

ATTORNEY GRIEVANCE COMMISSION
OF MARYLAND
Crownsville, Maryland

AUDITED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

Commissioners
Attorney Grievance Commission of Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Attorney Grievance Commission of Maryland, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of budget, receipts, expenditures, and fund balance, 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.

Auditor's 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 audit 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 auditor's 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 auditor considers 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 significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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Basis for Qualified Opinion

As more fully described in Note 1, the Commission has expensed property and equipment at the date of purchase, a practice that was established by the Court at the inception of the Commission. In our opinion, property and equipment should be recorded at cost, if purchased, or at fair value, if received by donation or contribution, to conform with accounting principles generally accepted in the United States of America, and those amounts should be depreciated over the estimated useful lives of the assets. The results of this departure cannot be reasonably determined.

Qualified Opinion

In our opinion, except for the effects on the financial statements of not capitalizing and depreciating property and equipment as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Attorney Grievance Commission of Maryland as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink, appearing to read "Heim Hunt". The signature is fluid and cursive, with a large loop at the end.

Annapolis, Maryland
October 28, 2013

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
BALANCE SHEETS
JUNE 30, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
 CURRENT ASSETS		
Cash and cash equivalents	\$ 324,553	\$ 150,851
Investments	5,600,040	5,657,836
Attorney assessments receivable	8,330	8,780
Due from Client Protection Fund - salary and benefits	72,930	65,251
Prepaid expenses	<u>11,479</u>	<u>58,718</u>
 TOTAL ASSETS	 <u><u>\$ 6,017,332</u></u>	 <u><u>\$ 5,941,436</u></u>
 LIABILITIES AND FUND BALANCE		
 CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 16,229	\$ 35,132
Pension payable	56,555	-
Accrued compensated absences	233,927	210,057
Payable - Professionalism Center	<u>-</u>	<u>283,046</u>
Total current liabilities	306,711	528,235
Retiree health insurance credit plan	<u>53,175</u>	<u>-</u>
 TOTAL LIABILITIES	 359,886	 528,235
 FUND BALANCE		
Unrestricted	<u>5,657,446</u>	<u>5,413,201</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 6,017,332</u></u>	 <u><u>\$ 5,941,436</u></u>

The accompanying notes are an integral part of the financial statements.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF BUDGET, RECEIPTS, EXPENDITURES AND FUND BALANCE
YEARS ENDED JUNE 30, 2013 and 2012

	2013			2012		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
RECEIPTS						
Attorney assessments	\$ 4,018,960	\$ 4,163,412	\$ 144,452	\$ 4,455,625	\$ 4,584,520	\$ 128,895
Investment income	75,000	35,048	(39,952)	75,000	45,266	(29,734)
Recovered court costs	17,000	42,513	25,513	17,000	27,580	10,580
Fees from CPF - administrator	119,538	119,790	252	116,663	116,953	290
Fees from CPF - secretarial	55,304	55,594	290	52,467	52,467	-
Fees from CPF - administrative assistant	72,649	73,389	740	69,862	69,861	(1)
Fees from CPF - office clerk	32,423	42,948	10,525	26,722	25,472	(1,250)
Total receipts	4,390,874	4,532,694	141,820	4,813,339	4,922,119	108,780
EXPENDITURES						
Salary - bar counsel	133,198	133,198	-	125,000	125,750	(750)
- deputy bar counsel	106,893	106,893	-	91,252	92,752	(1,500)
- assistant bar counsel	603,433	659,469	(56,036)	584,208	564,228	19,980
- investigators	448,325	474,426	(26,101)	407,566	412,816	(5,250)
- office mgr. & admn. assistant	135,055	133,862	1,193	122,776	124,276	(1,500)
- paralegal	127,568	72,674	54,894	115,968	83,024	32,944
- secretaries	375,180	267,689	107,491	341,068	256,396	84,672
- CPF - secretarial	34,481	34,481	-	34,481	35,231	(750)
- CPF - administrator	86,547	86,547	-	86,547	87,297	(750)
- CPF - administrative assistant	47,080	47,080	-	47,080	47,830	(750)
- CPF - clerk	24,016	31,640	(7,624)	24,016	23,305	711
- Legal secretary	49,892	49,892	-	45,355	46,105	(750)
- Executive secretary	107,578	107,578	-	97,797	98,547	(750)
FICA	141,021	133,269	7,752	131,673	121,051	10,622
Medicare	32,981	31,048	1,933	30,794	28,198	2,596
Employee benefits	711,169	717,077	(5,908)	662,536	641,765	20,771
Telephone	29,340	12,441	16,899	29,340	14,070	15,270
Photocopy	12,400	12,143	257	12,400	6,574	5,826
Postage meter	5,500	4,160	1,340	5,500	4,740	760
Office supplies	35,000	32,989	2,011	35,000	32,312	2,688
Postage	28,000	27,532	468	28,000	24,339	3,661
Insurance and bonds	16,000	11,358	4,642	16,000	11,867	4,133
Travel and mileage	66,500	56,059	10,441	66,500	54,390	12,110
Equipment maintenance	4,500	3,618	882	4,500	5,409	(909)
Dues/professional organizations	15,000	5,000	10,000	10,000	9,860	140

The accompanying notes are an integral part of the financial statements.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF BUDGET, RECEIPTS, EXPENDITURES AND FUND BALANCE
YEARS ENDED JUNE 30, 2013 and 2012 (Continued)

	2013			2012		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (Continued)						
Investigator/related costs	96,000	124,209	(28,209)	96,000	51,996	44,004
Contin. Education & related cost	15,000	18,198	(3,198)	-	11,357	(11,357)
Depositions and transcripts	26,000	19,338	6,662	26,000	30,711	(4,711)
Commission expenses	15,000	8,174	6,826	15,000	10,484	4,516
Peer review committee	110,079	68,498	41,581	107,412	74,754	32,658
Audit and periodic support	18,000	17,500	500	14,500	14,875	(375)
Bank fees	400	631	(231)	800	280	520
Outside legal and software support	5,000	14,343	(9,343)	10,000	5,179	4,821
Conservatorship costs	12,500	9,691	2,809	10,000	10,079	(79)
Office furniture	25,000	954	24,046	25,000	17,646	7,354
Computer hardware and software	150,000	112,085	37,915	85,000	29,117	55,883
Peer review training seminars	10,000	-	10,000	10,000	600	9,400
Law library	13,000	20,340	(7,340)	11,000	20,171	(9,171)
Case Management System Development	300,000	357,940	(57,940)	-	-	-
Lawyer assistance program	97,128	102,784	(5,656)	97,128	98,595	(1,467)
Office supplies	2,500	2,453	47	2,000	2,039	(39)
Mailing costs	2,500	119	2,381	25,000	1,996	23,004
Equipment purchases	10,500	2,957	7,543	5,500	1,924	3,576
Equipment maintenance	4,800	3,175	1,625	4,800	3,241	1,559
Telephone	3,000	100	2,900	3,000	-	3,000
Miscellaneous	1,000	348	652	1,000	300	700
Retiree Health Insurance Credit Plan	20,000	56,620	(36,620)	-	-	-
Compensated absences	-	23,870	(23,870)	-	(6,985)	6,985
Total Expenditures	\$ 4,314,064	\$ 4,216,449	\$ 97,615	\$ 3,704,497	\$ 3,330,491	\$ 374,006
INCREASE IN UNRESTRICTED FUND BALANCE						
BEFORE COURT ORDERED TRANSFER	\$ 76,810	\$ 316,245	\$ 44,205	\$ 1,108,842	\$ 1,591,628	\$ (265,226)
Court Ordered Transfer	\$ 300,000	\$ 72,000	228,000	\$ -	\$ 5,700,000	\$ -
INCREASE (DECREASE) IN UNRESTRICTED FUND BALANCE	\$ (223,190)	\$ 244,245	\$ 44,205	\$ 1,108,842	\$ (4,108,372)	\$ (265,226)
UNRESTRICTED FUND BALANCE, BEGINNING OF YEAR		\$ 5,413,201			\$ 9,521,573	
UNRESTRICTED FUND BALANCE, END OF YEAR		\$ 5,657,446			\$ 5,413,201	

The accompanying notes are an integral part of the financial statements.

THE ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Increase (decrease) in unrestricted fund balance:	\$ 244,245	\$(4,108,372)
Adjustments to reconcile increase in unrestricted fund balance to cash provided by operating activities		
(Increase) decrease in:		
Attorney assessments receivable	450	4,613
Due from Client Protection Fund	(7,679)	1,177
Prepaid expenses	47,239	(20,919)
Increase (decrease) in:		
Accounts payable	(18,903)	18,497
Pension payable	56,555	-
Accrued compensated absences	23,870	(6,985)
Payable - Professionalism Center	(283,046)	283,046
Retiree health insurance credit plan	53,175	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(128,339)	279,429
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments - net	57,796	3,512,818
NET CASH PROVIDED BY INVESTING ACTIVITIES	57,796	3,512,818
NET INCREASE (DECREASE) IN CASH	173,702	(316,125)
CASH AT BEGINNING OF YEAR	150,851	466,976
CASH AT END OF YEAR	\$ 324,553	\$ 150,851

The accompanying notes are an integral part of the financial statements.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Nature of the Commission

The Attorney Grievance Commission of Maryland, (the Commission) was authorized and created by the Court of Appeals of Maryland on February 10, 1975 to supervise and administer the discipline and inactive status of attorneys under Maryland rules. The Commission oversees the conduct of both Maryland lawyers and nonmembers of the Maryland Bar who engage in the practice of law in the State. The Commission investigates and, where indicated, prosecutes attorneys whose conduct violates the Maryland Lawyers Rules of Professional Conduct as well as those engaged in the unauthorized practice of law.

Basis of Accounting

As an instrumentality of the State of Maryland, the Commission maintains its accounting records on a basis consistent with a governmental special revenue fund. These funds are used to account for the proceeds of revenue sources that are restricted to expenditures for specific purposes. These financial statements reflect only the activity of an unrestricted fund. There are no permanently or temporarily restricted funds.

Revenue and Revenue Recognition

Attorney assessments are the Commission's primary source of revenue. Assessments are received through payments made by individual attorneys to the Client Protection Fund of the Bar of Maryland (the Fund) on a billing which includes assessment for both the Fund and the Commission. These assessments are required by the Maryland court system on an annual basis by any individual who is admitted to practice before the Court of Appeals or is issued a certificate of special authorization under Rule 15 of the Rules Governing Admission to the Bar of Maryland, or any individual who holds himself or herself out as being admitted to practice in Maryland by any means.

Since there is no requirement that an individual remain admitted to practice law in the State of Maryland, assessments are deemed to be revenue only when collected, the only receivable on these financial statements are assessments collected by the Client Protection Fund but not yet remitted to the Commission. Based on prior experience, management feels that all amounts will be collected; therefore, there is no allowance for doubtful accounts included in these financial statements. The assessment for the Commission for the years ended June 30, 2013 and 2012 was \$110 and \$125, respectively, for each attorney in practice. The number of practicing attorneys assessed during the years ended June 30, 2013 and 2012 was 37,290 and 35,531, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Commission is an instrumentality of the State of Maryland and as such is not subject to income taxes. Accordingly, no provision has been made. The Commission believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 and 2012

material to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents represent cash held in checking, savings and money market accounts with original maturities of less than ninety days.

Property and Equipment

The Commission customarily budgets for and expenses property and equipment in the year of purchase, and accordingly, there are no property, equipment, accumulated depreciation, or depreciation expense included in these financial statements.

Investments - other

The Commission invests in U.S. Government securities and certificates of deposit, including Treasury Bills and Treasury notes. Investments are recorded at market value as of the balance sheet date.

Compensated Absences

The entity accrues a liability for certain sick leave, and all annual leave which has been earned but not taken by the employees. Employees can earn a maximum of 25 days for annual leave a year. Annual leave can be accumulated up to 35 days. There is no requirement that annual leave be taken in the year earned. Upon termination, employees are paid for any accumulated annual leave. Employees hired prior to January 1, 1989 are reimbursed one third of accumulated sick leave, up to twenty days upon termination. Employees hired after 1988 are not reimbursed for accumulated sick leave.

NOTE 2 – INVESTMENTS

For the years ending June 30, 2013 and 2012, investment income consisted of the following:

<u>Year ended</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Interest Income	\$ 36,900	\$ 60,843
Unrealized Gain/(Loss)	<u>(1,851)</u>	<u>(15,577)</u>
Total Investment Income	<u>\$ 35,048</u>	<u>\$ 45,266</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial instruments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 and 2012

Level 1. These are financial instruments where values are based on unadjusted quoted prices for an identical asset in an active market the Commission has the ability to access.

Level 2. These are financial instruments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the financial instruments.

Level 3. These are financial instruments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the financial instruments. These financial instruments include non-readily marketable securities that do not have an active market.

All of the Commissions' investments are stated at fair value on a recurring basis, using level 1 inputs. Unrealized gains and losses are included as a component of investment income.

<u>Year ending</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Certificates of Deposit	\$ 5,598,868	\$ 5,356,752
US Government Securities	<u>1,172</u>	<u>301,084</u>
Total Investments	<u>\$ 5,600,040</u>	<u>\$ 5,657,836</u>

NOTE 4 - PENSION PLAN

The Commission sponsors a trustee defined contribution pension plan covering substantially all employees meeting minimum age and service requirements. Contributions to the plan during the years ended June 30, 2013 and 2012 were \$300,273 and \$257,650, respectively. This amount is equal to 15% of the participant's compensation.

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS

On September 1, 2012 the Commission adopted an other postemployment benefit plan (OPEB) in order to provide health insurance expense reimbursement benefits to eligible retirees and their surviving spouses. The official name of the plan is “The Attorney Grievance Commission of Maryland Retiree Health Insurance Credit Plan”. The Eligible retirees will include employees with at least ten years of service and have attained age fifty-five, or persons who have become disabled and are receiving benefits under the terms of the Social Security Act. Surviving spouses must have been covered under this plan at the time of the retiree’s death and enroll in the Plan on the first day of the month following the death of the covered retiree. Plan benefits will be paid directly by the Commission to the retiree at a rate of the lesser of \$1,980 annually or their actual health insurance premiums. The total contribution expense charged as an expenditure in the current year was \$54,000. The actual and estimated schedules of employer contributions and funding progress are as follows thru June 30, 2015, assuming a discount rate of 3.5%:

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 and 2012

Schedule of Employer Contributions

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$54,000	\$825	1.5%	\$53,175
2014	\$57,000	\$8,000	14.0%	\$102,175
2015	\$59,000	\$12,000	20.3%	\$149,175

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
7/1/2012	\$0	\$363,000	\$363,000	0.0%
7/1/2013	\$0	\$391,000	\$391,000	0.0%
7/1/2014	\$0	\$418,000	\$418,000	0.0%

NOTE 6 - RELATED PARTY TRANSACTIONS

The Commission has significant transactions with the Client Protection Fund of the Bar of Maryland, an instrumentality of the State of Maryland. All assessments of the Client Protection Fund of the Bar of Maryland and the Attorney Grievance Commission of Maryland are billed and collected by the Client Protection Fund of the Bar of Maryland and the Commission's portion is transferred monthly by a bank transfer.

During the years ending June 30, 2013 and 2012 the Client Protection Fund of the Bar of Maryland incurred fees for salaries and benefits used in the billing and collection process in the amount of \$291,721 and \$264,753 respectively. At June 30, 2013 and 2012, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$72,930 and \$65,251, respectively. In addition, the Client Protection Fund of the Bar of Maryland owed to the Commission attorney assessments in the amount of \$8,330 and \$8,780 at June 30, 2013 and 2012, respectively.

On December 16th, 2011, the Court of Appeals of Maryland ordered the Commission to transfer \$5,400,000 of its investments to the Client Protection Fund of the Bar of Maryland.

On December 16th, 2011, the Court of Appeals of Maryland ordered the Commission to transfer \$300,000 to the Maryland Professionalism Center (the Center), an instrumentality of the State of Maryland. On January 9, 2013, the Court of Appeals of Maryland ordered the Commission to transfer \$72,000 to the Center.

NOTE 7 – DONATED FACILITIES

As an instrumentality of the State of Maryland, the Commission is provided with facilities which comprise all of its office space. The Commission is not responsible for paying any rent, utilities, or operating expenses for the use of these facilities. No amounts have been recognized as revenue for the

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013 and 2012

use of these facilities, and accordingly, no amounts have been recognized as expense for the use of these facilities because management feels that the amounts cannot reasonably be estimated.

NOTE 8 - BOND

The Commission has a \$6,000,000 blanket crime protection insurance policy in effect for employee dishonesty.

NOTE 9 – CONTINGENCIES

As an instrumentality of the State of Maryland, the Court of Appeals, at its discretion can order a transfer of funds from the Commission to court related agencies. At June 30, 2013, the Commission is not aware of any such orders, and the amount of any future Court ordered transfers cannot reasonably be determined.

NOTE 10 – MANAGEMENT’S SUBSEQUENT REVIEW

The Commission has evaluated subsequent events through October 28, 2013, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.