

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

REPORT ON 2022 - 2023 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, 2023, the Fund’s portion of the \$275 annual fee paid by each Pennsylvania-licensed attorney was \$50. The Fund received a total of \$3,211,769 in fee revenue for the fiscal year ending June 30, 2023. The Fund’s assets at year end reflect an increase of approximately \$3.19 million compared to the fiscal year end June 30, 2022. The pending claims at the end of the fiscal year alleged losses totaling \$1,306,294. The Fund’s maximum exposure at the end of the fiscal year, given the \$100,000 maximum award on June 30, 2023 was approximately \$991,639.

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, 2022 through June 30, 2023. This Report has not been submitted to the Supreme Court of Pennsylvania for review prior to publication.

A. At the Start of the 2022-2023 Fiscal Year

The Fund commenced the 2022-2023 fiscal year with 53 pending claims, carrying an award potential of \$963,314. This dollar amount was calculated after applying the Fund's \$100,000 award limitation. There were four claims alleging a loss of \$100,000 or more among the pending claims. The aggregate total of the alleged losses for the 53 pending claims was \$1,079,107.

B. Activity During the Fiscal Year

The Fund received a total of 157 claims against 121 attorneys during the period July 1, 2022 through June 30, 2023, alleging losses totaling \$2,754,751. This was an increase of 28 claims from the number of claims received during the prior fiscal year. Eight of these claims alleged losses of \$100,000 or greater.

During the 2022-2023 fiscal year, the Board of the Fund made disposition of 150 claims. Seventy-two claims reviewed resulted in the approval of awards, which awards totaled \$641,704. This amount reflects a decrease of \$990,540 in the amount of approved awards compared with the prior fiscal year. The Board approved three awards in the amount of \$100,000, the Fund's maximum award at the end of the fiscal year. The amount of the alleged losses in the claims where awards were approved was \$994,451. Seven awards totaling \$40,904 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, or recovery was obtained from a third party. Four claims alleging losses totaling \$4,750 were administratively closed when the attorney paid the claimant the amount of the alleged loss prior to the Board's review of the claim. Sixteen claims were withdrawn by the claimants 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, 2022 and June 30, 2023, follows this Report on Operations.

The Board denied 58 claims which alleged aggregate losses totaling \$912,966. 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. There were nine fewer denials during this fiscal year than in the previous fiscal year.

C. At the End of the Fiscal Year

On June 30, 2023, the Fund had 60 pending claims alleging aggregate total losses in the amount of \$1,306,295. Four of the pending claims allege a loss of \$100,000 or more, seeking an aggregate total of \$1,306,295. The Fund's potential maximum exposure from all pending claims as of June 30, 2023, given the \$100,000 maximum award as of June 30, 2023, is approximately \$991,639.

D. From Creation of the Fund Through Fiscal Year 2022-2023

Since the establishment of the Fund in April 1982, through the period ending June 30, 2023, a period of 41 years, the Fund has approved awards in the aggregate amount of \$77,338,681 as a result of the actions of approximately 1,107 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 2022-2023 fiscal year. Approved awards for this category totaled \$194,952 or 30.38% of the total approved awards during this fiscal year. Forty-nine claimants received awards representing the return of unearned fees.

2. Lawsuit Settlement Proceeds - The conversion of lawsuit settlement proceeds accounted for the second largest category of awards paid during the 2022-2023 fiscal year. Six awards were approved in this category totaling \$189,515, and represented 29.53% of total awards approved during the fiscal year. One claimant received the maximum \$100,000 award.

3. 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 third largest category of approved awards as measured by dollar amount. During the 2022-2023 fiscal year, these types of fiduciary claims resulted in the Fund approving awards totaling \$157,238 or 24.50% of the total award dollars. \$128,882 of this amount represents estate funds, with the \$28,356 representing funds that were to have been held in escrow or trust by the attorney. One of these claims received the maximum award of \$100,000.

4. Balance of Awards - The \$100,000 balance of approved awards resulted from an attorney fraudulently obtaining funds from a client through the use of a Power of Attorney. This award represented 15.58% of the total awards approved during the fiscal year.

Notwithstanding the award amounts reported herein, it should be noted that in Fiscal Year 2023, these awards were due to the actions of only 48 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 2022-2023 fiscal year, the Fund provided \$425,661 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 2023-2024 in the amount of \$440,052.

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 nine pending inquiries. The Fund received 135 negative balance reports during the 2022-2023 fiscal year. Thirty-one 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. 112 negative balance reports were reviewed and closed based upon a satisfactory explanation. The fiscal year ended with seven 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 restitution from formerly admitted attorneys who desire to seek reinstatement in accordance with Pa.R.D.E. 531. During the 2022-2023 fiscal year, the Fund recovered \$191,760 through subrogation and Rule 531 restitution. Additionally, the Fund received a total of \$95,051 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

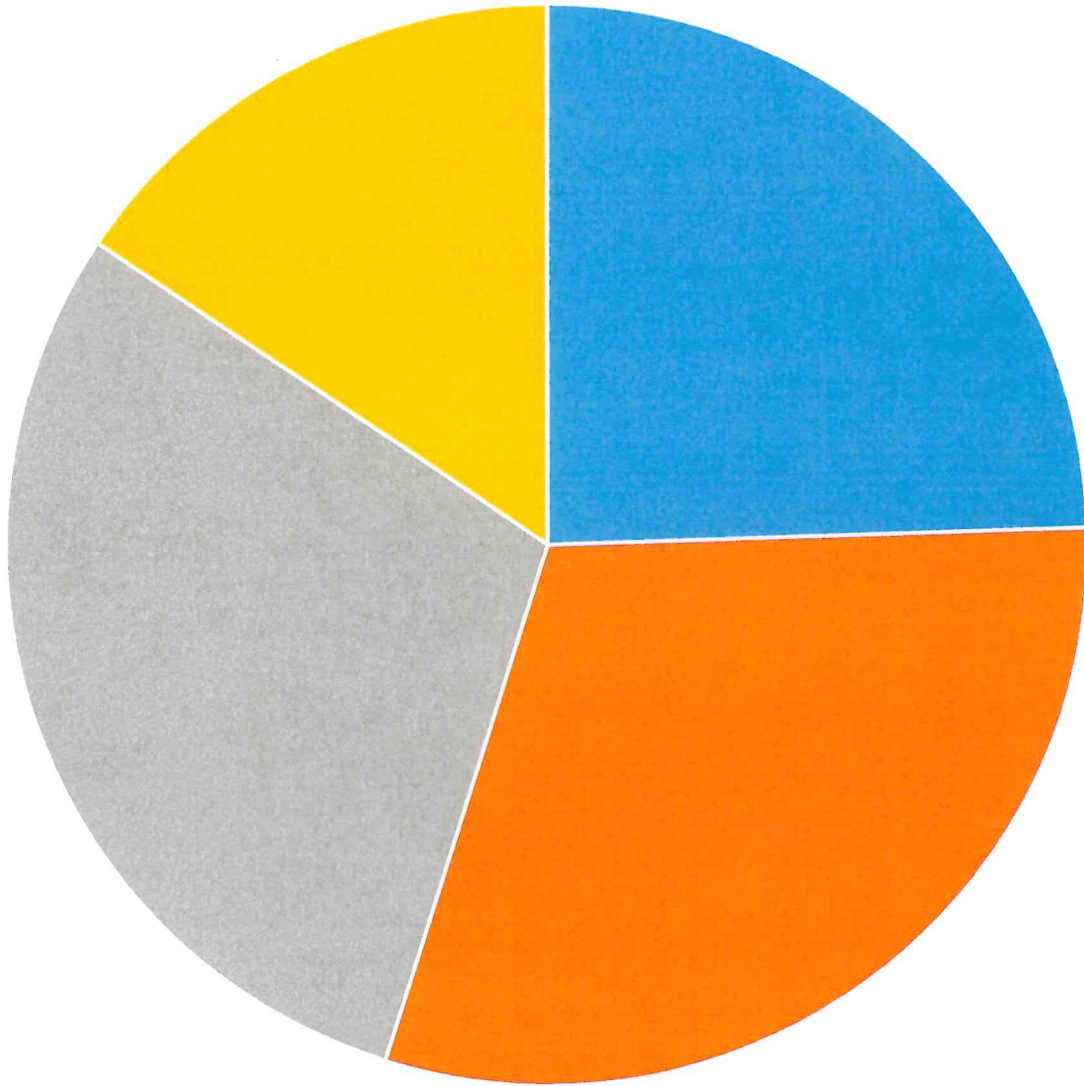
During this fiscal year, in-person Board meetings were held in Dauphin and Lackawanna Counties. Informational dinners were held on the evening prior to the Board meeting date. Invitations to these informational dinners are extended to the Judiciary, Bar leaders and *prominent local citizens from the 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. Two of the Board's meetings were held virtually.

Respectfully submitted,

Barbara E. Griffin, Esquire, Board Chair
Bruce S. Zero, Esquire, Vice Chair
William J. Joyce, Treasurer
Daniel W. Coleman, Esquire
Arthur H. Stroyd, Jr., Esquire
John P. Kopesky, Esquire
Laurie M. Schwager

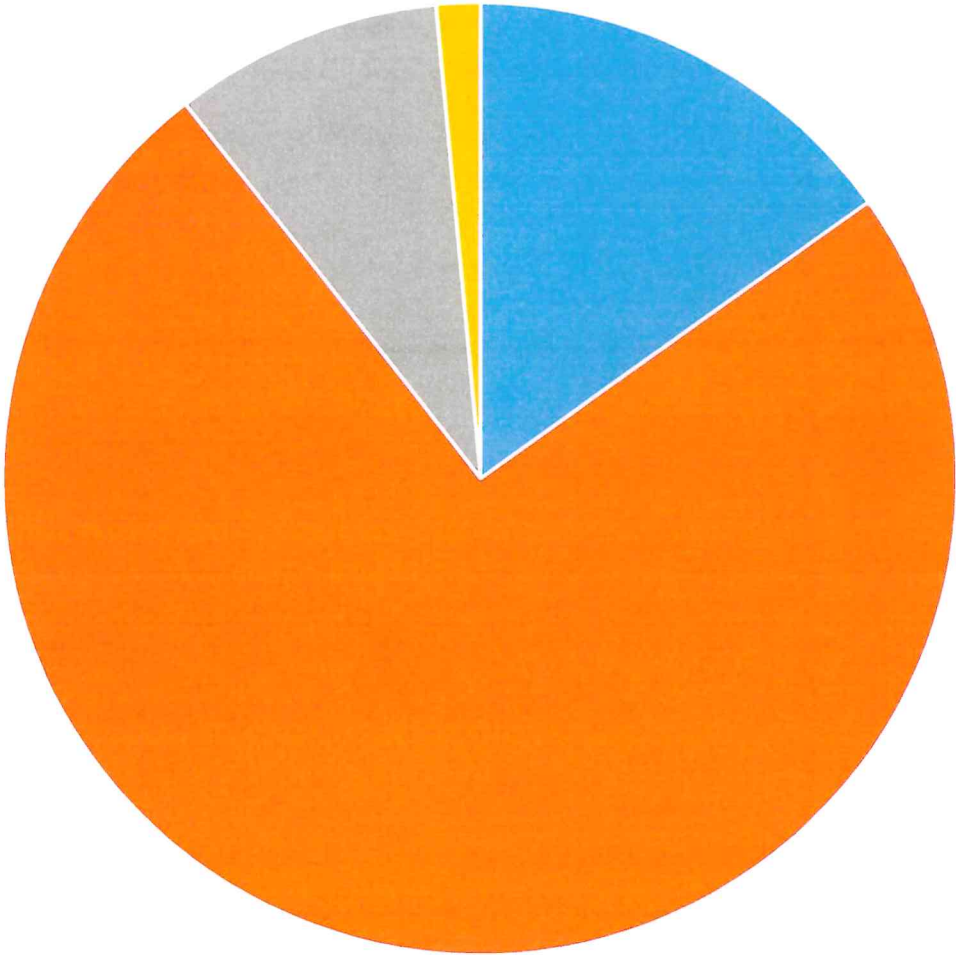
<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>ID #</u>	<u>COUNTY</u>	<u>NUMBER OF CLAIMS RESULTING IN AWARDS</u>	<u>TOTAL AWARDS</u>
Adler	Michael E.	82205	Montgomery	1	\$1,500
Barbin	Andrew W.	43571	Cumberland	1	\$2,500
Bellino	John A.	55156	Luzerne	1	\$2,000
Blair	Nora A.	45513	Dauphin	1	\$15,000
Cohen	Michael B.	308651	Blair	1	\$10,000
Daley, II	Peter J.	70244	Fayette	2	\$3,750
Ennis	Mary R.	65585	Delaware	1	\$500
Ermolovich	Nicholas	73573	Lancaster	1	\$6,000
Fish	Illon Ross	401594	Philadelphia	1	\$1,500
Fisher	Gordon D.	1207	Allegheny	1	\$100,000
Fuschino, Jr.	Richard J.	206094	Philadelphia	1	\$1,000
Gearty, Jr.	Justin C.	308851	Lancaster	1	\$637
Glassman	Richard S.	18644	Philadelphia	1	\$5,000
Hibbert	Valerie A.	76306	Delaware	1	\$836
Hulton	Jeffrey A.	49522	Allegheny	1	\$11,324
Hundertmark	Wayne H.	35158	Venango	1	\$5,000
Jackson	Jennifer Lynch	92274	Allegheny	4	\$5,750
Janis	Joshua A.	203818	Chester	1	\$2,500
Jones	Christopher B.	64689	Lackawanna	5	\$14,835
Katzenstein	Robert	12789	Bucks	1	\$2,500
Kerr	John M.	26414	Cumberland	1	\$4,000
Kolman	Timothy M.	51982	Bucks	1	\$37,845
Landes	Eric J.	323786	Montgomery	1	\$500
Margiotti	Louis A.	91486	Elk	3	\$3,300
Michniak	Andre	39879	Philadelphia	1	\$4,520
Morrissey, Jr.	Philip P.	28607	Monroe	1	\$4,700
Moulton	Mark E.	89064	Pike	1	\$2,500
Quinn	Michael P.	50471	Montgomery	1	\$20,000
Reed	James K.	50075	Out of State	1	\$2,075
Reed	Gregory R.	21450	Northampton	1	\$10,997
Repetto	Maureen	59447	Delaware	1	\$2,300
Robinson	Jeffrey M.	45598	Allegheny	1	\$16,000
Rohrman	Diane L.	88124	Chester	1	\$100,000
Smith	Royce W.	201295	Philadelphia	3	\$134,000
Summers	Sean E.	92141	York	1	\$653
Thomas	Joshua L.	312476	Delaware	2	\$2,600
Urbano	Christopher N.	91466	Allegheny	2	\$1,625
Waldron	Elissa Griffith	52425	Lehigh	2	\$6,155
Walk	Bryan S.	63881	Dauphin	1	\$3,500
Zeigler	Matthew J.	83367	Lycoming	4	\$16,149

Dollar Amount of Awards By Category
Approved in FYE 2023



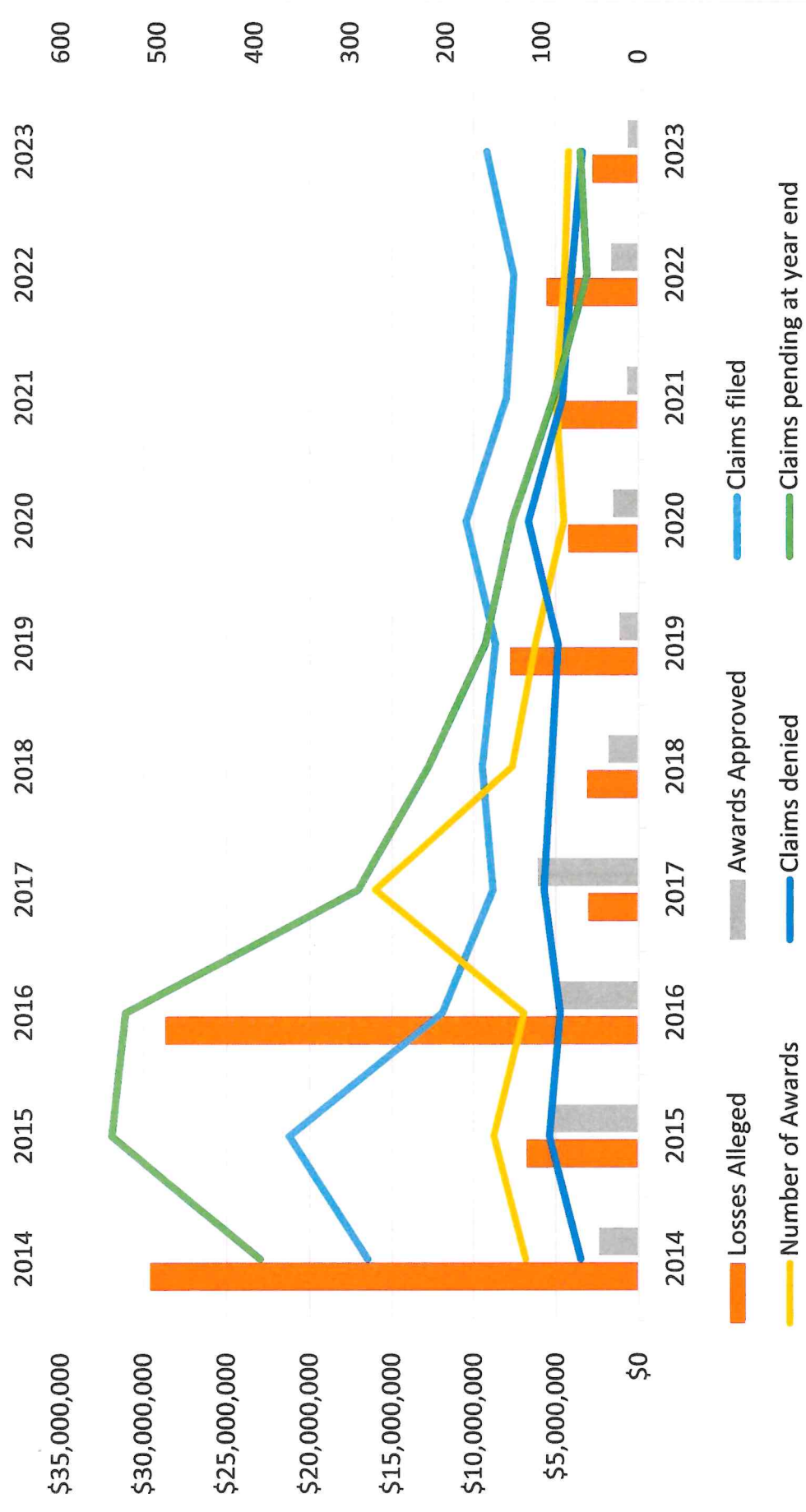
■ Estate/Trusts ■ Unearned Fees ■ Lawsuit settlements ■ Other

Number of Awards by Category
Approved in FYE 2023

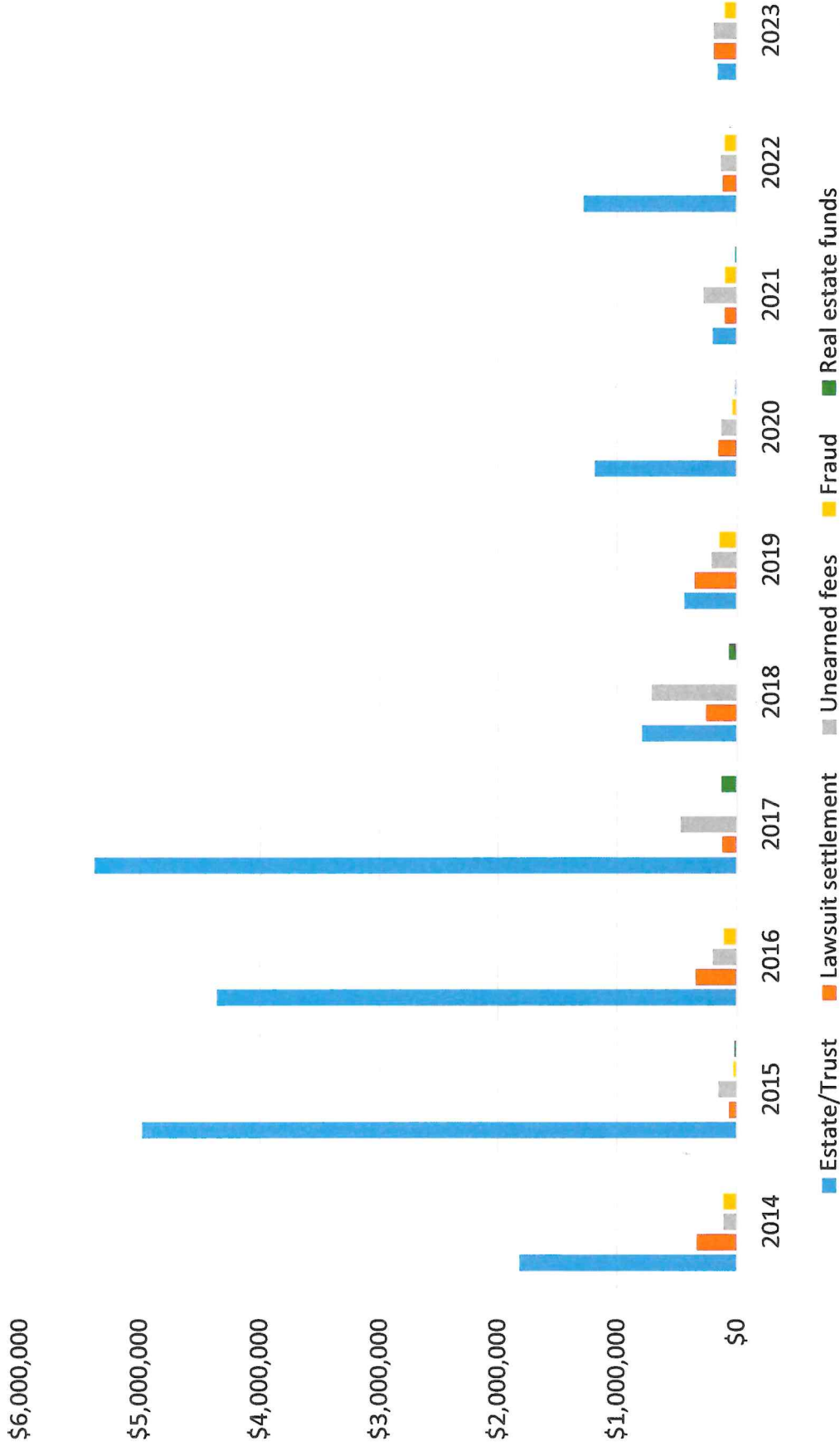


■ Estate/Trusts ■ Unearned Fees ■ Lawsuit Settlements ■ Other

10 Year History



Conduct Underlying Awards



**Pennsylvania Lawyers Fund
For Client Security**

Financial Statements

Years Ended June 30, 2023 and 2022
with Independent Auditor's Report

MaherDuessel

A horizontal bar is positioned below the company name, consisting of a black segment on the left and a blue segment on the right.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

YEARS ENDED JUNE 30, 2023 AND 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 statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows 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 financial position of the Fund as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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 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 28, 2023

**PENNSYLVANIA LAWYERS FUND
FOR CLIENT SECURITY**

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 5,910,031	\$ 4,320,650
Investments	14,205,655	13,096,503
Accounts receivable	138,017	167,714
Total Assets	\$ 20,253,703	\$ 17,584,867
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 324,930	\$ 864,770
Deferred revenue	2,379,250	2,362,250
Accrued vacation	72,251	68,068
Payroll taxes payable	3,593	3,746
Total Liabilities	2,780,024	3,298,834
Net Assets:		
Without donor restrictions:		
Undesignated	17,473,679	14,286,033
Total Net Assets	17,473,679	14,286,033
Total Liabilities and Net Assets	\$ 20,253,703	\$ 17,584,867

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

**PENNSYLVANIA LAWYERS FUND
FOR CLIENT SECURITY**

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Operating Revenues:		
<hr/>		
Without donor restrictions:		
Annual attorney fees	\$ 3,211,769	\$ 3,077,800
Restitution	191,760	218,778
Rule 324 income	95,051	45,070
Investment income (loss)	1,137,339	(2,024,922)
	<hr/>	<hr/>
Total Operating Revenues	4,635,919	1,316,726
	<hr/>	<hr/>
Operating Expenses:		
<hr/>		
Program expenses:		
Awards	606,751	1,560,690
Funding of Lawyers Concerned for Lawyers, Inc.	425,661	417,315
Salaries and benefits	174,102	173,462
	<hr/>	<hr/>
Total program expenses	1,206,514	2,151,467
Supporting service expenses:		
Management and general	241,759	240,274
Fundraising	-	-
	<hr/>	<hr/>
Total supporting service expenses	241,759	240,274
	<hr/>	<hr/>
Total Operating Expenses	1,448,273	2,391,741
	<hr/>	<hr/>
Change in Net assets Without Donor Restrictions	3,187,646	(1,075,015)
Net Assets:		
<hr/>		
Beginning of year	14,286,033	15,361,048
	<hr/>	<hr/>
End of year	\$ 17,473,679	\$ 14,286,033
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The accompanying notes are an integral part of these financial statements.

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2023 AND 2022

	Years Ended June 30,					
	2023			2022		
	Program	Management and General	Total	Program	Management and General	Total
Awards	\$ 606,751	\$ -	\$ 606,751	\$ 1,560,690	\$ -	\$ 1,560,690
Benefits and taxes	-	43,435	43,435	-	38,823	38,823
Dues and publications	-	4,666	4,666	-	4,204	4,204
Funding of Lawyers Concerned for Lawyers, Inc.	425,661	-	425,661	417,315	-	417,315
Bank Fees	-	30	30	-	-	-
Insurance	-	730	730	-	1,035	1,035
Investigation	-	323	323	-	230	230
Occupancy	-	33,438	33,438	-	35,278	35,278
Office, stationary, supplies, and postage	-	37,309	37,309	-	23,897	23,897
Professional fees	-	67,493	67,493	-	80,690	80,690
Salaries	174,102	43,525	217,627	173,462	43,366	216,828
Telephone	-	219	219	-	155	155
Travel	-	10,591	10,591	-	12,596	12,596
Total	<u>\$ 1,206,514</u>	<u>\$ 241,759</u>	<u>\$ 1,448,273</u>	<u>\$ 2,151,467</u>	<u>\$ 240,274</u>	<u>\$ 2,391,741</u>

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

**PENNSYLVANIA LAWYERS FUND
FOR CLIENT SECURITY**

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash Flows From Operating Activities:		
Change in net assets	\$ 3,187,646	\$ (1,075,015)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Unrealized (gain) loss on investments	(1,109,152)	2,039,097
Changes in assets and liabilities		
Increase (decrease) in:		
Accounts receivable	29,697	(36,283)
Accounts payable	(539,840)	486,517
Deferred revenue	17,000	117,850
Accrued vacation	4,183	2,031
Payroll taxes payable	(153)	2,880
Net cash and cash equivalents provided by operating activities	1,589,381	1,537,077
Cash Flows From Investing Activities:		
Purchase of investments	-	(4,000,000)
Net cash and cash equivalents provided by (used in) investing activities	-	(4,000,000)
Net Increase (Decrease) in Cash and Cash Equivalents	1,589,381	(2,462,923)
Cash and Cash Equivalents:		
Beginning of Year	4,320,650	6,783,573
End of Year	\$ 5,910,031	\$ 4,320,650
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

YEARS ENDED JUNE 30, 2023 AND 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.

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.

Investments

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

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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.

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

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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 are stated at the amount management expects to collect from outstanding accounts (restitution) as of June 30, 2023 and 2022 and July 1, 2022, in the amount of \$138,017, \$167,714, and \$203,997, respectively. 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.

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

PENNSYLVANIA LAWYERS FUND FOR CLIENT SECURITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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.

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.

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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, 2020.

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.

Adopted Accounting Standards

The provisions of the standard have been adopted and incorporated into the financial statements:

Accounting Standards Update (ASU) 2016-02, "*Leases (Topic 842)*." These amendments and related amendments 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. Disclosures are 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. The Fund did not have any leases that were subjected to ASU 2016-02.

Pending Accounting Standards Updates

The Financial Accounting Standard Board (FASB) has issued ASUs that will become effective in future years as outlined below. Management has not yet determined the impact of these updates on the financial statements.

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ASU 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*,” is effective, as delayed, for the financial statements for the year beginning after December 15, 2022. These amendments and related amendments require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

ASU 2022-03, “*Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*,” is effective for fiscal years beginning after December 15, 2024. The amendments in this update clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value.

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:	2023	2022
Cash and cash equivalents	\$ 5,910,031	\$ 4,320,650
Investments	14,205,655	13,096,503
Accounts receivable	138,017	167,714
Total financial assets	<u>20,253,703</u>	<u>17,584,867</u>
Financial assets available to meet expenses over the next year	<u>\$ 20,253,703</u>	<u>\$ 17,584,867</u>

The Fund has minimal fixed expenditures and has a maximum dollar threshold for awards paid out to claimants to ensure that the fund has adequate liquidity. Any excess cash is invested with the IAB Fund.

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3. Cash and Cash Equivalents

The Fund had cash and cash equivalents with a book value and bank balance of \$5,910,031, and \$5,922,663, respectively, at June 30, 2023. The Fund had 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 \$5,655,724 and \$3,820,591 for the years ended June 30, 2023 and 2022, respectively.

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, 2023, consist of a variety of investment types.

Cash and cash equivalents	\$ 17,895,755
Fixed income and corporate bonds	6,629,503
Equities	6,768,780
Mutual funds - international	7,078,696
Total	<u>\$ 38,372,734</u>

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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 47% and 31% in cash and cash equivalents for the years ended June 30, 2023 and 2022, respectively.

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 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, 2023, the internal investment pool held approximately 77% in fixed income investments with overall ratings equal or greater than "A" and had approximately 23% invested in "Baa" bonds. 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 57%; 6-10 years represented 40%; and

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11-15 years represented 3%. As of June 30, 2023 the internal investment pool held approximately 17% and 8%, respectively, of its portfolio in fixed income and corporate bonds. 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, 2023.

Moody's Aaa	\$ 3,364,224
Moody's Aa2	479,097
Moody's Aa3	176,504
Moody's Aa1	905,308
Other	1,704,370
Total	<u>\$ 6,629,503</u>

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, 2023 and 2022, the internal investment pool held approximately 17% and 35% of its portfolio in equities, respectively.

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The following table discloses equity sectors represented as of June 30, 2023:

Equity Sectors	% Allocation
Industrials	11.46%
Consumer discretionary	10.94%
Consumer staples	6.55%
Energy	5.98%
Financial	10.87%
Materials	2.89%
Information technology	25.52%
Real estate	1.37%
Utilities	1.63%
Healthcare	15.58%
Telecommunication services	7.21%
Total	100.00%

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

Equity Sectors	% Allocation
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	100.00%

Mutual Funds - These investments are represented by investments in equity mutual funds. The internal investment pool held approximately 18% and 15% in mutual funds for the years ended June 30, 2023 and 2022, respectively.

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.

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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, 2023. The Fund's share of the IAB Combined Funds investments at June 30, 2023, is approximately 37.03%.

	Level 1	Level 2	Level 3	Total
Money market mutual funds classified as cash and cash equivalents	\$ 17,895,755	\$ -	\$ -	\$ 17,895,755
Fixed Income:				
Corporate bonds	-	3,140,855	-	3,140,855
U.S. Treasury bonds	3,140,944	-	-	3,140,944
Agency bonds	-	198,663	-	198,663
Asset backed	-	149,040	-	149,040
Total fixed income	<u>3,140,944</u>	<u>3,488,558</u>	<u>-</u>	<u>6,629,502</u>
Equities:				
Industrials	775,527	-	-	775,527
Consumer discretionary	740,281	-	-	740,281
Consumer staples	443,511	-	-	443,511
Energy	405,412	-	-	405,412
Financial	735,956	-	-	735,956
Materials	195,597	-	-	195,597
Information technology	1,727,293	-	-	1,727,293
Real estate	92,499	-	-	92,499
Utilitites	110,089	-	-	110,089
Healthcare	1,054,287	-	-	1,054,287
Telecommunication services	488,329	-	-	488,329
Mutual funds - equity	<u>7,078,696</u>	<u>-</u>	<u>-</u>	<u>7,078,696</u>
Total equities	<u>13,847,477</u>	<u>-</u>	<u>-</u>	<u>13,847,477</u>
Total invesments in the Fair Value Hierarchy	<u>\$ 34,884,176</u>	<u>\$ 3,488,558</u>	<u>\$ -</u>	<u>38,372,734</u>
Total invesments at Fair Value				<u>\$ 38,372,734</u>

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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, 2023:

	Cost	Market Value	Unrealized Gain
Money market - mutual funds	\$ 4,307	\$ 4,307	\$ -
PA Supreme Court unitized asset	10,002,493	14,205,655	4,203,162
Total	\$ 10,006,800	\$ 14,209,962	\$ 4,203,162

The Fund's investments consisted of the following at June 30, 2022:

	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, 2023 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	\$ 4,307	\$ 4,307	\$ -	\$ -
PA Supreme Court unitized asset	14,205,655	-	14,205,655	-
Total	\$ 14,209,962	\$ 4,307	\$ 14,205,655	\$ -

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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 consisted of the following for the year ended June 30, 2023:

Interest	\$ 28,178
Dividends	79,028
Unrealized gain (loss) on investments	1,109,150
Investment fees	(79,028)
Total	\$ 1,137,328

Investment income consisted of the following for the year ended June 30, 2022:

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

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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 following table provides information about significant changes in deferred revenue for the year ended June 30, 2023:

Deferred revenue, beginning of year	\$ 2,362,250
Revenue recognized that was included in deferred revenue at the beginning of year	(2,362,250)
Increases in deferred revenue due to cash received during the year	<u>2,379,250</u>
Deferred revenue, end of year	<u><u>\$ 2,379,250</u></u>

The 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	<u>2,362,250</u>
Deferred revenue, end of year	<u><u>\$ 2,362,250</u></u>

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 amounts of \$425,661 and \$417,315 for the years ended June 30, 2023 and 2022, respectively. This is considered a program expense on the statement of functional expenses.

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7. Commitments and Contingencies

On June 30, 2023, the Fund had 60 pending claims alleging an aggregate total loss in the amount of \$1,306,294. Claims are not considered a valid claim and booked as an expense until the claims have been accepted by the board of trustees through a defined process. Four of these claims exceed the \$150,000 maximum reimbursement limit and are seeking a total of \$714,822 in awards. The Fund's maximum potential exposure from the pending claims, given the \$150,000 maximum award is approximately \$1,091,639. 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).

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. Office Space

The Fund relocated to the Pennsylvania Judicial Center on July 9, 2009. The Fund does not have a lease but has assessed shared occupancy costs totaling \$33,438 and \$35,278 for the years ending June 30, 2023 and 2022, respectively.

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. Employer contributions totaled \$21,344 and \$20,701 for the years ended June 30, 2023 and 2022, respectively.