

ELLIN & TUCKER

THE CLIENT PROTECTION FUND OF THE BAR OF MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020



| | |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| STATEMENTS OF FINANCIAL POSITION | 3 |
| STATEMENTS OF ACTIVITIES | 4 |
| STATEMENTS OF CASH FLOWS | 5 |
| NOTES TO FINANCIAL STATEMENTS | 6-12 |
| SUPPLEMENTARY INFORMATION | |
| Schedules of General and Administrative Expenses | 13 |
| Schedule of Assessments, Investment Income, and Claims Disbursed | 14 |
| Schedule of Claims Disbursed | 15 |

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

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, 2021 and 2020, 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 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, 2021 and 2020 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, 2021 and 2020, Schedule of Assessments, Investment Income, and Claims Disbursed for the year ended June 30, 2021, and Schedule of Claims Disbursed for the year ended June 30, 2021 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 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 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 23, 2021

STATEMENTS OF FINANCIAL POSITION
The Client Protection Fund of the Bar of Maryland
June 30, 2021 and 2020

ASSETS

| | 2021 | 2020 |
|---|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 13,632,292 | \$ 13,773,251 |
| Prepaid Expenses | 19,111 | 20,011 |
| Total Current Assets | 13,651,403 | 13,793,262 |
| PROPERTY AND EQUIPMENT, NET (Note 2) | | |
| | 8,098 | 11,505 |
| OTHER ASSET | | |
| Reserve for Escrow Fund Claims | 4,980,004 | 4,420,135 |
| Total Assets | \$ 18,639,505 | \$ 18,224,902 |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------------|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Claims Payable (Note 5) | \$ - | \$ 125,000 |
| Accrued Expenses | 33,254 | 137,943 |
| Total Current Liabilities | 33,254 | 262,943 |
| LONG-TERM LIABILITIES | | |
| Escrow Fund Claims Payable | 4,980,004 | 4,420,135 |
| Deferred Compensation (Note 8) | 181,008 | 156,602 |
| Total Long-Term Liabilities | 5,161,012 | 4,576,737 |
| Total Liabilities | 5,194,266 | 4,839,680 |
| NET ASSETS (Note 1) | | |
| Total Liabilities and Net Assets | \$ 18,639,505 | \$ 18,224,902 |

(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, 2021 and 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| OPERATING REVENUE | | |
| Assessments from Members of the Bar of Maryland | \$ 5,404,865 | \$ 5,324,328 |
| Less: Amounts Remitted to the Attorney Grievance Commission | (4,566,140) | (4,497,115) |
| Net Assessments | 838,725 | 827,213 |
| Late Fees | 222,296 | 167,111 |
| Restitution on Claims Paid | 78,775 | 63,574 |
| Reinstatement Fees | 4,300 | 2,700 |
| Total Operating Revenue | 1,144,096 | 1,060,598 |
| OPERATING EXPENSES | | |
| Claims (Note 5) | 698,163 | 371,207 |
| General and Administrative | 509,368 | 501,114 |
| Total Operating Expenses | 1,207,531 | 872,321 |
| Operating (Loss) Income | (63,435) | 188,277 |
| NON-OPERATING REVENUE | | |
| Investment Income | 28,426 | 127,349 |
| Other Revenue (Note 3) | 95,026 | 1,541,078 |
| Total Non-Operating Revenue | 123,452 | 1,668,427 |
| Change in Net Assets | 60,017 | 1,856,704 |
| NET ASSETS - BEGINNING OF YEAR | 13,385,222 | 11,528,518 |
| NET ASSETS - END OF YEAR | \$ 13,445,239 | \$ 13,385,222 |

(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, 2021 and 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 60,017 | \$ 1,856,704 |
| Adjustments to Reconcile Change in Net Assets to | | |
| Net Cash (Used in) Provided by Operating Activities: | | |
| Depreciation | 3,407 | 3,768 |
| Net Changes in: | | |
| Prepaid Expenses | 900 | (10,110) |
| Claims Payable | (125,000) | 125,000 |
| Accrued Expenses | (104,689) | 4,361 |
| Deferred Compensation | 24,406 | 4,890 |
| | (140,959) | 1,984,613 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 13,773,251 | 11,788,638 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 13,632,292 | \$ 13,773,251 |

(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, 2021 and 2020.

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 was 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, 2021 and 2020 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 23, 2021, the date the financial statements were available to be issued.

(See Independent Auditors' Report)

NOTE 2 **PROPERTY AND EQUIPMENT**

At June 30, 2021 and 2020, the cost and accumulated depreciation of assets were as follows:

| | 2021 | 2020 |
|--------------------------------|-----------------|------------------|
| Property and Equipment | \$ 84,193 | \$ 84,193 |
| Less: Accumulated Depreciation | 76,095 | 72,688 |
| Total | <u>\$ 8,098</u> | <u>\$ 11,505</u> |

Depreciation expense for the years ended June 30, 2021 and 2020 was \$3,407 and \$3,768, 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 \$4,566,140 and \$4,497,115 during the years ended June 30, 2021 and 2020, respectively. The Fund also paid \$296,464 and \$303,524 in 2021 and 2020, respectively, to the Attorney Grievance Commission for reimbursement of salaries and benefits.

During the years ended June 30, 2021 and 2020, the Fund was awarded \$94,996 and \$1,541,158, 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. In September 2021, amounts of \$771,755 were awarded to the Fund following approval 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 \$4,980,004 at June 30, 2021 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.

NOTE 5 **CLAIMS**

There were no claims approved by the Trustees that remained unpaid at June 30, 2021. Claims totaling \$125,000 were approved by the Trustees but remained unpaid at June 30, 2020. The total of claims expensed during the years ended June 30, 2021 and 2020 was \$698,163 and \$371,207, 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, 2021 and 2020, the Fund made contributions of \$31,545 and \$32,434, 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 is for a term of 123 months from April 2015 through March 2025.

(See Independent Auditors' Report)

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

| | | |
|----------------------|------|-------------------|
| Year Ending June 30, | 2022 | \$ 32,636 |
| | 2023 | 32,636 |
| | 2024 | 32,636 |
| | 2025 | <u>24,477</u> |
| | | <u>\$ 122,385</u> |

Total rent expense under related-party leases was \$32,636 and \$34,871 for the years ended June 30, 2021 and 2020, 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 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, 2021 and 2020:

| | 2021 | 2020 |
|---|-------------|-------------|
| Benefits Paid | \$ 3,813 | \$ 3,531 |
| Accrued Deferred Compensation Liability | 181,008 | 156,602 |
| Service Cost | 9,837 | 6,900 |
| Interest | 4,829 | 5,569 |
| Change in Actuarial Assumptions | (14,392) | (8,867) |

The weighted average assumptions used to determine the deferred-compensation liability for 2021 and 2020 were as follows:

| | 2021 | 2020 |
|---------------|-------------|-------------|
| Discount Rate | 2.45% | 3.13% |

(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:

| | 2021 | 2020 |
|--|---------------|---------------|
| Cash and Cash Equivalents | \$ 13,632,292 | \$ 13,773,251 |
| Reserve for Escrow Fund Claims | 4,980,004 | 4,420,135 |
| Total Financial Assets | 18,612,296 | 18,193,386 |
| Contractual Restrictions: | | |
| Escrow Fund Claims Payable | (4,980,004) | (4,420,135) |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | \$ 13,632,292 | \$ 13,773,251 |

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, 2021 were as follows:

| | Program | Management and General | Total |
|-----------------------|----------------|---------------------------------------|--------------|
| 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 |
| Total Expenses | \$ 884,071 | \$ 323,460 | \$ 1,207,531 |

(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, 2020 were as follows:

| | <u>Program</u> | <u>Management and General</u> | <u>Total</u> |
|-----------------------|-------------------|---------------------------------------|-------------------|
| Salaries and Benefits | \$ 79,104 | \$ 240,716 | \$ 319,820 |
| Claims | 371,207 | - | 371,207 |
| Professional Fees | 70,711 | 15,983 | 86,694 |
| Technology | 8,693 | 12,356 | 21,049 |
| Printing and Postage | 1,217 | 2,827 | 4,044 |
| Rent | 10,461 | 24,410 | 34,871 |
| Meetings and Seminars | 1,185 | 33 | 1,218 |
| Miscellaneous | 12,827 | 20,591 | 33,418 |
| | <u>\$ 555,405</u> | <u>\$ 316,916</u> | <u>\$ 872,321</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, 2021 and 2020

| | 2021 | 2020 |
|--|-------------------|-------------------|
| Salaries and Related Benefits | \$ 324,955 | \$ 319,820 |
| Legal Expenses Regarding Claims and Restitutions | 34,701 | 32,427 |
| Administrative | 8,071 | 7,761 |
| Trustee Meeting | 328 | 1,218 |
| Refunds | 5,910 | 5,090 |
| Audit and Accounting | 17,732 | 21,990 |
| Computer Maintenance | 15,086 | 13,298 |
| Utilities | 6,217 | 6,242 |
| Postage | 2,381 | 3,203 |
| Printing and Graphics | 644 | 841 |
| Office Equipment Rental | 4,489 | 4,925 |
| Temporary Service | 735 | - |
| Rent | 32,636 | 34,871 |
| Investigation | 38,619 | 32,277 |
| Depreciation | 3,407 | 3,768 |
| Miscellaneous | 13,457 | 13,383 |
| | \$ 509,368 | \$ 501,114 |

(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, 2021

| | |
|--|--------------------------|
| Assessments | \$ 838,725 |
| Investment Income | <u>28,426</u> |
| Total | 867,151 |
| Claims Disbursed | <u>(698,163)</u> |
| Total Assessments, Investment Income, and Claims Disbursed | <u><u>\$ 168,988</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, 2021

| <u>Claim Number</u> | <u>Attorney</u> | <u>Amount</u> |
|---------------------|-----------------------|-------------------|
| 5038 | Vandy Jamison, Jr. | \$ 15,000 |
| 5092 | Arlene Smith-Scott | 4,986 |
| 5151 | Darryl Armstrong | 2,800 |
| 5169 | James Kevin Reed | 103,740 |
| 5172 | Darryl Armstrong | 2,000 |
| 5179 | Anna Aita | 2,185 |
| 5192 | Patrick Todd Williams | 506 |
| 2020-0004 | Ira Charles Cooke | 2,550 |
| 2020-0007 | William Planta | 500 |
| 2020-0008 | Brandi Nave | 2,000 |
| 2020-0011 | James Kevin Reed | 5,000 |
| 2020-0017 | Marc Peitersen | 835 |
| 2020-0020 | Craig Langrall | 40,000 |
| 2020-0028 | Patrick Todd Williams | 450 |
| 2020-0031 | James Kevin Reed | 2,500 |
| 2020-0036 | George Nier | 205,311 |
| 2020-0039 | George Nier | 304,750 |
| 2020-0043 | Marc Peitersen | 1,050 |
| 21-0001 | Arlene Smith-Scott | 2,000 |
| | | <u>\$ 698,163</u> |

(See Independent Auditors' Report)