

ELLIN & TUCKER

**THE CLIENT PROTECTION FUND OF THE BAR OF MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**



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INDEPENDENT AUDITORS' REPORT

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

OPINION

We 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, 2022 and 2021 the related Statements of Activities 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, 2022 and 2021 and the results of its operations 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits 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 the audit evidence we 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 these 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.

AUDITORS' RESPONSIBILITIES FOR THE AUDITS 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and,

INDEPENDENT AUDITORS' REPORT, CONTINUED

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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of 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 matters regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

OTHER MATTER

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, 2022 and 2021, the Schedule of Assessments, Investment Income, and Claims Disbursed for the year ended June 30, 2022, and the Schedule of Claims Disbursed for the year ended June 30, 2022 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 related directly to the underlying accounting and other records used to prepare the financial statements. The information was subjected to the auditing procedures applied in the audits of the financial statements and to 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 procedures in accordance with auditing standards generally accepted

INDEPENDENT AUDITORS' REPORT, CONTINUED

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

November 30, 2022

STATEMENTS OF FINANCIAL POSITION
The Client Protection Fund of the Bar of Maryland
June 30, 2022 and 2021

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,508,627	\$ 13,632,292
Certificates of Deposit	12,645,488	-
Prepaid Expenses	21,351	19,111
Total Current Assets	15,175,466	13,651,403
PROPERTY AND EQUIPMENT, NET (Note 2)	5,040	8,098
OTHER ASSETS		
Reserve for Escrow Fund Claims	5,078,377	4,980,004
Equipment Deposit	5,743	-
Total Assets	\$ 20,264,626	\$ 18,639,505

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 123,447	\$ 33,254
LONG-TERM LIABILITIES		
Escrow Fund Claims Payable	5,078,377	4,980,004
Deferred Compensation (Note 8)	189,038	181,008
Total Long-Term Liabilities	5,267,415	5,161,012
Total Liabilities	5,390,862	5,194,266
NET ASSETS (Note 1)	14,873,764	13,445,239
Total Liabilities and Net Assets	\$ 20,264,626	\$ 18,639,505

(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, 2022 and 2021

	2022	2021
OPERATING REVENUE		
Assessments from Members of the Bar of Maryland	\$ 5,441,225	\$ 5,404,865
Less: Amounts Remitted to the Attorney Grievance Commission	(4,605,165)	(4,566,140)
Net Assessments	836,060	838,725
Late Fees	244,590	222,296
Restitution on Claims Paid	61,946	78,775
Reinstatement Fees	3,050	4,300
Total Operating Revenue	1,145,646	1,144,096
OPERATING EXPENSES		
Claims (Note 5)	43,627	698,163
General and Administrative	482,725	509,368
Total Operating Expenses	526,352	1,207,531
Operating Income (Loss)	619,294	(63,435)
NON-OPERATING REVENUE		
Investment Income	37,376	28,426
Other Revenue (Note 3)	771,855	95,026
Total Non-Operating Revenue	809,231	123,452
Change in Net Assets	1,428,525	60,017
NET ASSETS - BEGINNING OF YEAR	13,445,239	13,385,222
NET ASSETS - END OF YEAR	\$ 14,873,764	\$ 13,445,239

(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, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,428,525	\$ 60,017
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation	3,058	3,407
Net Changes in:		
Prepaid Expenses	(2,240)	900
Claims Payable	-	(125,000)
Accounts Payable and Accrued Expenses	90,193	(104,689)
Deferred Compensation	8,030	24,406
Net Cash Provided by (Used in) Operating Activities	1,527,566	(140,959)
INVESTING ACTIVITIES		
Purchases of Certificates of Deposits	(12,645,488)	-
Deposits on Equipment	(5,743)	-
Net Cash Used in Investing Activities	(12,651,231)	-
Net Change	(11,123,665)	(140,959)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	13,632,292	13,773,251
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,508,627	\$ 13,632,292

(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. Net assets, revenues, and expenses are classified based on the existence or absence of restrictions. The Fund does not have any net assets with restrictions as of June 30, 2022 and 2021.

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.

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.

(See Independent Auditors' Report)

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 \$1,500. Lesser amounts are expensed.

REVENUE RECOGNITION

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

ATTORNEY ASSESSMENTS

Amounts are collected from all attorneys who desire to be enrolled to practice law in the state of Maryland on an annual basis for the Fund and the Attorney Grievance Commission of Maryland (Attorney Grievance Commission). Cash is transferred regularly from the Fund to the Attorney Grievance Commission based on data processing records of payments. The assessment for the Fund for each of the years ended June 30, 2022 and 2021 was \$20 for each attorney in practice. Late payment fees are also assessed for delinquent accounts and remain income for the Fund.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities were summarized on a functional basis. Accordingly, certain costs were allocated among the benefitting programs and supporting services 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 was made for income taxes in the financial statements.

SUBSEQUENT EVENTS

The Fund evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 30, 2022, the date the financial statements were available to be issued.

(See Independent Auditors' Report)

NOTE 2 **PROPERTY AND EQUIPMENT**

At June 30, 2022 and 2021, the cost and accumulated depreciation of assets were as follows:

	2022	2021
Property and Equipment	\$ 84,193	\$ 84,193
Less: Accumulated Depreciation	79,153	76,095
Total	\$ 5,040	\$ 8,098

Depreciation expense for the years ended June 30, 2022 and 2021 was \$3,058 and \$3,407, respectively.

NOTE 3 **RELATED-PARTY TRANSACTIONS**

The Fund conducts significant transactions with its affiliate, the Attorney Grievance Commission. All assessments of the Fund and the 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 \$4,605,165 and \$4,566,140 during the years ended June 30, 2022 and 2021, respectively. The Fund also paid \$315,273 and \$296,464 in 2022 and 2021, respectively, to the Attorney Grievance Commission for reimbursement of salaries and benefits.

During the years ended June 30, 2022 and 2021, the Fund was awarded \$771,755 and \$94,775, respectively, from the Attorney Grievance Commission. This funding is made pursuant to an administrative order by the Maryland Court of Appeals requiring the Attorney Grievance Commission to maintain a net asset balance of 75% of the prior period's expenditures. Any net asset balance in excess of that amount is payable to the Fund. 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.

(See Independent Auditors' Report)

NOTE 4 **ATTORNEY ESCROW FUNDS**

The Fund is the custodian of various attorney escrow funds with the understanding that, if any time in the future a valid claim arises for these monies, the Trustees will disburse the funds accordingly. A reserve was established in the amount of \$5,078,377 at June 30, 2022 to provide funding for any future claims resulting from monies that were 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. Pursuant to a Court of Appeals ruling, the Fund is to remit escrow funds to the State Comptroller in 2023.

NOTE 5 **CLAIMS**

There were no claims approved by the Trustees that remained unpaid at June 30, 2022 and 2021. The total of claims expensed during the years ended June 30, 2022 and 2021 was \$43,627 and \$698,163, respectively. Claims must be approved by the Trustees for both the amount of the loss and for 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. In January 2011, the Fund amended its policy to state that the maximum cumulative amounts that 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 a participant's compensation. During the years ended June 30, 2022 and 2021, the Fund made contributions of \$33,624 and \$31,545, respectively.

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 approximately 1,150 square feet at a cost of \$27.25 per square foot. The lease expires in March 2025.

(See Independent Auditors' Report)

The future minimum total annual lease payments for all lease commitments are as follows:

Year Ending June 30,	2023	\$ 32,636
	2024	32,636
	2025	<u>24,477</u>
		<u>\$ 89,749</u>

Total rent expense under related-party leases was \$32,636 for each of the years ended June 30, 2022 and 2021.

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 participant’s health insurance premium. The present value of estimated future payments was 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, 2022 and 2021:

	2022	2021
Benefits Paid	\$ 4,200	\$ 3,813
Accrued Deferred-Compensation Liability	189,038	181,008
Service Cost	11,434	9,837
Interest	4,378	4,829
Change in Actuarial Assumptions	(17,777)	(14,392)

The weighted average assumptions used to determine the deferred-compensation liability for 2022 and 2021 were as follows:

	2022	2021
Discount Rate	1.92%	2.45%

(See Independent Auditors’ Report)

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 were as follows:

	2022	2021
Cash and Cash Equivalents	\$ 2,508,627	\$ 13,632,292
Certificates of Deposit	12,645,488	-
Reserve for Escrow Fund Claims	5,078,377	4,980,004
 Total Financial Assets	 20,232,492	 18,612,296
 Contractual Restrictions:		
Escrow Fund Claims Payable	(5,078,377)	(4,980,004)
 Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	 \$ 15,154,115	 \$ 13,632,292

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.

NOTE 10 **FUNCTIONAL CLASSIFICATIONS OF EXPENSES**

The functional classifications of expenses for the year ended June 30, 2022 were as follows:

	Program	Management and General	Total
Salaries and Benefits	\$ 79,375	\$ 243,928	\$ 323,303
Claims	43,627	-	43,627
Professional Fees	49,919	19,254	69,173
Technology	14,151	12,997	27,148
Printing and Postage	1,062	2,404	3,466
Rent	9,791	22,845	32,636
Meetings and Seminars	481	8	489
Miscellaneous	9,647	16,863	26,510
 Total Expenses	 \$ 208,053	 \$ 318,299	 \$ 526,352

(See Independent Auditors’ Report)

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

The functional classifications of expenses for the year ended June 30, 2021 were as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Benefits	\$ 75,276	\$ 249,679	\$ 324,955
Claims	698,163	-	698,163
Professional Fees	77,508	13,544	91,052
Technology	8,871	13,965	22,836
Printing and Postage	1,049	1,976	3,025
Rent	9,791	22,845	32,636
Meetings and Seminars	324	4	328
Miscellaneous	13,089	21,447	34,536
	<u>\$ 884,071</u>	<u>\$ 323,460</u>	<u>\$ 1,207,531</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, 2022 and 2021

	2022	2021
Salaries and Related Benefits	\$ 323,303	\$ 324,955
Legal Expenses Regarding Claims and Restitutions	23,143	34,701
Administrative	6,479	8,071
Trustee Meeting	489	328
Refunds	2,640	5,910
Audit and Accounting	25,427	17,732
Computer Maintenance	13,693	15,086
Utilities	7,082	6,217
Postage	3,213	2,381
Printing and Graphics	253	644
Office Equipment Rental	4,206	4,489
Temporary Service	769	735
Rent	32,636	32,636
Investigation	20,603	38,619
Depreciation	3,058	3,407
Miscellaneous	15,731	13,457
	\$ 482,725	\$ 509,368

(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, 2022

Assessments	\$ 836,060
Investment Income	<u>37,376</u>
Total	873,436
Claims Disbursed	<u>(43,627)</u>
Total Assessments, Investment Income, and Claims Disbursed	<u><u>\$ 829,809</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, 2022

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
5193	John Allen Hopkins	\$ 1,200
2020-0013	Jennifer Leatherman	2,000
2020-0030	Lewis M. Silber	743
2020-0035	Perry Resnick	7,704
2020-0044	William F. Burton	1,975
2020-0046	James Kevin Reed	1,500
2020-0048	Patrick T. Williams	1,000
21-0003	James Kevin Reed	1,500
21-0006	Jason Shoemaker	850
21-0012	Mitzi Dailey	2,775
21-0014	Bascietto & Bregman	11,000
21-0016	Edward Emad Moawad	8,551
21-0017	Darryl Armstong	1,250
22-0001	Angel Arturo Viladegut	1,579
		<u>\$ 43,627</u>

(See Independent Auditors' Report)