

Fear Not: Trust Accounting Basics

Tom Gorowsky
Max Weyforth



Thomas J. Gorowsky, CPA, CMA, CVA, MBA
Vice President

tom@fa-llc.com | 612-767-0104

Economic damages expert and forensic accountant with more than 15 years of financial, accounting and expert witness consulting experience. Expertise in complex commercial litigation involving economic damages, insurance claims, intellectual property, employment disputes, forensic accounting, fraud, business valuation, and white-collar crime. Appointed to the Minnesota Lawyers Professional Responsibility Board in 2024. Previously served on the National Association of Certified Valuators and Analysts' (NACVA's) Valuation Credentialing Board (Chair 2024) and Credentialing Commission Board.



Maxwell G. Weyforth, CPA
Senior Analyst

max@fa-llc.com | 612-767-0107

Over 4 years of combined experience in public accounting and financial consulting. Prior to litigation consulting, Max worked in public accounting for the audit group with one of the Big Four accounting firms in Kansas City and Minneapolis. Max provides assistance in a variety of litigation matters and disputes involving fraud, intellectual property infringement, misappropriation of trade secrets, breach of contract, and employment disputes.

Trust Accounting at its Core

- Used to hold the funds of your clients to be used or earned in the future
- They safeguard the property of your clients
- They keep your funds separate from your clients
- Used exclusively as the client directs
- To protect against the misuse of client funds
- When in doubt, refer to Rule 1.15 & MN Appendix 1



What Goes into Your Trust Account

Trust Account	Attorney's Operating Account
<ul style="list-style-type: none">• Advanced Deposits for Client costs• Unearned Retainers• Settlement proceeds• Third-party Funds• Anything held by the Attorney on behalf of their client that is unearned at the time of receipt	<ul style="list-style-type: none">• Earned Fees• Compliant Flat Fee retainers





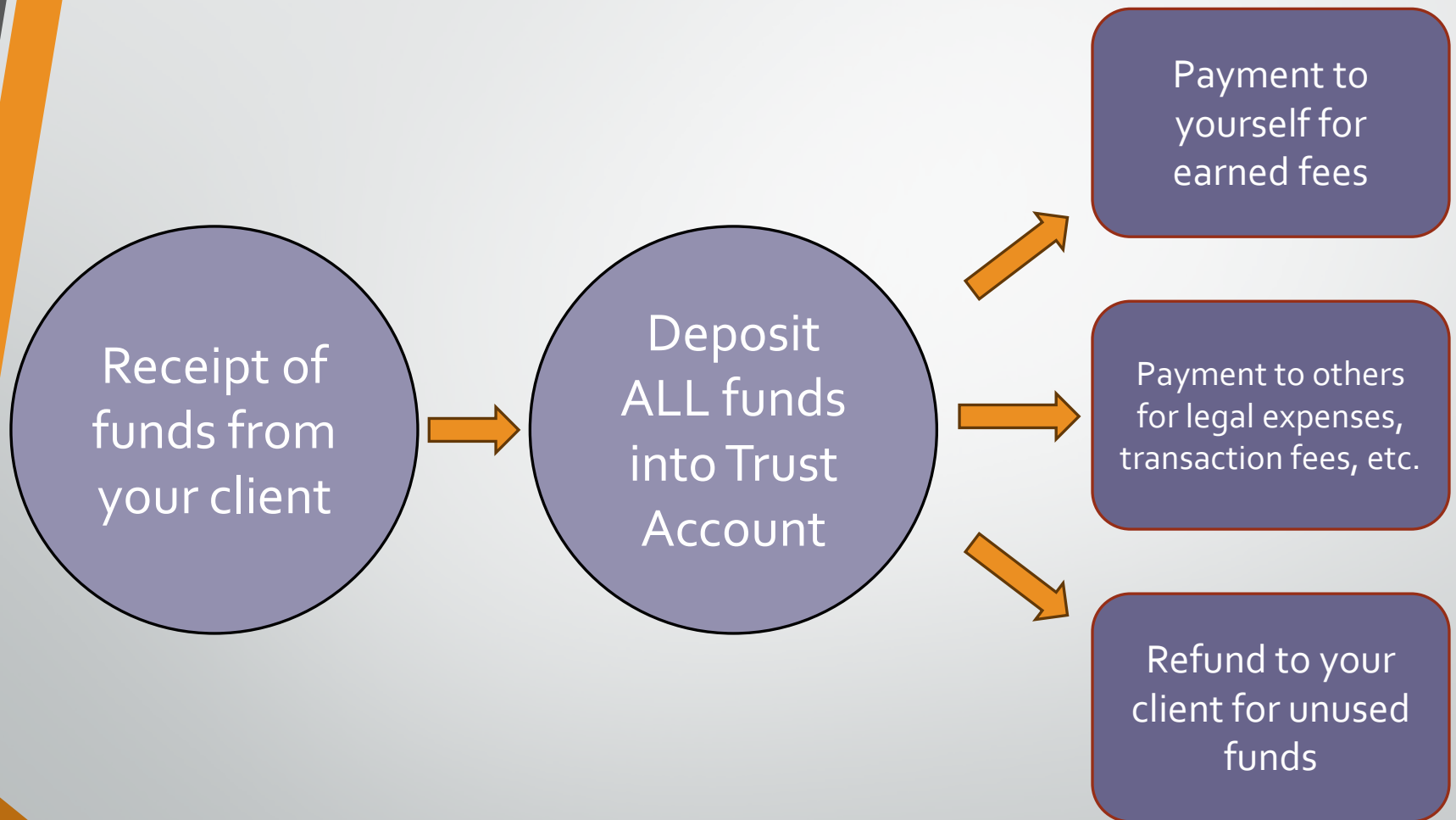
IOLTA Trust Accounts



- Interest on Lawyer Trust Accounts
- For nominal and short-term holdings of client funds
- Interest on the account is automatically calculated and transferred to the State IOLTA Program each month

- Benefits for All
 - Attorneys: No interest tracking necessary
 - Clients: Secure and safe funds
 - Everyone: Legal Aid Programs

Flow of Trust Accounting Transactions

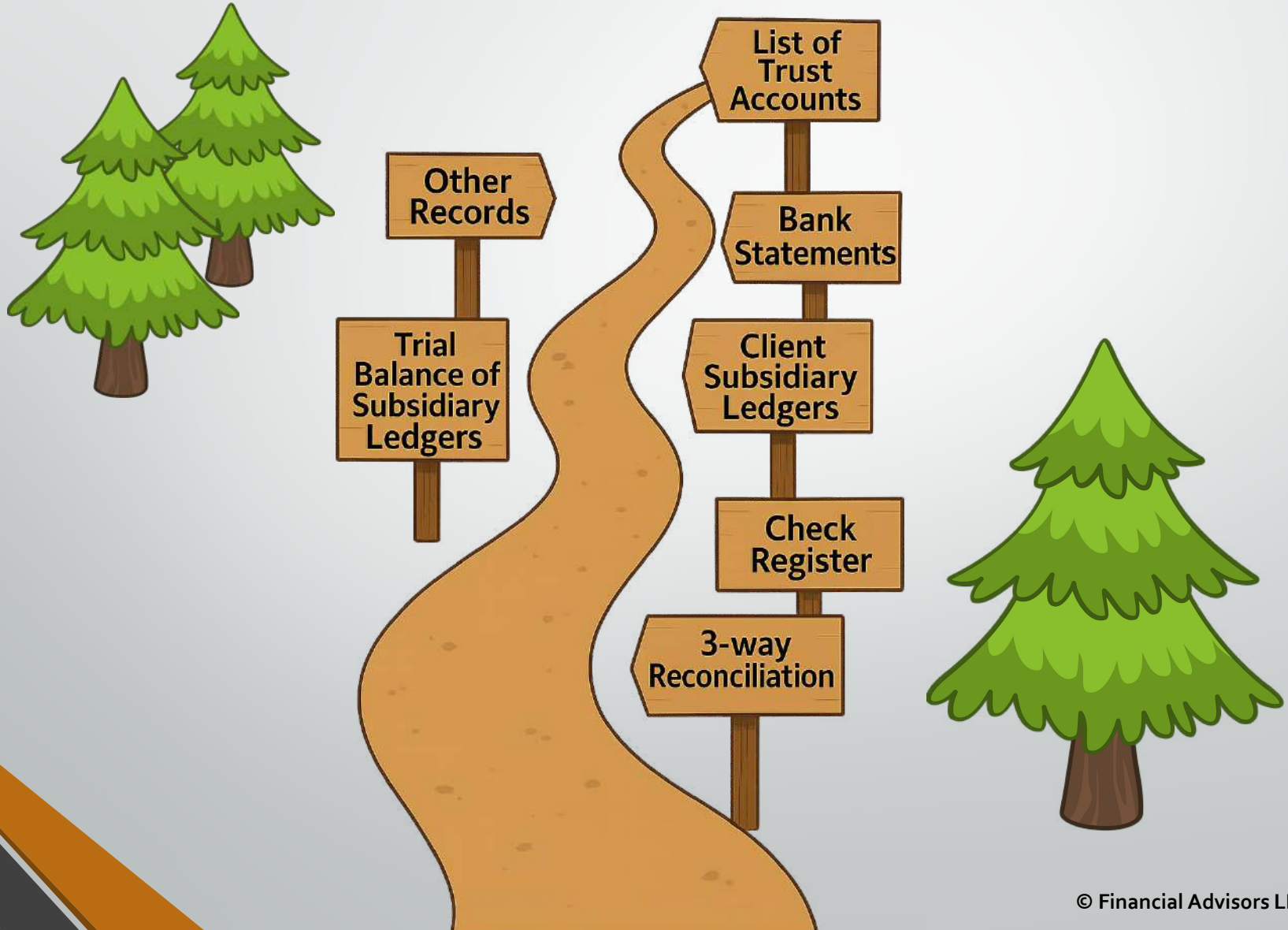


Don't Dread, Just Use Your Head
to Protect Their Bread:

Core Trust Accounting Requirements



Maintaining a Paper Trail



Books & Records: Check Register

Abogada Trust Account Checkbook Register Page 1						
Date	Payee or Deposit Source	Client	Check No.	Funds Paid	Funds Received	Balance
1/2/xx	Law Firm funds deposit	Firm			\$ 100	\$ 100
1/4/xx	Settlement received	Bates			15,000	15,100
1/7/xx	Retainer received	CCC			5,000	20,100
1/9/xx	Court Reporters, Inc.	Bates	1001	\$ 400		19,700
1/9/xx	Metro Wide Courier, Inc.	Bates	1002	60		19,640
1/9/xx	Dr. Bailey	Bates	1003	340		19,300
1/9/xx	Simon Bates	Bates	1004	9,200		10,100
1/9/xx	Maria Abogada	Bates	1005	5,000		5,100
1/15/xx	Ramsey Cnty Dist. Ct., filing fee	CCC	1006	132		4,968
1/22/xx	Retainer received	Davis			2,500	7,468
1/25/xx	Maria Abogada, cost. reimbursed	Davis	1007	152		7,316
1/25/xx	Maria Abogada, atty fees	Davis	1008	1,770		5,546
1/31/xx	Maria Abogada, atty fees	CCC	1009	2,075		3,471

Oldest



Newest

Books & Records: Client Subsidiary Ledger

Client Subsidiary Ledger

Client name: Simon Bates
 Description of representation: Car accident v. American States Ins.
 File or case number: 97-10

Date	Payee & Purpose	Check No.	Funds Paid	Funds Received	Balance
1/4/xx	Settlement Received			\$15,000	\$15,000
1/9/xx	Court Reporters, Inc., costs	1001	\$ 400		14,600
1/9/xx	Metro Wide Courier, Inc., costs	1002	60		14,540
1/9/xx	Dr. Bailey, expert witness fee	1003	340		14,200
1/9/xx	Simon Bates, settlement dist.	1004	9,200		5,000
1/9/xx	Maria Abogada, atty fees	1005	5,000		0

Books & Records:

Trial Balance of Subsidiary Ledgers

January 20xx Trial Balance

Client Name	Amount
Bates	\$ -
CCC	\$ 2,393.00
Davis	\$ 578.00
Firm	\$ 100.00
Trial Balance Total	\$ 3,071.00

Other Records

- Produced by your bank in the ordinary course
 - Check copies
 - Bank statements
 - Cancelled checks
 - Wire / ACH / Electronic transfer confirmations
 - Cash payment receipts



Reconciliation

Bank Statement Balance



Reduce the Errors & Alleviate your Terrors:

A Trust Accounting Relationship from
Beginning to End



Initial Deposit

- Receipt of funds from your client in the form of an unearned retainer
- Deposit the funds into your IOLTA Bank Account
- Record the Transaction in the **Client's Subsidiary Ledger**

Client Subsidiary Ledger						
Client Name		A. Smith - Trust Account				
Transactions	Date	Descr / Memo / Purpose	Check No	Deposit	Withdrawal	Cumulative Balance
A. Smith - Trust Account	10/11/2024	Retainer Deposit		\$ 2,500.00		\$ 2,500.00

- Record the Transaction in your **Check Register**

Check Register (Ledger) Detail							
Date	Descr / Memo / Purpose	Check Cash Date	Check No	Deposit	Withdrawal	Cumulative Balance	Client
1/23/2024	Initial Deposit to Open IOLTA			\$ 100.00		\$ 100.00	Attorney Funds
10/11/2024	Retainer Deposit			\$ 2,500.00		\$ 2,600.00	A. Smith - Trust Account
10/13/2024	Retainer Deposit			\$ 5,000.00		\$ 7,600.00	B. Witt - Trust Account
10/14/2024	September Billing	10/16/2024	1003		\$ 1,225.00	\$ 6,375.00	B. Witt - Trust Account

Paying Attorney Fees and Client Expenses

- Record the Transactions in the **Client's Subsidiary Ledger**

Client Subsidiary Ledger						
Client Name		A. Smith - Trust Account				
Transactions	Date	Descr / Memo / Purpose	Check No	Deposit	Withdrawal	Cumulative Balance
A. Smith - Trust Account	10/11/2024	Retainer Deposit		\$ 2,500.00		\$ 2,500.00
A. Smith - Trust Account	12/11/2024	Nov Invoice for legal Services	1007		\$ 700.00	\$ 1,800.00
A. Smith - Trust Account	4/1/2025	Filing Fee	1015		\$ 500.00	\$ 1,300.00
A. Smith - Trust Account	4/23/2025	Refund of Trust monies	1016		\$ 1,300.00	\$ -

- Record the Transactions in the **Check Register**

Check Register (Ledger) Detail							
Date	Descr / Memo / Purpose	Check Cash Date	Check No	Deposit	Withdrawal	Cumulative Balance	Client
1/23/2024	Initial Deposit to Open IOLTA			\$ 100.00		\$ 100.00	Attorney Funds
10/11/2024	Retainer Deposit			\$ 2,500.00		\$ 2,600.00	A. Smith - Trust Account
10/13/2024	Retainer Deposit			\$ 5,000.00		\$ 7,600.00	B. Witt - Trust Account
10/14/2024	September Billing	10/16/2024	1003		\$ 1,225.00	\$ 6,375.00	B. Witt - Trust Account
12/11/2024	November Billing	12/11/2024	1004		\$ 700.00	\$ 5,675.00	A. Smith - Trust Account
12/11/2024	November Billing	12/11/2024	1004		\$ 2,000.00	\$ 3,675.00	B. Witt - Trust Account
12/25/2024	Retainer Deposit	12/25/2024		\$ 1,000.00		\$ 4,675.00	S. Claus - Trust Account
1/3/2025	December Billing	1/3/2025	1005		\$ 500.00	\$ 4,175.00	S. Claus - Trust Account
3/4/2025	February Billing	3/4/2025	1006		\$ 1,225.00	\$ 2,950.00	B. Witt - Trust Account
3/4/2025	February Billing	3/4/2025	1006		\$ 500.00	\$ 2,450.00	S. Claus - Trust Account
4/1/2025	Filing Fee	4/1/2025	1007		\$ 500.00	\$ 1,950.00	A. Smith - Trust Account
4/3/2025	March Billing	4/3/2025	1008		\$ 550.00	\$ 1,400.00	B. Witt - Trust Account
4/23/2025	Refund of Trust Monies	4/23/2025	1009		\$ 1,300.00	\$ 100.00	A. Smith - Trust Account

Reconciliations

- Reconcile the **Check Register...**

Date	Descr / Memo / Purpose	Check Cash Date	Check No	Deposit	Withdrawal	Cumulative Balance	Client
1/23/2024	Initial Deposit to Open IOLTA			\$ 100.00		\$ 100.00	Attorney Funds
10/11/2024	Retainer Deposit			\$ 2,500.00		\$ 2,600.00	A. Smith - Trust Account
10/13/2024	Retainer Deposit			\$ 5,000.00		\$ 7,600.00	B. Witt - Trust Account
10/14/2024	September Billing	10/16/2024	1003		\$ 1,225.00	\$ 6,375.00	B. Witt - Trust Account
12/11/2024	November Billing	12/11/2024	1004		\$ 700.00	\$ 5,675.00	A. Smith - Trust Account
12/11/2024	November Billing	12/11/2024	1004		\$ 2,000.00	\$ 3,675.00	B. Witt - Trust Account
12/25/2024	Retainer Deposit	12/25/2024		\$ 1,000.00		\$ 4,675.00	S. Claus - Trust Account
1/3/2025	December Billing	1/3/2025	1005		\$ 500.00	\$ 4,175.00	S. Claus - Trust Account
3/4/2025	February Billing	3/4/2025	1006		\$ 1,225.00	\$ 2,950.00	B. Witt - Trust Account
3/4/2025	February Billing	3/4/2025	1006		\$ 500.00	\$ 2,450.00	S. Claus - Trust Account
4/1/2025	Filing Fee	4/1/2025	1007		\$ 500.00	\$ 1,950.00	A. Smith - Trust Account
4/3/2025	March Billing	4/3/2025	1008		\$ 550.00	\$ 1,400.00	B. Witt - Trust Account
4/23/2025	Refund of Trust Monies	4/23/2025	1009		\$ 1,300.00	\$ 100.00	A. Smith - Trust Account

- To the **Trial Balance of Subsidiary Ledgers.**

Client	Balance
A. Smith - Trust Account	\$ -
B. Witt - Trust Account	\$ -
S. Claus - Trust Account	\$ -
Attorney Funds	\$ 100.00
Total	\$ 100.00

Reconciliations (cont.)

- Reconcile the **Trial Balance of Subsidiary Ledgers and Check Register** to the **Bank Statement**.

Date	Descr / Memo / Purpose	Check Cash Date	Check No	Deposit	Withdrawal	Cumulative Balance	Client
1/23/2024	Initial Deposit to Open IOLTA			\$ 100.00		\$ 100.00	Attorney Funds
10/11/2024	Retainer Deposit			\$ 2,500.00		\$ 2,600.00	A. Smith - Trust Account
10/13/2024	Retainer Deposit			\$ 5,000.00		\$ 7,600.00	B. Witt - Trust Account
10/14/2024	September Billing	10/16/2024	1003		\$ 1,225.00	\$ 6,375.00	B. Witt - Trust Account
12/11/2024	November Billing	12/11/2024	1004		\$ 700.00	\$ 5,675.00	A. Smith - Trust Account
12/11/2024	November Billing	12/11/2024	1004		\$ 2,000.00	\$ 3,675.00	B. Witt - Trust Account
12/25/2024	Retainer Deposit	12/25/2024		\$ 1,000.00		\$ 4,675.00	S. Claus - Trust Account
1/3/2025	December Billing	1/3/2025	1005		\$ 500.00	\$ 4,175.00	S. Claus - Trust Account
3/4/2025	February Billing	3/4/2025	1006		\$ 1,225.00	\$ 2,950.00	B. Witt - Trust Account
3/4/2025	February Billing	3/4/2025	1006		\$ 500.00	\$ 2,450.00	S. Claus - Trust Account
4/1/2025	Filing Fee	4/1/2025	1007		\$ 500.00	\$ 1,950.00	A. Smith - Trust Account
4/3/2025	March Billing	4/3/2025	1008		\$ 550.00	\$ 1,400.00	B. Witt - Trust Account
4/23/2025	Refund of Trust Monies	4/23/2025	1009		\$ 1,300.00	\$ 100.00	A. Smith - Trust Account

IOLTA Bank Account Balance \$ 1,400.00

Reconciliation to Bank sans Outstanding Checks \$ (1,300.00)

Outstanding Checks				
#	Date	Check No	Amount	Client
1	4/23/2025	1009	\$ 1,300.00	A. Smith - Trust Account

Reconciliation to Bank \$ -

Do it Right and Avoid a Fright: Issues, Errors, and Consequences



Real Trust Accounting Horrors

- Using Trust Account for Personal Expenses
 - *In re Edinger*, 700 N.W.2d 462 (Minn. 2005)
 - *In re Swaray*, 867 N.W.2d 925 (Minn. 2015)
- Failure to keep books and records
 - *In re Reiter*, 567 N.W.2d 699 (Minn. 1997)
- Misappropriation: Distributing unearned client funds
 - *re Eskola*, 891 N.W.2d 294, 298-299 (Minn. 2017)

Common Issues & Errors

- Comingling of Funds
- Inaccurate and/or inconsistent record keeping
- Not preparing monthly reconciliations
- Failure to update clients about their accounts
- Failure to move earned funds out of the IOLTA
- Withdrawing funds before they clear the bank

Risks

- Investigation
- Fines/penalties
- Public Reprimand
- Suspension
- Disbarment



Case Study

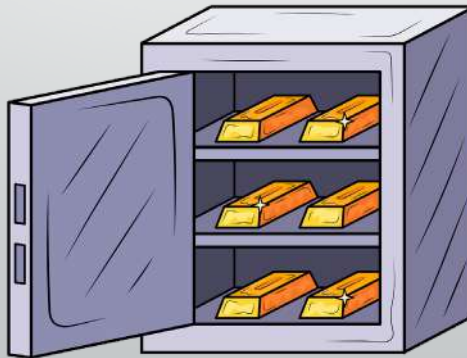
- What went wrong here?

Date	Descr / Memo / Purpose	Check Cash Date	Check No	Deposit	Withdrawal	Cumulative Balance	Client
10/10/2024	Retainer Deposit			\$ 5,000.00		\$ 5,000.00	S. Perez - Trust Account
10/11/2024	September Billing		1001		\$ 1,000.00	\$ 4,000.00	S. Pittman - Trust Account
10/13/2024	Retainer Deposit			\$ 5,000.00		\$ 9,000.00	N. Bolton - Trust Account
12/11/2024	November Billing		1002		\$ 500.00	\$ 8,500.00	S. Perez - Trust Account
12/11/2024	November Billing		1002		\$ 600.00	\$ 7,900.00	M. Mathers - Trust Account
12/11/2024	November Billing				\$ 200.00	\$ 7,700.00	N. Bolton - Trust Account
12/11/2024	Retainer Deposit		1001		\$ 1,000.00	\$ 6,700.00	S. Pittman - Trust Account
1/3/2025	Retainer Deposit			\$ 2,000.00		\$ 8,700.00	J. McCarthy - Trust Account
3/4/2025	February Billing		1003		\$ 800.00	\$ 7,900.00	N. Bolton - Trust Account

- How can we fix it?

So Remember

- Maintain detailed records of all trust accounting transactions
- Complete monthly reconciliations and reconcile your differences
- Your clients' trust funds are THEIR funds



Resources



- Accounting Software
 - QuickBooks
 - Clio Trust Account Management
 - LawPay
 - RunSensible
 - Smokeball Bill
- MN Lawyers Professional Responsibility Board
(<https://lprb.mncourts.gov/>)
 - Lists of approved Banking Institutions
 - QuickBooks Guide to Trust Accounting
 - Multiple Articles about Trust Accounting
- Rule 1.15 & Appendix 1

Q&A

