

ELLIN & TUCKER

**THE CLIENT PROTECTION FUND OF THE BAR OF MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

To the Trustees of
The Client Protection Fund of the Bar of Maryland

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of The Client Protection Fund of the Bar of Maryland (Fund) which comprise the Statements of Financial Position as of June 30, 2019 and 2018 and the related Statements of Activities and Cash Flows for the years then ended and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT, CONTINUED**OPINION**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Client Protection Fund of the Bar of Maryland as of June 30, 2019 and 2018, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTER – SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the accompanying Schedules of General and Administrative Expenses for the years ended June 30, 2019 and 2018, Schedule of Assessments, Investment Income and Claims Disbursed for the year ended June 30, 2019, and Schedule of Claims Disbursed for the year ended June 30, 2019 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



ELLIN & TUCKER
Certified Public Accountants

Baltimore, Maryland
January 3, 2020

STATEMENTS OF FINANCIAL POSITION
The Client Protection Fund of the Bar of Maryland
June 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 11,788,638	\$ 11,188,716
Prepaid Expenses	9,901	38,394
Total Current Assets	11,798,539	11,227,110
PROPERTY AND EQUIPMENT, NET (Note 2)		
	15,273	2,431
OTHER ASSETS		
Reserve for Escrow Fund Claims	4,195,810	3,912,911
Total Assets	<u>\$ 16,009,622</u>	<u>\$ 15,142,452</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accrued Expenses	\$ 133,582	\$ 133,038
LONG-TERM LIABILITIES		
Escrow Fund Claims Payable	4,195,810	3,912,911
Deferred Compensation (Note 8)	151,712	155,242
Total Long-Term Liabilities	4,347,522	4,068,153
Total Liabilities	4,481,104	4,201,191
NET ASSETS		
Without Donor Restrictions	11,528,518	10,941,261
Total Liabilities and Net Assets	<u>\$ 16,009,622</u>	<u>\$ 15,142,452</u>

(See Independent Auditors' Report and Accompanying Notes)

STATEMENTS OF ACTIVITIES
The Client Protection Fund of the Bar of Maryland
For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING REVENUE		
Assessments from Members of the Bar of Maryland	\$ 831,578	\$ 828,430
Late Fees	276,355	310,140
Restitution on Claims Paid	88,471	69,694
Reinstatement Fees	4,050	6,900
Total Operating Revenue	1,200,454	1,215,164
OPERATING EXPENSES		
Claims (Note 5)	567,166	385,989
General and Administrative	524,930	617,616
Total Operating Expenses	1,092,096	1,003,605
Operating Income	108,358	211,559
NON-OPERATING REVENUE		
Interest Expense	-	(63)
Investment Income	136,375	72,352
Other Revenue (Note 3)	342,524	736,843
Total Non-Operating Revenue	478,899	809,132
Change in Net Assets	587,257	1,020,691
NET ASSETS - BEGINNING OF YEAR	10,941,261	9,920,570
NET ASSETS - END OF YEAR	\$ 11,528,518	\$ 10,941,261

(See Independent Auditors' Report and Accompanying Notes)

STATEMENTS OF CASH FLOWS
The Client Protection Fund of the Bar of Maryland
For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in Net Assets	\$ 587,257	\$ 1,020,691
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,173	1,905
Loss on Disposal of Property and Equipment	277	-
Net Changes in:		
Prepaid Expenses	28,493	(30,101)
Claims Payable	-	(2,030)
Accrued Expenses	544	92,806
Deferred Compensation	(3,530)	24,376
	615,214	1,107,647
Net Cash Provided by Operating Activities		
INVESTING ACTIVITIES		
Purchase of Property and Equipment	(15,292)	-
	599,922	1,107,647
Net Change in Cash and Cash Equivalents		
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	11,188,716	10,081,069
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,788,638	\$ 11,188,716

(See Independent Auditors' Report and Accompanying Notes)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF OPERATIONS

The Client Protection Fund of the Bar of Maryland (Fund) was established by an Act of the Maryland Legislature in 1965. The Court of Appeals was empowered to provide by rule for the operation of the Fund and require from each lawyer an annual assessment as a condition precedent to the practice of law in Maryland. The Fund reimburses losses caused by defalcations of members of The Bar of the State of Maryland, acting as either attorneys or as fiduciaries, to the extent deemed proper and reasonable by the Board of Trustees. These financial statements report only the activity of the Fund.

ACCOUNTING STANDARDS CODIFICATION

All references in the financial statements to the Codification refer to the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB). The Codification is the single source of authoritative GAAP in the United States.

NEW ACCOUNTING STANDARD ADOPTED

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The Fund has adopted this ASU as of and for the year ended June 30, 2019 with retrospective application for the financial statements for the year ended June 30, 2018. As a result, the Fund changes its presentation of its net asset classes and expanded the disclosures as required by the ASU.

BASIS OF ACCOUNTING AND PRESENTATION

The Fund uses the accrual basis of accounting for financial reporting purposes. Revenue is recorded in the period earned, and expenses are recorded in the period incurred. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as revenue within net assets without donor restrictions.

(See Independent Auditors' Report)

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SUBSEQUENT EVENTS

The Fund has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through January 3, 2020, the date the financial statements were available to be issued.

CASH AND CASH EQUIVALENTS

The Fund considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

The Fund maintains substantially all cash in a bank investment program which invests only in federally insured deposits. The Fund believes it is not exposed to any significant credit risk on cash and cash equivalents.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated on the straight-line method over their estimated useful lives. It is the Fund's policy to capitalize expenditures for property and equipment in excess of \$500. Lesser amounts are expensed.

ACCOUNTS RECEIVABLE

Assessments for the Fund are deemed to be earned and recognized as revenue only when collected; therefore, there is no receivable on these financial statements for uncollected assessments.

ATTORNEY ASSESSMENTS

Amounts are collected from all attorneys entitled to practice law in the State of Maryland on an annual basis for the Fund and the Attorney Grievance Commission. Cash is transferred regularly from the Fund to the Attorney Grievance Commission of Maryland based on data processing records of payments. The assessment for the Fund for each of the years ended June 30, 2019 and 2018 was \$20 for each attorney in practice. Late payment fees are also assessed for delinquent accounts and remain income for the Fund.

(See Independent Auditors' Report)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefitted based upon estimates of actual time or resources devoted to each functional category.

INCOME TAX STATUS

The Fund is an Instrumentality of the State of Maryland and, as such, is not subject to income taxes. Accordingly, no provision has been made.

NOTE 2 PROPERTY AND EQUIPMENT

At June 30, 2019 and 2018, the cost and accumulated depreciation of assets were as follows:

	2019	2018
Property and Equipment	\$ 84,193	\$ 86,983
Less: Accumulated Depreciation	68,920	84,552
Total	\$ 15,273	\$ 2,431

Depreciation expense for the years ended June 30, 2019 and 2018 was \$2,173 and \$1,905, respectively.

NOTE 3 RELATED PARTY TRANSACTIONS

The Fund conducts significant transactions with its affiliate, Attorney Grievance Commission of Maryland. All assessments of the Fund and Attorney Grievance Commission are jointly billed and collected by the Fund. All revenues are deposited into a bank account maintained by the Fund. The Fund remits the Attorney Grievance Commission's portion of assessments via periodic bank transfers. Late fees collected are retained entirely by the Fund to offset the cost of billing and collection. The Fund reimburses the Attorney Grievance Commission on a quarterly basis for salaries and benefits for the Fund's employees that are paid collectively by the Attorney Grievance Commission.

Assessments collected on behalf of and remitted to the Attorney Grievance Commission were approximately \$4,500,000 for each of the years ended June 30, 2019 and 2018. The Fund also paid approximately \$310,000 and \$375,000 in 2019 and 2018, respectively, to the Attorney Grievance Commission for reimbursement of salaries and benefits.

(See Independent Auditors' Report)

During the years ended June 30, 2019 and 2018, the Fund was awarded \$342,969 and \$734,758, respectively, from the Attorney Grievance Commission. The funding from the surplus balance in the Attorney Grievance Commission Disciplinary Fund was facilitated by a Court of Appeals Administrative Order. The funds received were transferred to the Fund's money market account. This amount is included in other revenue in the Statements of Activities. Amounts are not considered payable to the Fund until declared and approved by the Maryland Court of Appeals. In October 2019, additional surplus amounts of \$1,541,158 were awarded to the Fund following approval by the Maryland Court of Appeals.

NOTE 4 ATTORNEY ESCROW FUNDS

The Fund is the custodian of various attorney escrow funds with the understanding that, if anytime in the future a valid claim arises for these monies, the Trustees will disburse the funds accordingly. A reserve has been established in the amount of \$4,195,810 at June 30, 2019 to provide funding for any future claims resulting from monies that have been deposited from attorney escrow funds. These funds are maintained in separate accounts and presented in the Statements of Financial Position as reserve for escrow fund claims and reserve for escrow fund claims payable.

NOTE 5 CLAIMS

There were no claims approved by the Trustees that remain unpaid at June 30, 2019. The total of claims expensed during the years ended June 30, 2019 and 2018 was \$567,166 and \$385,989, respectively. Claims must be approved by the Trustees for both the amount of the loss and validity before they can be considered liabilities. Pending claims are not reflected in these financial statements, because the dollar amount, if any, that may be approved by the Trustees cannot be reasonably estimated. There were approximately 70 pending claims as of June 30, 2019. In January 2011, the Fund amended its policy to state that the maximum cumulative amounts which shall be paid in respect to any one claim or multiple claims by a single claimant arising from the same attorney involved in either a client or fiduciary relationship shall not exceed 5% of the corpus of the Fund as of the close of the month immediately preceding the meeting in which the claim is presented.

NOTE 6 RETIREMENT PLAN

The Attorney Grievance Commission sponsors a defined contribution pension plan covering all of the Fund's full-time employees meeting minimum age and service requirements. The Fund makes contributions to the plan equal to 15% of the participant's compensation. During the years ended June 30, 2019 and 2018, the Fund made contributions of \$20,634 and \$33,884, respectively.

(See Independent Auditors' Report)

NOTE 7 **LEASE COMMITMENTS**

The Fund operates in an office building currently leased by its affiliate, Attorney Grievance Commission. The Fund occupies an office of 1,150 square feet at a cost of \$27.25 per square foot. The lease is for a term of 123 months spanning from April 2015 through March 2025.

The total minimum future annual lease payments for all lease commitments as of June 30, 2019 are as follows:

Year Ending June 30,	2020	\$ 31,338
	2021	31,338
	2022	31,338
	2023	31,338
	2024	31,338
	Thereafter	23,503
		\$ 180,193

Total rent expense under related party leases was \$31,338 for each of the years ended June 30, 2019 and 2018.

NOTE 8 **DEFERRED COMPENSATION**

The Fund has an unfunded health insurance expense reimbursement plan (Plan) to provide eligible retirees and survivors fixed payments until death. Monthly cash payments under the Plan are equal to the lesser of \$350 or the actual monthly cost of the eligible participant's health insurance premium. The present value of estimated future payments has been recorded as deferred compensation in the accompanying financial statements. During the year ended June 30, 2018, one retiree began to receive benefits under the Plan.

The following table sets forth information about the Plan and amounts recognized in the accompanying financial statements as of June 30, 2019 and 2018:

	2019	2018
Benefits Paid	\$ 1,177	\$ 1,177
Accrued Deferred Compensation Liability	151,712	155,242
Service Cost	6,879	7,301
Interest	5,462	4,266
Change in Actuarial Assumptions	(6,535)	(2,002)

(See Independent Auditors' Report)

The weighted average assumptions used to determine the deferred compensation liability for 2019 and 2018 are as follows:

	2019	2018
Discount Rate	3.62%	3.58%

NOTE 9 **LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Fund’s financial assets available to meet cash needs for general expenditures within one year of the Statements of Financial Position date are as follows:

	2019	2018
Cash and Cash Equivalents	\$ 11,788,638	\$ 11,188,716
Reserve for Escrow Fund Claims	4,195,810	3,912,911
Total Financial Assets	15,984,448	15,101,627
Contractual Restrictions:		
Escrow Fund Claims Payable	(4,195,810)	(3,912,911)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 11,788,638	\$ 11,188,716

As part of the Fund’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

(See Independent Auditors’ Report)

NOTE 10 **FUNCTIONAL CLASSIFICATIONS OF EXPENSES**

The functional classifications of expenses for the year ended June 30, 2019 are as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Benefits	\$ 61,552	\$ 244,512	\$ 306,064
Claims	567,166	-	567,166
Professional Fees	71,650	16,874	88,524
Technology	8,693	12,356	21,049
Printing and Postage	20,684	23,007	43,691
Rent	9,401	21,937	31,338
Meetings and Seminars	2,525	82	2,607
Miscellaneous	7,232	24,425	31,657
	<u>\$ 748,903</u>	<u>\$ 343,193</u>	<u>\$ 1,092,096</u>

The functional classifications of expenses for the year ended June 30, 2018 are as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Benefits	\$ 93,595	\$ 297,071	\$ 390,666
Claims	385,989	-	385,989
Professional Fees	108,490	24,028	132,518
Technology	8,704	12,465	21,169
Printing and Postage	1,897	19,506	21,403
Rent	9,401	21,937	31,338
Meetings and Seminars	3,735	93	3,828
Miscellaneous	3,794	12,900	16,694
	<u>\$ 615,605</u>	<u>\$ 388,000</u>	<u>\$ 1,003,605</u>

(See Independent Auditors' Report)



SUPPLEMENTARY INFORMATION



SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
The Client Protection Fund of the Bar of Maryland
For the Years Ended June 30, 2019 and 2018

	2019	2018
Salaries and Related Benefits	\$ 306,064	\$ 390,666
Legal Expenses Regarding Claims and Restitutions	46,723	76,095
Administrative	7,332	10,159
Trustee Meeting	2,607	2,332
Refunds	2,200	2,915
Audit and Accounting	22,347	30,162
Computer Maintenance	13,298	13,419
Utilities	6,257	6,250
Postage	24,588	8,734
Printing and Graphics	19,103	12,669
Office Equipment Rental	5,170	4,604
Seminar	-	1,496
Temporary Service	2,400	-
Bank Charges	-	694
Rent	31,338	31,338
Investigation	19,454	26,261
Depreciation	2,173	1,905
Loss on Disposal of Property and Equipment	277	-
Miscellaneous	13,599	(2,083)
	\$ 524,930	\$ 617,616

(See Independent Auditors' Report)

SCHEDULE OF ASSESSMENTS, INVESTMENT INCOME AND CLAIMS DISBURSED
The Client Protection Fund of the Bar of Maryland
For the Year Ended June 30, 2019

Assessments	\$ 831,578
Investment Income	<u>136,375</u>
Total	967,953
Claims Disbursed	<u>(567,166)</u>
Total Assessments, Investment Income and Claims Disbursed	<u><u>\$ 400,787</u></u>

(See Independent Auditors' Report)

SCHEDULE OF CLAIMS DISBURSED
The Client Protection Fund of the Bar of Maryland
For the Year Ended June 30, 2019

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
2828	Marianna Burt	\$ 57,925
2874	Stephen Sacks	13,190
2945	Neil Lewis	3,760
3084	Wendell Grier	4,000
4012	Neil Lewis	1,910
4020	Robert Judd	76,928
4023	Robert Judd	19,355
4039	Woo-Jin Kim	210,500
4077	Grace Kilchenstein	38,606
4083	Steven Shemenski	2,500
4095	Steven Chirumbole	46,000
5003	Christal Edward	1,500
5004	Fred K. Grant	10,000
5013	Diana Denrich	1,300
5016	Marilyn Dimas	4,750
5024	Rachel Smith	4,000
5030	Edward Smith	5,000
5034	Jerome Johnson	10,000
5044	Joseph I. Tivvis	11,333
5050	Melinda Tell	1,500
5051	Phillip Dantes	2,000
5070	Steven Shockett	5,000
5073	David McGill	2,500
5075	Gary Anderson	271
5081	Neil Lewis	1,177
5083	Christal Edwards	1,750
5088	David McGill	1,500
5094	David McGill	2,500
5098	Anna Gabrielle Aita	1,000
5100	David McGill	1,500
5111	Anna Alta	3,000
5114	Neil Lewis	13,078
5116	Roger L. Harris	6,833
5125	David McGill	1,000
		<u><u>\$ 567,166</u></u>

(See Independent Auditors' Report)