

ELLIN & TUCKER

**THE CLIENT PROTECTION FUND OF THE BAR OF MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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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, 2018 and 2017 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, 2018 and 2017, 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 – 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 a prior period's 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 for the years ended June 30, 2018 and 2017 and Schedules of Assessments, Investment Income and Claims Disbursed for the year ended June 30, 2018 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
November 27, 2018

STATEMENTS OF FINANCIAL POSITION
The Client Protection Fund of the Bar of Maryland
June 30, 2018 and 2017

	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 11,188,716	\$ 10,081,069
Prepaid Expenses	38,394	8,293
Total Current Assets	11,227,110	10,089,362
PROPERTY AND EQUIPMENT, NET (Note 2)		
	2,431	4,336
OTHER ASSETS		
Reserve for Escrow Fund Claims	3,912,911	3,514,589
Total Assets	\$ 15,142,452	\$ 13,608,287
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Claims Payable (Note 5)	\$ -	\$ 2,030
Accrued Expenses	133,038	40,232
Total Current Liabilities	133,038	42,262
LONG-TERM LIABILITIES		
Escrow Fund Claims Payable	3,912,911	3,514,589
Deferred Compensation (Note 8)	155,242	130,866
Total Long-Term Liabilities	4,068,153	3,645,455
NET ASSETS		
Total Liabilities and Net Assets	\$ 15,142,452	\$ 13,608,287

(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, 2018 and 2017

	2018	2017
OPERATING REVENUE		
Assessments from Members of The Bar of Maryland	\$ 828,430	\$ 828,330
Late Fees	310,140	237,890
Restitution on Claims Paid	69,694	87,111
Reinstatement Fees	6,900	7,340
Other Revenues	-	11,243
	1,215,164	1,171,914
OPERATING EXPENSES		
Claims (Note 5)	385,989	1,967,438
General and Administrative	617,616	722,898
	1,003,605	2,690,336
Total Operating Expenses	1,003,605	2,690,336
Operating Income (Loss)	211,559	(1,518,422)
NON-OPERATING REVENUE		
Interest (Expense) Revenue	(63)	326
Investment Income	72,352	33,438
Other Revenue (Note 3)	736,843	263,626
	809,132	297,390
Total Non-Operating Revenue	809,132	297,390
Change in Net Assets	1,020,691	(1,221,032)
NET ASSETS - BEGINNING OF YEAR AS PREVIOUSLY REPORTED	9,920,570	10,984,006
Prior Period Adjustment (Note 9)	-	157,596
NET ASSETS - END OF YEAR	\$ 10,941,261	\$ 9,920,570

(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, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,020,691	\$ (1,221,032)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation	1,905	3,767
Net Changes in:		
Prepaid Expenses	(30,101)	2,138
Due from Attorney Grievance Commission	-	(107,273)
Claims Payable	(2,030)	(127,137)
Accrued Expenses	92,806	26,072
Deferred Compensation	24,376	130,866
	1,107,647	(1,292,599)
Net Cash Provided by (Used in) Operating Activities	1,107,647	(1,292,599)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	-	(2,211)
	1,107,647	(1,294,810)
Net Change in Cash and Cash Equivalents	1,107,647	(1,294,810)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	10,081,069	11,375,879
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,188,716	\$ 10,081,069

(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 November 27, 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)

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

There is no requirement that an individual remain admitted to the Fund 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 each of the years ended June 30, 2018 and 2017 was \$20 for each attorney in practice. Late payment fees are also assessed for delinquent accounts for second and third billings for each of the years ended June 30, 2018 and 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.

(See Independent Auditors' Report)

NOTE 2 **PROPERTY AND EQUIPMENT**

At June 30, 2018 and 2017, the cost and accumulated depreciation of assets were as follows:

	2018	2017
Property and Equipment	\$ 86,983	\$ 86,983
Less: Accumulated Depreciation	84,552	82,647
Total	<u>\$ 2,431</u>	<u>\$ 4,336</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$1,905 and \$3,767, 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 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 each of the years ended June 30, 2018 and 2017. The Fund also paid approximately \$375,000 and \$350,000 in 2018 and 2017, respectively, to the Attorney Grievance Commission for reimbursement of salaries and benefits.

During the years ended June 30, 2018 and 2017, the Fund was awarded \$734,758 and \$192,898, 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. Additional surplus amounts of \$143,326 have been reserved by the Attorney Grievance Commission of Maryland as of June 30, 2018. These amounts, however, are not considered payable to the Fund as they have not been declared or approved by the Maryland Court of Appeals.

(See Independent Auditors' Report)

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 \$3,912,911 at June 30, 2018 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 but remain unpaid at June 30, 2018. The total of claims expensed during the years ended June 30, 2018 and 2017 were \$385,989 and \$1,967,438, 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 that will be approved by the Trustees cannot be reasonably estimated. There were approximately 116 pending claims as of June 30, 2018. 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, 2018 and 2017, the Fund made contributions of \$33,884 and \$35,485, respectively.

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.

(See Independent Auditors' Report)

The total minimum future annual lease payments for all lease commitments as of June 30, 2018 are as follows:

Year Ending June 30, 2019	\$	31,338
2020		31,338
2021		31,338
2022		31,338
2023		31,338
2024 and Thereafter		54,841
		\$ 211,531

Total rent expense under related party leases was \$31,338 and \$33,180 for the years ended June 30, 2018 and 2017, respectively.

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, 2018:

Benefits Paid	\$	1,177
Accrued Deferred Compensation Liability		155,242
Service Cost		7,301
Interest		4,266
Change in Actuarial Assumptions		(2,002)

The weighted average assumptions used to determine the deferred compensation liability for 2018 and 2017 are as follows:

	2018	2017
Discount Rate	3.58%	4.00%

(See Independent Auditors' Report)

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, 2017. 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



SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
The Client Protection Fund of the Bar of Maryland
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries and Related Benefits	\$ 390,666	\$ 479,187
Legal Expenses Regarding Claims and Restitutions	76,095	16,367
Contribution to Maryland Lawyers Manual	-	35,195
Administrative	10,159	6,145
Trustee Meeting	2,332	2,277
Refunds	2,915	1,065
Audit and Accounting	30,162	18,542
Computer Maintenance	13,419	30,508
Utilities	6,250	6,134
Postage	8,734	29,791
Printing and Graphics	12,669	28,238
Office Equipment Rental	4,604	742
Seminar	1,496	1,736
Temporary Service	-	1,226
Bank Charges	694	4,530
Rent	31,338	33,180
Investigation	26,261	25,673
Depreciation	1,905	3,767
Miscellaneous	<u>(2,083)</u>	<u>(1,405)</u>
	<u>\$ 617,616</u>	<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, 2018

Assessments	\$ 828,430
Investment Income	<u>72,352</u>
Total	900,782
Claims Disbursed	<u>(385,989)</u>
Total Assessments, Investment Income and Claims Disbursed	<u><u>\$ 514,793</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, 2018

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
2572	Barry Brown	\$ 11,081
2786	Neil Lewis	2,030
2907A/B	Neil Lewis	6,715
2953	Neil J. Lewis	1,953
2955	Neil Lewis	15,621
3002	Phillip Dantes	3,500
3004	Stephen Sacks	800
3057	Denise Bellamy	1,122
3062	Melodie V. Shuler	1,500
4021	William G. McLain, IV	40,833
4035	C. Trent Thomas	750
4049	Diana Denrich	500
4050	Andrew Ucheomumu	6,500
4056	Neil Lewis	59,912
4058	Roger Harris	4,867
4059	Roger Harris	6,133
4060	Roger Harris	8,667
4064	Woo-Jin Kim	22,500
4067	Joseph Tivvis, Jr.	2,500
4070	Roger Harris	9,000
4076	Roger Harris	9,667
4078	Neil Lewis	4,000
4079	Woo-Jin Kim	9,000
4081	Neil Lewis	5,785
4085	Reuven Poupko	7,500
4086	Marilyn Dimas	9,455
4091	Roger Harris	1,455
4091B	Roger Harris	2,533
4093	Russell A. Neverdon	900
5000	Jude Ezeala	1,500
5001	Simone Mollock	3,010
5002	Simone Mollock	1,000
5005	Joseph I. Tivvis	60,000
5006	Diane Ming	1,000
5007	Roger L. Harris, Jr.	5,500
5011	Rodney Jones	2,000
5014	Denise Bellamy	750

(See Independent Auditors' Report)

SCHEDULE OF CLAIMS DISBURSED, CONTINUED
The Client Protection Fund of the Bar of Maryland
For the Year Ended June 30, 2018

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
5015	Shakaira Mollock	2,100
5019	Jimmy Bell	5,500
5020	Shakaira Mollock	2,625
5022	James P. Wu	951
5029	Leonard Sperling	8,946
5031	James P. Wu	2,333
5033	Phillip Dantes	7,500
5036	Patrick Christmas	5,000
5037	Stephen Chirumbole	2,500
5039	Herbert Levenstein	1,850
5040	Shakaira Mollock	1,500
5042	Leonard Sperling	4,145
5043	Roland Patterson	2,500
5046	Herbert Levenstein	3,000
5049	Joseph I. Tivvis	4,000
		<u>\$ 385,989</u>

(See Independent Auditors' Report)