

# ELLIN & TUCKER

**THE CLIENT PROTECTION FUND OF THE BAR OF MARYLAND  
FINANCIAL STATEMENTS  
JUNE 30, 2017**

**TABLE OF CONTENTS**  
**The Client Protection Fund of the Bar of Maryland**  
**June 30, 2017**

<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1-2</b>
<b>STATEMENT OF FINANCIAL POSITION .....</b>	<b>3</b>
<b>STATEMENT OF ACTIVITIES .....</b>	<b>4</b>
<b>STATEMENT OF CASH FLOWS .....</b>	<b>5</b>
<b>NOTES TO FINANCIAL STATEMENTS .....</b>	<b>6-10</b>
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of General and Administrative Expenses .....	11
Schedule of Assessments, Investment Income and Claims Disbursed .....	12
Schedule of Claims Disbursed for the Year Ended June 30, 2017 .....	13-15
Schedule of Claims Payable as of June 30, 2017 .....	16

**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 Statement of Financial Position as of June 30, 2017 and the related Statements of Activities and Cash Flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017, and its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**OTHER MATTER – CORRECTION OF ERROR**

As described in Note 9 to the financial statements, it was determined a liability to an affiliated organization was improperly recorded. As a result, the Fund has restated prior year financial statements to correct this error. Our opinion is not modified with respect to that matter.

**OTHER MATTER – SUPPLEMENTARY INFORMATION**

Our audit was 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; Assessments, Investment Income and Claims Disbursed; Claims Disbursed for the Year Ended June 30, 2017, and Claims Payable as of June 30, 2017 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 audit 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, except for the effects on the supplementary information of the qualified opinion on the financial statements as described above, 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  
 April 5, 2018

**STATEMENT OF FINANCIAL POSITION**  
**The Client Protection Fund of the Bar of Maryland**  
**June 30, 2017**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 10,081,069
Prepaid Expenses	<u>8,293</u>
 Total Current Assets	 10,089,362

**PROPERTY AND EQUIPMENT, NET (Note 2)**

4,336

**OTHER ASSETS**

Reserve for Escrow Fund Claims	<u>3,514,589</u>
 Total Assets	 <u>\$ 13,608,287</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Claims Payable (Note 5)	\$ 2,030
Accrued Expenses	40,232

**LONG-TERM LIABILITIES**

Escrow Fund Claims Payable	3,514,589
Deferred Compensation (Note 8)	<u>130,866</u>
 Total Long-Term Liabilities	 3,645,455

**NET ASSETS**

9,920,570

Total Liabilities and Net Assets	<u>\$ 13,608,287</u>
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*(See Independent Auditors' Report and Accompanying Notes)*

**STATEMENT OF ACTIVITIES**  
**The Client Protection Fund of the Bar of Maryland**  
**For the Year Ended June 30, 2017**

**OPERATING REVENUE**

Assessments from Members of The Bar of Maryland	\$ 828,330
Late Fees	237,890
Restitution on Claims Paid	87,111
Reinstatement Fees	7,340
Other Revenues	<u>11,243</u>
 Total Operating Revenue	 <u>1,171,914</u>

**OPERATING EXPENSES**

Claims (Note 5)	1,967,438
General and Administrative	<u>722,898</u>
 Total Operating Expenses	 <u>2,690,336</u>
 Operating Loss	 <u>(1,518,422)</u>

**NON-OPERATING REVENUE**

Interest Revenue	326
Investment Income	33,438
Other Revenue (Note 3)	<u>263,626</u>
 Total Non-Operating Revenue	 <u>297,390</u>
 Change in Net Assets	 <u>(1,221,032)</u>

**NET ASSETS - BEGINNING OF YEAR AS PREVIOUSLY REPORTED**

	10,984,006
 Prior Period Adjustment (Note 9)	 <u>157,596</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u><u>\$9,920,570</u></u>

*(See Independent Auditors' Report and Accompanying Notes)*

**STATEMENT OF CASH FLOWS**  
**The Client Protection Fund of the Bar of Maryland**  
**For the Year Ended June 30, 2017**

<b>OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ (1,221,032)
<b>Adjustments to Reconcile Change in Net Assets to</b>	
<b>Net Cash Used in Operating Activities:</b>	
Depreciation	3,767
<b>Net Changes in:</b>	
Prepaid Expenses	2,138
Due from Attorney Grievance Commission	(107,273)
Claims Payable	(127,137)
Accrued Expenses	26,072
Deferred Compensation	<u>130,866</u>
Net Cash Used in Operating Activities	(1,292,599)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal Payments on Capital Lease Obligations	<u>(2,211)</u>
Net Change in Cash and Cash Equivalents	(1,294,810)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>11,375,879</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 10,081,069</u></u>

*(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. The Codification is the single source of authoritative GAAP in the United States.

**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.

**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 April 5, 2018, 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.

*(See Independent Auditors' Report)*



**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**The Client Protection Fund of the Bar of Maryland**

The Fund maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits, however, are secured up to 105% of their balances in federal investments owned and pledged as security by the bank. 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**

There is no requirement that an individual remain admitted to practice law in the State of Maryland. 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. Through March 2016, assessments were collected for the Fund, Maryland Professionalism Center, Inc. and Attorney Grievance Commission. Post March 2016, assessments were collected for the Fund and Attorney Grievance Commission and are no longer collected for the Maryland Professionalism Center, Inc. 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 the year ended June 30, 2017 was \$20 for each attorney in practice. Late payment fees are also assessed for delinquent accounts for second and third billings for the year ended June 30, 2017 and remain income for the Fund.

**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.

**RECLASSIFICATION**

Certain prior year amounts have been reclassified to conform to the current year presentation.

*(See Independent Auditors' Report)*

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**The Client Protection Fund of the Bar of Maryland**

**NOTE 2**    **PROPERTY AND EQUIPMENT**

At June 30, 2017, the cost and accumulated depreciation of assets were as follows:

Property and Equipment	\$ 86,983
Less: Accumulated Depreciation	<u>82,647</u>
Total	<u>\$ 4,336</u>

Depreciation expense for the year ended June 30, 2017 was \$3,767.

**NOTE 3**    **RELATED PARTY TRANSACTIONS**

The Fund conducts significant transactions with its affiliate, the 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 payroll and related benefits including pension expense 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 \$4,400,000 for the year ended June 30, 2017. The Fund also paid approximately \$350,000 in 2017 to the Attorney Grievance Commission for reimbursement of salaries and benefits.

During the year ended June 30, 2017, the Fund was awarded \$192,898 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 Statement of Activities. Additional surplus amounts of \$734,758 have been reserved by the Attorney Grievance Commission of Maryland as of June 30, 2017. These amounts, however, are not considered payable to the Fund as they have not been declared or approved 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 \$3,514,589 at June 30, 2017 to provide funding for any future claims resulting from monies that have been deposited from

*(See Independent Auditors' Report)*

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**The Client Protection Fund of the Bar of Maryland**

attorney escrow funds. These funds are maintained in separate accounts and presented in the Statement of Financial Position as reserve for escrow fund claims and reserve for escrow fund claims payable.

**NOTE 5 CLAIMS**

Claims totaling \$2,030 were approved by the Trustees but remain unpaid at June 30, 2017. The total of claims expensed during the year ended June 30, 2017 was \$1,967,438. 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 that will be approved by the Trustees cannot be reasonably estimated. There were approximately 110 pending claims as of June 30, 2017. 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 year ended June 30, 2017, the Fund made contributions of \$35,485.

**NOTE 7 LEASE COMMITMENTS**

The Fund operates in an office building currently leased by its affiliate the 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, 2017 are as follows:

Year Ending June 30, 2018	\$ 31,338
2019	31,338
2020	31,338
2021	31,338
2022	31,338
2023 and Thereafter	<u>86,178</u>
	<u>\$ 242,868</u>

Total rent expense under related party leases was \$33,180 for the year ended June 30, 2017.

*(See Independent Auditors' Report)*

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**The Client Protection Fund of the Bar of Maryland**

**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.

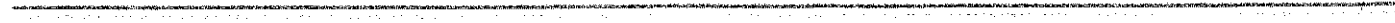
**NOTE 9 PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2017, it was determined that there was no outstanding liability from the Fund to the Attorney Grievance Commission at June 30, 2016. These amounts had been previously recorded as amounts due to the Attorney Grievance Commission. Accordingly the Fund recorded a \$157,596 adjustment to net assets to correct the accounting.

*(See Independent Auditors' Report)*



**SUPPLEMENTARY INFORMATION**



**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**The Client Protection Fund of the Bar of Maryland**  
**For the Year Ended June 30, 2017**

Salaries and Related Benefits	\$479,187
Legal Expenses Regarding Claims and Restitutions	16,367
Contribution to Maryland Lawyers Manual	35,195
Administrative	6,145
Trustee Meeting	2,277
Refunds	1,065
Audit and Accounting	18,542
Computer Maintenance	30,508
Utilities	6,134
Postage	29,791
Printing and Graphics	28,238
Office Equipment Rental	742
Seminar	1,736
Temporary Service	1,226
Bank Charges	4,530
Rent	33,180
Investigation	25,673
Depreciation	3,767
Miscellaneous	(1,405)
	<u>\$ 722,898</u>

*(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, 2017**

Assessments	\$ 828,330
Investment Income	<u>33,438</u>
Total	861,768
Claims Disbursed	<u>(1,967,438)</u>
Total Assessments, Investment Income and Claims Disbursed	<u>\$ (1,105,670)</u>

*(See Independent Auditors' Report)*

**SCHEDULE OF CLAIMS DISBURSED**  
**The Client Protection Fund of the Bar of Maryland**  
**For the Year Ended June 30, 2017**

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
2417	Peter Callegary	\$ 7,000
2522	Aaron Seltzer	3,250
2579	Stanley Needleman	9,900
2676	Wendy Weikel-Beauchat	297,820
2725	Wendy Weikel-Beauchat	319,794
2734	Melissa Gray	11,500
2753	Steven Shockett	2,500
2764	Steven Shockett	55,962
2798	Neil Lewis	126,667
2818	Neil Lewis	2,400
2866	Melissa Gray	110,000
2883	Gary Anderson	1,230
2919	Leonard Sperling	1,051
2937	Eugene Shapiro	82,500
2969	Leonard Sperling	9,883
2969	Leonard Sperling	1,000
2977	Neil Lewis	3,766
2977	Neil Lewis	9,852
2977A	Neil Lewis	785
2977B	Neil Lewis	1,481
2977C	Neil Lewis	12,837
2985	Shakaira Mollock	1,400
2989	Neil Lewis	59,965
2989	Neil Lewis	2,733
3025	Neil Lewis	1,530
3031	Neil Lewis	1,812
3033	Neil Lewis	3,146
3036	Neil Lewis	1,600
3048	Leonard Sperling	1,225
3051	Leonard Sperling	3,865
3052	Leonard Sperling	6,680
3059	Neil Lewis	2,000
3064	Richard McNally	46,441
3069	Robert Toth	5,000
3071	Stephen Chirumbole	3,500
3072	Tamara Good	1,020
3075	Neil Lewis	40,000
3076	Neil Lewis	41,858

*(See Independent Auditors' Report)*



**SCHEDULE OF CLAIMS DISBURSED, CONTINUED**  
**The Client Protection Fund of the Bar of Maryland**  
**For the Year Ended June 30, 2017**

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
3076	Neil Lewis	21,476
3082	Arcadio Reyes	7,350
3083	Neil Lewis	90,348
3085	Neil Lewis	2,274
3087	Neil Lewis	1,834
3091	Jeff Marcalus	1,500
3093	Arcadio Reyes	11,400
3094	Neil Lewis	8,019
3095	Neil Lewis	8,758
3095	Neil Lewis	4,379
3098	Neil Lewis	2,988
4000	Neil Lewis	1,500
4003	Denise Bellamy	500
4005	Michael Mitchell	1,300
4008	Leonard Sperling	4,500
4009	Neil Lewis	1,314
4010	Neil Lewis	1,314
4013	Leonard Sperling	19,333
4015	Wayne Gracey	2,000
4016	Alexander Chanthunya	2,980
4018	Stephen H. Chirumbole	35,500
4022	Neil Lewis	3,107
4036	Arcadio Reyes	8,110
4006	Mark Allenbaugh	5,000
4025	Woo-Jim Kim	243,500
4030	Garrett Williams	4,733
4038	Woo-Jim Kim	50,000
4042	Wayne Gracey	750
4054	Robert Barry Toth	2,000
4055	Leonard Sperling	64,097
4057	Thomas Wall	1,542
4026	Neil Lewis	24,685
4047	Neil Lewis	2,500
4048	Neil Lewis	2,943
4053	Neil Lewis	438
4068	Neil Lewis	5,533
4004	Jennifer Landeo	3,680
4017	Robert Toth	6,000

*(See Independent Auditors' Report)*

**SCHEDULE OF CLAIMS DISBURSED, CONTINUED**  
**The Client Protection Fund of the Bar of Maryland**  
**For the Year Ended June 30, 2017**

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
4033	Wayne Gordon Gracey	1,500
4034	Olivia Cammack	2,000
4065	Simone Mollock	1,000
4074	Simone Mollock	2,800
4075	Melissa Gray	6,000
		<u>\$1,967,438</u>

*(See Independent Auditors' Report)*

**SCHEDULE OF CLAIMS PAYABLE**  
**The Client Protection Fund of the Bar of Maryland**  
**For the Year Ended June 30, 2017**

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
2786	Neil Lewis	\$ 2,030

*(See Independent Auditors' Report)*