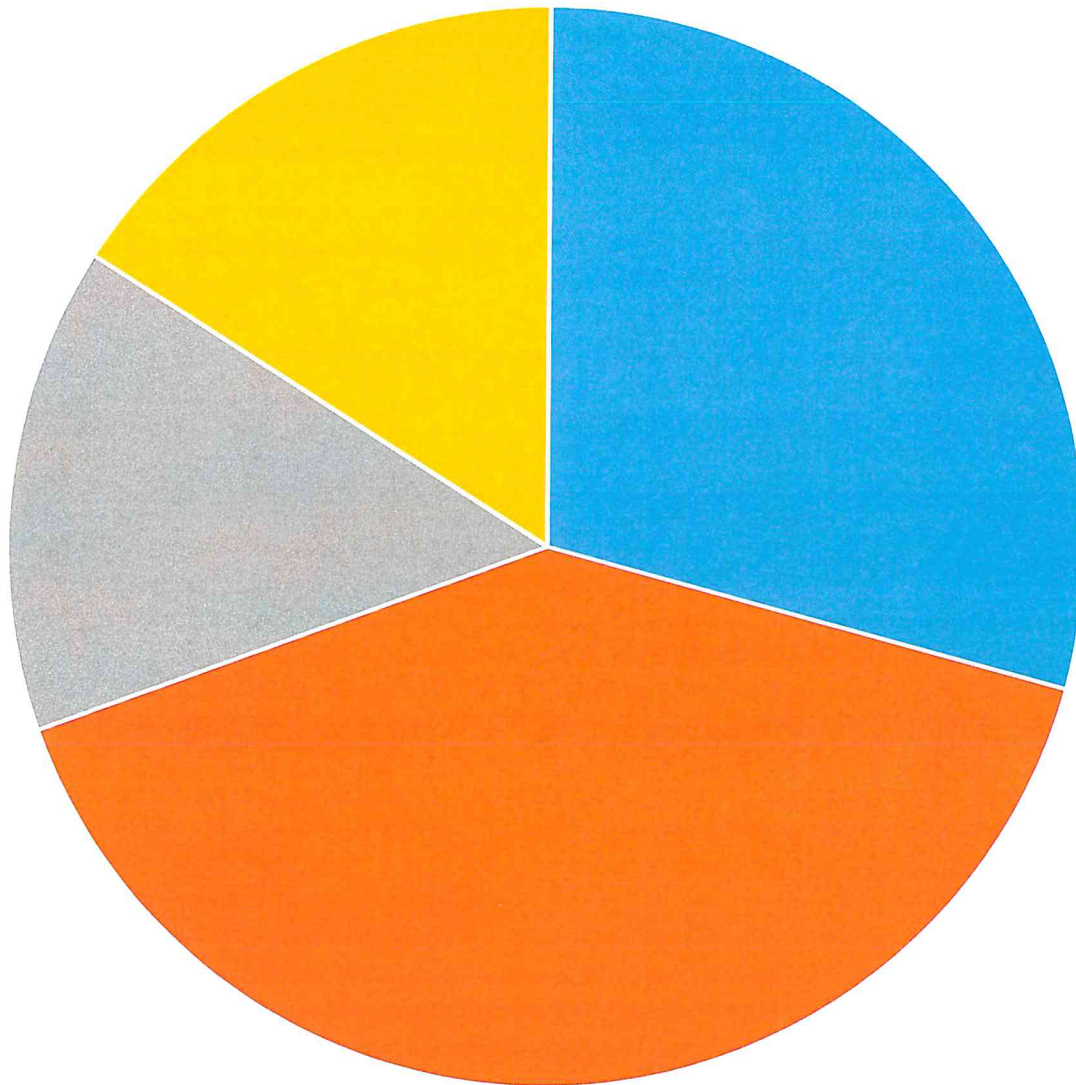
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Barbara E. Griffin, Esquire, Board Chair  
Hon. David A. Regoli, Vice Chair  
George P. Hartwick, III, Treasurer  
William J. Joyce  
Bruce S. Zero, Esquire  
Daniel W. Coleman, Esquire  
Arthur H. Stroyd, Jr., Esquire

**AWARDS APPROVED JULY 1, 2020 THROUGH JUNE 30, 2021**

<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>ID #</u>	<u>COUNTY</u>	<u>NUMBER OF APPROVED AWARDS</u>	<u>TOTAL AWARDS</u>
Aguglia, II	Joseph B.	94516	Erie	1	\$330.00
Barbato, Jr.	Robert	316237	Erie	2	\$115,260.00
Barbin	Andrew W.	43571	Cumberland	1	\$3,000.00
Bennett, III	Franklin A.	201739	Philadelphia	1	\$350.00
Beynon	Bret Alison	89950	Franklin	1	\$500.00
Brabender	Robert C.	35889	Erie	1	\$10,000.00
Briskin	Joshua M.	2560	Philadelphia	2	\$15,193.00
Burzawa	Jeffrey W.	41558	Westmoreland	1	\$925.00
Calabrese	Tancredi W.	315687	Fayette	2	\$4,750.00
Carfley	John R.	17621	Centre	1	\$91,000.00
Colaizzi	Robert J.	52696	Allegheny	1	\$1,314.50
Cook	John Everett	202039	Lehigh	1	\$3,000.00
DeSantis	Glenn D.	44540	Out of State	1	\$9,000.00
Eddy	John W.	209046	Fayette	2	\$1,500.00
Elbert	John B.	27476	Philadelphia	1	\$11,792.65
Fernald	Brendan P.	209051	Philadelphia	1	\$3,500.00
Fredericks	Kristi Ann	202435	Chester	1	\$7,195.00
Garrity, Sr.	Keith F.	307015	Delaware	2	\$1,000.00
Gearty, Jr.	Justin C.	308851	Lancaster	9	\$17,825.00
Gilliland	David M.	83720	Allegheny	1	\$80,478.35
Grannan	Douglas A.	80082	Philadelphia	1	\$7,135.00
Hannah, III	Lewis P.	57247	Philadelphia	1	\$19,859.84
Harris, III	David W.	75708	Lackawanna	4	\$21,669.51
Howells	Anne Marie	83809	Lackawanna	1	\$68,803.54
Hundertmark	Wayne H.	35158	Venango	13	\$37,762.20
Iannetti	Paul	204478	Allegheny	1	\$1,000.00
Iannuzzelli	Amanda	311730	Delaware	1	\$319.25
Janis	Joshua A.	203818	Chester	1	\$5,500.00
Kerr	John M.	26414	Cumberland	5	\$26,184.59
Kilgus	Mary C.	201250	Lycoming	1	\$6,949.05
Kleber, III	John L.	85846	Philadelphia	1	\$1,000.00
Kolosky	Richard W.	43599	Northampton	1	\$3,500.00
LoPresti	Charles R.	52758	Allegheny	3	\$14,750.00
McHale	Michael E.	201826	Lancaster	7	\$27,815.00
Michniak	Andre	39879	Philadelphia	3	\$5,925.00
Pangburn	Samuel S.	10823	Washington	1	\$9,800.00
Potter	Sean A.	92102	Perry	3	\$7,000.00
Reed	James K.	50075	Out of State	1	\$8,500.00
Schneider	Kelie Cummins	307909	Allegheny	1	\$1,500.00
Waldron	Elissa Griffith	52425	Lehigh	1	\$24,010.57
Anonymous*			Union	1	\$9,875.00
*Subject to a reconsideration request at the time of publication				85	<u>\$686,772.05</u>

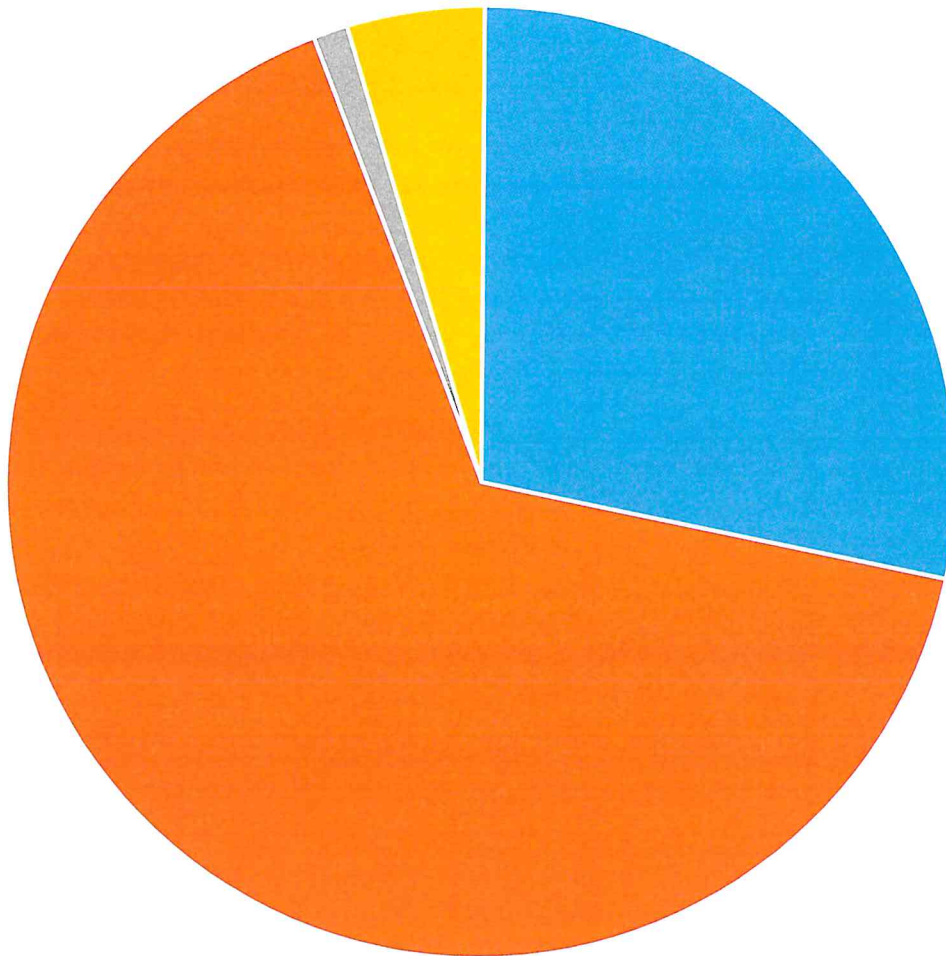
Dollar Amount of Awards By Category  
Approved in FYE 2021



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

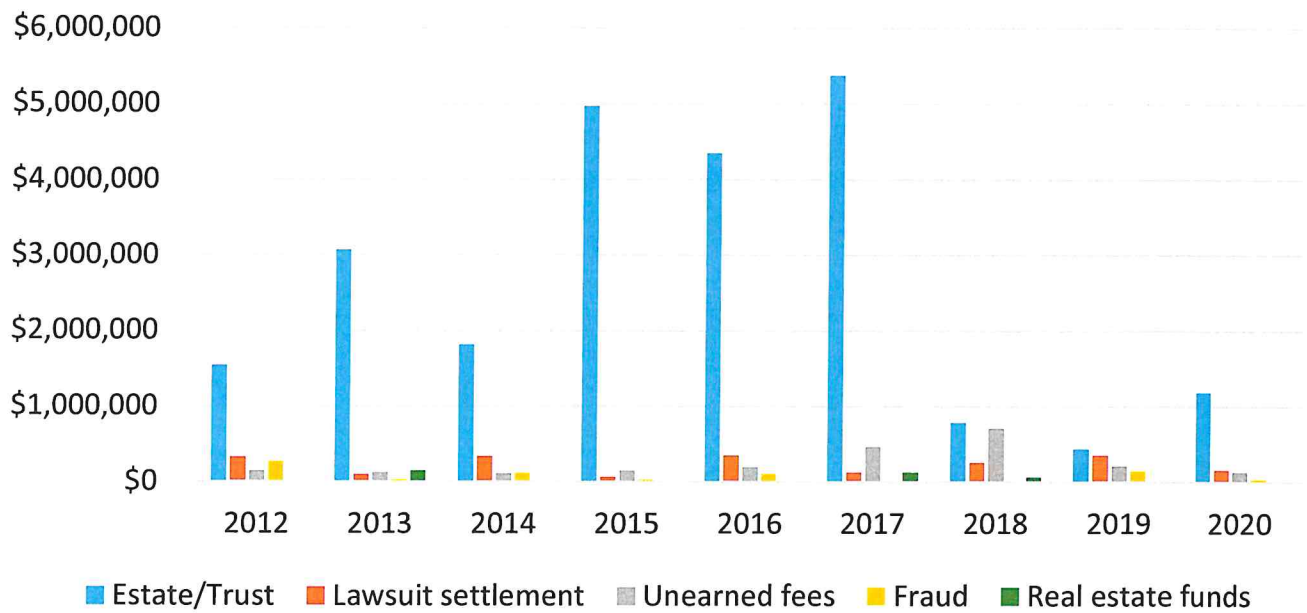


Number of Awards by Category  
Approved in FYE 2021

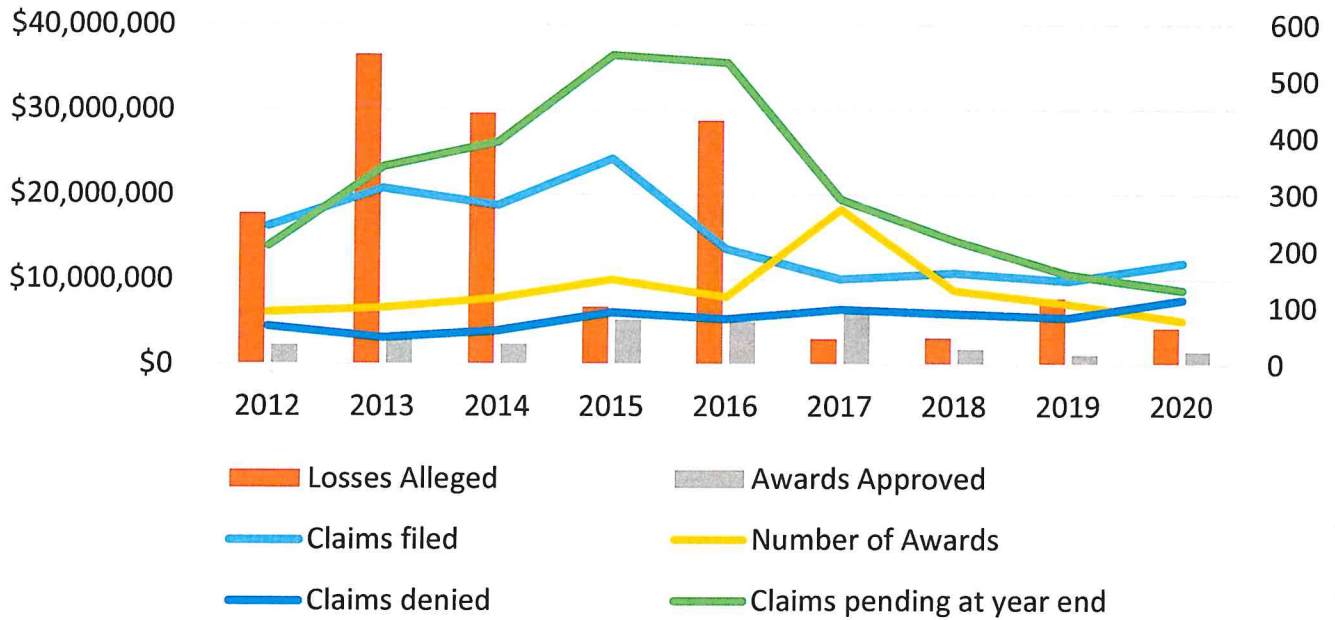


■ Estate/Trusts ■ Unearned Fees ■ Lawsuit Settlements ■ Other

## Conduct Underlying Awards



### 10 Year History



**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2021 AND 2020  
AND  
INDEPENDENT AUDITOR'S REPORT

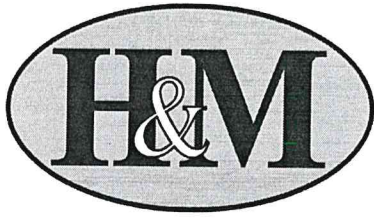
**HAMILTON & MUSSER, P.C.**  
*Certified Public Accountants*

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

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For the Years Ended June 30, 2021 and 2020

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# HAMILTON & MUSSER, PC

*Certified Public Accountants • Consultants to Management*

DAVID A. HAMILTON, CPA • BARRY E. MUSSER, CPA, CFP® (1959 - 2020)  
JAMES A. KRIMMEL, MBA, CPA, CFE, CFF • ROBERT D. MAST, CPA • WILLIAM P. ASHMAN, CPA

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of 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, 2021 and 2020, and the related statements of support, revenue, and expenses – modified cash basis, functional expenses – modified cash basis, and cash flows – modified cash basis for the years 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 assets, liabilities, and net assets of Pennsylvania Lawyers Fund for Client Security as of June 30, 2021 and 2020, and the changes in its support, revenue, and expenses and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Pennsylvania Lawyers Fund for Client Security and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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 this matter.

### Emphasis of a Matter

As further explained in Note 10, Pennsylvania Lawyers Fund for Client Security is operating in an environment that has been economically impacted by the COVID-19 pandemic. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for 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 financial statements that are free from material misstatement, whether due to fraud or error.

*Members of the American and Pennsylvania Institutes of CPAs*

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 Pennsylvania Lawyers Fund for Client Security'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 generally accepted auditing standards, 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 Pennsylvania Lawyers Fund for Client Security'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 Pennsylvania Lawyers Fund for Client Security'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.

September 23, 2021

Mechanicsburg, Pennsylvania



*Certified Public Accountants*

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
**Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis**  
**June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 6,783,573	\$ 4,941,326
Investments (Note 4)	<u>11,135,600</u>	<u>8,279,934</u>
Total Assets	<u>\$ 17,919,173</u>	<u>\$ 13,221,260</u>
<b>Liabilities</b>		
Payroll Taxes Payable	\$ <u>866</u>	\$ <u>849</u>
Total Liabilities	<u>866</u>	<u>849</u>
<b>Net Assets</b>		
Without Donor Restrictions	<u>17,918,307</u>	<u>13,220,411</u>
Total Net Assets	<u>17,918,307</u>	<u>13,220,411</u>
Total Liabilities and Net Assets	<u>\$ 17,919,173</u>	<u>\$ 13,221,260</u>

The Accompanying Notes are an Integral Part of the Financial Statements



**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**  
 Statements of Support, Revenue, and Expenses – Modified Cash Basis  
 For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue		
Annual Fees	\$ 3,875,295	\$ 4,143,990
Restitution	288,918	1,112,204
Rule 324 Income	39,325	255,663
Investment Income (Note 4)	<u>1,878,659</u>	<u>242,371</u>
Total Revenue	<u>6,082,197</u>	<u>5,754,228</u>
Expenses		
Program Services		
Awards	569,217	1,440,727
Funding of Lawyers Concerned for Lawyers, Inc. (Note 5)	<u>417,315</u>	<u>367,304</u>
Total Program Services	986,532	1,808,031
Supporting Services		
Management and General	397,769	444,170
Fundraising	<u>-</u>	<u>-</u>
Total Expenses	<u>1,384,301</u>	<u>2,252,201</u>
Change in Net Assets	4,697,896	3,502,027
Net Assets, Beginning of Year	<u>13,220,411</u>	<u>9,718,384</u>
Net Assets, End of Year	<u>\$ 17,918,307</u>	<u>\$ 13,220,411</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Statement of Functional Expenses – Modified Cash Basis

For the Year Ended June 30, 2021

		<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Awards	\$ 569,217	\$ -	\$ -	\$ 569,217	
Bank Custodial Fees and Service Charges	-	176	-	176	
Benefits and Taxes	-	34,847	-	34,847	
Dues and Publications	-	5,107	-	5,107	
Funding of Lawyers Concerned for Lawyers, Inc.	417,315	-	-	417,315	
Insurance	-	1,743	-	1,743	
Investigation	-	433	-	433	
Occupancy	-	34,280	-	34,280	
Office, Stationery, Supplies, and Postage	-	24,110	-	24,110	
Professional Fees	-	88,211	-	88,211	
Salaries	-	207,417	-	207,417	
Telephone	-	445	-	445	
Travel	-	1,000	-	1,000	
	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>	
Total	<u>\$ 986,532</u>	<u>\$ 397,769</u>	<u>\$ -</u>	<u>\$ 1,384,301</u>	

The Accompanying Notes are an Integral Part of the Financial Statements

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Statement of Functional Expenses – Modified Cash Basis

For the Year Ended June 30, 2020

	<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Awards	\$ 1,440,727	\$ -	\$ -	\$ 1,440,727
Bank Custodial Fees and Service Charges	-	486	-	486
Benefits and Taxes	-	35,389	-	35,389
Dues and Publications	-	4,363	-	4,363
Funding of Lawyers Concerned for Lawyers, Inc.	367,304	-	-	367,304
Insurance	-	1,348	-	1,348
Investigation	-	430	-	430
Occupancy	-	34,141	-	34,141
Office, Stationery, Supplies, and Postage	-	55,447	-	55,447
Professional Fees	-	93,054	-	93,054
Salaries	-	198,000	-	198,000
Telephone	-	732	-	732
Travel	-	20,780	-	20,780
	<u>-</u>	<u>20,780</u>	<u>-</u>	<u>20,780</u>
Total	<u>\$ 1,808,031</u>	<u>\$ 444,170</u>	<u>\$ -</u>	<u>\$ 2,252,201</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 4,697,896	\$ 3,502,027
Adjustments to Reconcile Change in Net Assets to		
Net Cash and Cash Equivalents Provided by Operating Activities:		
Realized Gain on Sale of Investments	-	(2)
Unrealized Gain on Investments	(1,855,666)	(227,008)
Increase (Decrease) in:		
Payroll Taxes Payable	<u>17</u>	<u>18</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>2,842,247</u>	<u>3,275,035</u>
Cash Flows From Investing Activities:		
Purchase of Investments	(1,000,000)	(3,996,860)
Proceeds from Sale of Investments	<u>-</u>	<u>1,998,431</u>
Net Cash and Cash Equivalents Used by Investing Activities	<u>(1,000,000)</u>	<u>(1,998,429)</u>
Increase in Cash and Cash Equivalents	1,842,247	1,276,606
Cash and Cash Equivalents, Beginning of Year	<u>4,941,326</u>	<u>3,664,720</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,783,573</u>	<u>\$ 4,941,326</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, 2021 and 2020

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. The Fund's support comes primarily from annual fees.

**Basis of Accounting:**

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

**Basis of Presentation:**

Financial statement presentation follows the *Not-for-Profit Entities* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) which requires the Fund to report information regarding its assets, liabilities, and net assets and its support, revenue, and expenses 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.

**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 Statements of Support, Revenue, and Expenses – Modified Cash Basis as net assets released from restrictions. The Fund has no net assets with donor restrictions.

**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, 2018.

**Investments:**

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

Fair Value Reporting requires an establishment of a hierarchy that ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

**NOTE 1**

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

**Investments (Continued):**

- Level 1 – Quoted prices in active markets for identical assets and liabilities
- Level 2 – Directly or indirectly observable inputs other than Level 1 quoted prices
- Level 3 – Unobservable inputs not corroborated by market data

For investments that have quoted market prices in active markets, the Fund uses the quoted market prices as fair values and includes those investments in Level 1 of the fair value hierarchy. When quoted market prices in active markets are not available, various pricing services are used to determine fair value of investments that are included in Level 2 of the fair value hierarchy. Level 3 represents financial assets whose fair value is determined based upon inputs that are unobservable and include the Fund's own determinations of the assumptions that a market participant would use in pricing the asset.

Investment income, including realized and unrealized gains is reported as an increase in net assets without donor restrictions.

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 Support, Revenue, and Expenses – Modified Cash Basis.

**Functional Allocation of Expenses:**

The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Support, Revenue, and Expenses – Modified Cash Basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates:**

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

**Cash and Cash Equivalents:**

For the purpose of the Statements of Cash Flows – Modified Cash Basis, cash and cash equivalents include all highly liquid investments with an initial maturity date of three months or less.

**NOTE 2**

**PENDING NEW ACCOUNTING PRONOUNCEMENT**

In February 2016, FASB issued ASU No. 2016-02, *Leases*. The ASU introduces a lessee's model that brings most leases onto the Statement of Assets, Liabilities, and Net Assets – Modified Cash Basis and aligns many of the underlying principles of the new lessor model with those in the new revenue recognition standard (ASU No. 2014-09). ASU No. 2016-02 is effective for annual periods beginning after December 15, 2021. The Fund is currently assessing the impact this standard will have on its financial statements.

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements  
For the Years Ended June 30, 2021 and 2020

**NOTE 3 AVAILABILITY AND LIQUIDITY**

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

	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash and Cash Equivalents	\$ 6,783,573	\$ 4,941,326
Investments	<u>11,135,600</u>	<u>8,279,934</u>
Total Financial Assets	<u>17,919,173</u>	<u>13,221,260</u>
Financial Assets Available to Meet Expenses Over the Next Year	<u>\$ 17,919,173</u>	<u>\$ 13,221,260</u>

The Fund's plan is generally to maintain financial assets to meet 90 days of operating expenses. As described in Note 6, the Fund had outstanding commitments of \$353,841 and \$261,873 at June 30, 2021 and 2020, respectively. Since the financial statements have been prepared on the modified cash basis of accounting, this liability has not been recorded.

**NOTE 4 INVESTMENTS**

Investments consisted of the following at June 30, 2021 and 2020:

<u>June 30, 2021</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	<u>\$ 6,002,492</u>	<u>\$ 11,135,600</u>	<u>\$ 5,133,108</u>
<u>June 30, 2020</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
PA Supreme Court Unitized Asset	<u>\$ 5,002,492</u>	<u>\$ 8,279,934</u>	<u>\$ 3,277,442</u>

Fair values of investments measured on a recurring basis at June 30, 2021 and 2020 are as follows:

	Fair Value Measurements at <u>Reporting Date Using:</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)
<u>June 30, 2021</u>				
PA Supreme Court Unitized Asset	<u>\$ 11,135,600</u>	<u>\$ -</u>	<u>\$ 11,135,600</u>	<u>\$ -</u>
<u>June 30, 2020</u>				
PA Supreme Court Unitized Asset	<u>\$ 8,279,934</u>	<u>\$ -</u>	<u>\$ 8,279,934</u>	<u>\$ -</u>

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

**NOTE 4 INVESTMENTS (CONTINUED)**

**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 value (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, 2021 and 2020.

Investment income consisted of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest	\$ 22,993	\$ 15,361
Dividends	57,171	37,940
Realized Gain on Sale of Investments	-	2
Unrealized Gain on Investments	1,855,666	227,008
Investment Fees	<u>(57,171)</u>	<u>(37,940)</u>
Total	<u>\$ 1,878,659</u>	<u>\$ 242,371</u>

**NOTE 5 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 and \$367,304 for the years ended June 30, 2021 and 2020, respectively.

**NOTE 6 COMMITMENTS AND CONTINGENCIES**

The Fund had the following outstanding commitments at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Awards	<u>\$ 353,841</u>	<u>\$ 261,873</u>

On June 30, 2021, the Fund had 87 pending claims alleging an aggregate total loss in the amount of \$2,942,358. Seven of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$2,154,005 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$1,488,353. However, the Fund's exposure may be further limited by the \$1 million per attorney aggregate cap per Pa.R.D.E.514(b).

On June 30, 2020, the Fund had 131 pending claims alleging an aggregate total loss in the amount of \$3,633,924. Five of these claims exceed the \$100,000 maximum reimbursement limit and are seeking a total of \$2,458,836 in awards. The Fund's potential maximum exposure from the pending claims, given the \$100,000 maximum award, is approximately \$1,675,088. However, the Fund's exposure may be further limited by the \$1 million per attorney aggregate cap per Pa.R.D.E.514(b).

**NOTE 7 LEASES**

The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund was assessed shared occupancy costs totaling \$34,280 and \$34,141 for the years ending June 30, 2021 and 2020, respectively.



**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

**NOTE 7 LEASES (CONTINUED)**

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 years ended June 30:

2022	\$ 2,387
2023	<u>1,591</u>
Total	<u>\$ 3,978</u>

Lease expenditures were \$2,387 for the years ended June 30, 2021 and 2020.

The Fund leased a postage meter under an operating lease which began in January 2016 requiring monthly payments of \$240 for the first 24 months and \$327 for the next 39 months. The lease expired during the year ended June 30, 2021. Lease expenditures for this lease were \$2,943 and \$3,924 for the years ended June 30, 2021 and 2020, respectively.

The Fund began a new 63-month lease for a postage meter in March 2021 requiring monthly payments of \$424. Future minimum lease payments are as follows for the years ended June 30:

2022	\$ 5,083
2023	5,083
2024	5,083
2025	5,083
2026	<u>5,083</u>
Total	<u>\$ 25,415</u>

Lease expenditures were \$1,271 for the year ended June 30, 2021.

**NOTE 8 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 contributions were \$20,196 and \$19,800 for the years ended June 30, 2021 and 2020, respectively.

**NOTE 9 CONCENTRATED CREDIT RISK**

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents held with financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. 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 \$6,529,427 and \$4,688,964 at June 30, 2021 and 2020, respectively.

The Fund maintains a portion of its cash in money market accounts which are not insured by the FDIC. The uninsured amount was \$4,086 and \$4,053 at June 30, 2021 and 2020, respectively.

**PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY**

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

**NOTE 10      SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 23, 2021, which is the date the financial statements were available to be issued.

Subsequent to June 30, 2021, the Fund has been operating in an environment that has been economically impacted by the COVID-19 pandemic. The full impact of the pandemic on the Fund is not known as of the release of these financial statements. However, management is monitoring the current conditions and their potential impact.