

ELLIN & TUCKER

THE CLIENT PROTECTION FUND OF THE BAR OF MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

TABLE OF CONTENTS
The Client Protection Fund of the Bar of Maryland
June 30, 2020 and 2019

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
Schedule of Claims Payable as of June 30, 2020	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 Statements of Financial Position as of June 30, 2020 and 2019 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, 2020 and 2019, 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, 2020 and 2019, Schedule of Assessments, Investment Income and Claims Disbursed for the year ended June 30, 2020, Schedule of Claims Disbursed for the year ended June 30, 2020, and Schedule of Claims Payable as of June 30, 2020 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

November 23, 2020

STATEMENTS OF FINANCIAL POSITION
The Client Protection Fund of the Bar of Maryland
June 30, 2020 and 2019

ASSETS

	2020	2019
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 13,773,251	\$ 11,788,638
Prepaid Expenses	20,011	9,901
Total Current Assets	13,793,262	11,798,539
<u>PROPERTY AND EQUIPMENT, NET (Note 2)</u>	11,505	15,273
<u>OTHER ASSETS</u>		
Reserve for Escrow Fund Claims	4,420,135	4,195,810
Total Assets	\$ 18,224,902	\$ 16,009,622

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Claims Payable (Note 5)	\$ 125,000	\$ -
Accrued Expenses	137,943	133,582
Total Current Liabilities	262,943	133,582
<u>LONG-TERM LIABILITIES</u>		
Escrow Fund Claims Payable	4,420,135	4,195,810
Deferred Compensation (Note 8)	156,602	151,712
Total Long-Term Liabilities	4,576,737	4,347,522
Total Liabilities	4,839,680	4,481,104
<u>NET ASSETS (Note 1)</u>	13,385,222	11,528,518
Total Liabilities and Net Assets	\$ 18,224,902	\$ 16,009,622

(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, 2020 and 2019

	2020	2019
OPERATING REVENUE		
Assessments from Members of the Bar of Maryland	\$ 5,324,328	\$ 5,315,947
Less: Amounts Remitted to the Attorney Grievance Commission	(4,497,115)	(4,484,369)
Net Assessments	827,213	831,578
Late Fees	167,111	276,355
Restitution on Claims Paid	63,574	88,471
Reinstatement Fees	2,700	4,050
Total Operating Revenue	1,060,598	1,200,454
OPERATING EXPENSES		
Claims (Note 5)	371,207	567,166
General and Administrative	501,114	524,930
Total Operating Expenses	872,321	1,092,096
Operating Income	188,277	108,358
NON-OPERATING REVENUE		
Investment Income	127,349	136,375
Other Revenue (Note 3)	1,541,078	342,524
Total Non-Operating Revenue	1,668,427	478,899
Change in Net Assets	1,856,704	587,257
NET ASSETS - BEGINNING OF YEAR	11,528,518	10,941,261
NET ASSETS - END OF YEAR	\$ 13,385,222	\$ 11,528,518

(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, 2020 and 2019

	2020	2019
<u>OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 1,856,704	\$ 587,257
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,768	2,173
Loss on Disposal of Property and Equipment	-	277
Net Changes in:		
Prepaid Expenses	(10,110)	28,493
Claims Payable	125,000	-
Accrued Expenses	4,361	544
Deferred Compensation	4,890	(3,530)
	1,984,613	615,214
<u>INVESTING ACTIVITIES</u>		
Purchase of Property and Equipment	-	(15,292)
Net Change in Cash and Cash Equivalents	1,984,613	599,922
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	11,788,638	11,188,716
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	\$ 13,773,251	\$ 11,788,638

(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 May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as amended by subsequent ASUs (collectively, ASC 606) which amends the existing accounting standards for revenue recognition and establishes principles for recognizing revenue upon the transfer of promised goods or services to customers based on the expected consideration to be received in exchange for those goods or services. The Fund adopted ASU 2014-09 effective July 1, 2019 using the modified retrospective transition method. The adoption of ASU 2014-09 did not materially impact the timing and measurement of revenue recognition. As a result, the Fund did not recognize a cumulative effect adjustment to the opening balance of net assets.

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, 2020 and 2019.

(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.

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 \$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 is 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. 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, 2020 and 2019 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.

SUBSEQUENT EVENTS

The Fund has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 23, 2020, the date the financial statements were available to be issued.

NOTE 2 **PROPERTY AND EQUIPMENT**

At June 30, 2020 and 2019, the cost and accumulated depreciation of assets were as follows:

	2020	2019
Property and Equipment	\$ 84,193	\$ 84,193
Less: Accumulated Depreciation	72,688	68,920
Total	\$ 11,505	\$ 15,273

Depreciation expense for the years ended June 30, 2020 and 2019 was \$3,768 and \$2,173, 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.

(See Independent Auditors' Report)

Assessments collected on behalf of and remitted to the Attorney Grievance Commission were \$4,497,115 and \$4,484,369 during the years ended June 30, 2020 and 2019, respectively. The Fund also paid \$303,524 and \$308,296 in 2020 and 2019, respectively, to the Attorney Grievance Commission for reimbursement of salaries and benefits.

During the years ended June 30, 2020 and 2019, the Fund was awarded \$1,541,158 and \$342,969, 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 2020, amounts of \$94,775 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 any time 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 \$4,420,135 at June 30, 2020 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

Claims totaling \$125,000 were approved by the Trustees but remain unpaid at June 30, 2020. The total of claims expensed during the years ended June 30, 2020 and 2019 was \$371,207 and \$567,166, 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. 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.

(See Independent Auditors' Report)

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, 2020 and 2019, the Fund made contributions of \$32,434 and \$20,634, 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 approximately 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, 2020 are as follows:

Year Ending June 30, 2021	\$ 32,168
2022	32,168
2023	32,168
2024	32,168
2025	24,126
	<u>\$ 152,798</u>

Total rent expense under related party leases was \$34,871 and \$31,338 for the years ended June 30, 2020 and 2019, 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.

(See Independent Auditors' Report)

The following table sets forth information about the Plan and amounts recognized in the accompanying financial statements as of June 30, 2020 and 2019:

	2020	2019
Benefits Paid	\$ 3,531	\$ 1,177
Accrued Deferred Compensation Liability	156,602	151,712
Service Cost	6,900	6,879
Interest	5,569	5,462
Change in Actuarial Assumptions	(8,867)	(6,535)

The weighted average assumptions used to determine the deferred compensation liability for 2020 and 2019 are as follows:

	2020	2019
Discount Rate	3.13%	3.62%

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:

	2020	2019
Cash and Cash Equivalents	\$ 13,773,251	\$ 11,788,638
Reserve for Escrow Fund Claims	4,420,135	4,195,810
Total Financial Assets	18,193,386	15,984,448
Contractual Restrictions:		
Escrow Fund Claims Payable	(4,420,135)	(4,195,810)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 13,773,251	\$ 11,788,638

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, 2020 are 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>

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>

(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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Salaries and Related Benefits	\$ 319,820	\$ 306,064
Legal Expenses Regarding Claims and Restitutions	32,427	46,723
Administrative	7,761	7,332
Trustee Meeting	1,218	2,607
Refunds	5,090	2,200
Audit and Accounting	21,990	22,347
Computer Maintenance	13,298	13,298
Utilities	6,242	6,257
Postage	3,203	24,588
Printing and Graphics	841	19,103
Office Equipment Rental	4,925	5,170
Temporary Service	-	2,400
Rent	34,871	31,338
Investigation	32,277	19,454
Depreciation	3,768	2,173
Loss on Disposal of Property and Equipment	-	277
Miscellaneous	13,383	13,599
	<u>\$ 501,114</u>	<u>\$ 524,930</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, 2020

Assessments	\$ 827,213
Investment Income	<u>127,349</u>
Total	954,562
Claims Disbursed	<u>(371,207)</u>
Total Assessments, Investment Income and Claims Disbursed	<u><u>\$ 583,355</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, 2020

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
2004	Charles Bruce	\$ 5,974
2994	Kathryn Lange	5,420
2994	Kathryn Lange	5,420
3020	Robert Pratz	10,000
4082	Phillip Sweitzer	2,036
4090	Kevin Michael Roy	6,000
5008	Joseph Tivvis	5,333
5048	Mohamed Bah	2,075
5056	Phillip Dantes	5,000
5068	Edward Smith	5,000
5096	John Giannetti	4,000
5099	Stephen Sacks	26,350
5103	James Kevin Reed	228
5109	Anna Aita	2,500
5110	Shakaira Mollock	3,000
5113	Steven Lang	3,500
5120	Shakaira Mollock	7,928
5124	Stephen Sacks	6,800
5130	Richard Wells Moore	3,800
5136	Mohamed Bah	920
5137	Mohamed Bah	4,500
5138	Neil Lewis	1,138
5139	Mohamed Bah	3,285
5141	Stephen Sacks	1,000
5143	Marcia Stephenson	3,000
5146	Wilmer Ticer	200
5153	Othello Jones	5,600
5157	Louisa McLaughlin	5,175
5164	Kenneth Haley	2,000
5167	Stephen Sacks	6,250
5168	Brendon Kok	375
5171	Ronald Bergman	53,520
5183	Michael Ron Worthy	2,500
5184	Breon Lamar Johnson	1,240
5185	Breon Lamar Johnson	4,500
5195	Breon Lamar Johnson	7,000
5199	Steven Shemenski	1,030
5202	Christal Edwards	1,250
5206	David Woo	30,000
2020-0016	James Kevin Reed	1,360
		<u>\$ 246,207</u>

(See Independent Auditors' Report)

SCHEDULE OF CLAIMS PAYABLE
The Client Protection Fund of the Bar of Maryland
For the Year Ended June 30, 2020

<u>Claim Number</u>	<u>Attorney</u>	<u>Amount</u>
3088	Lawrence Hammond	\$ 125,000

(See Independent Auditors' Report)

