

ATTORNEY GRIEVANCE COMMISSION
OF MARYLAND
Crownsville, Maryland

AUDITED FINANCIAL STATEMENTS
June 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Commissioners
Attorney Grievance Commission of Maryland

We have audited the accompanying balance sheets of Attorney Grievance Commission of Maryland (established by the Maryland Court of Appeals), as of June 30, 2012 and 2011, and the related statements of budget, receipts, expenditures and fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Attorney Grievance Commission of Maryland as of June 30, 2012 and 2011, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Annapolis, Maryland
November 12, 2012

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
BALANCE SHEETS
JUNE 30, 2012 and 2011**

ASSETS	<u>2012</u>	<u>2011</u>
 CURRENT ASSETS		
Cash and cash equivalents	\$ 150,851	\$ 466,976
Investments	5,657,836	9,170,654
Attorney assessments receivable	8,780	13,393
Due from Client Protection Fund - salary and benefits	65,251	66,428
Prepaid expenses - employee pension	<u>58,718</u>	<u>37,799</u>
 TOTAL ASSETS	 <u><u>\$ 5,941,436</u></u>	 <u><u>\$ 9,755,250</u></u>
 LIABILITIES AND FUND BALANCE		
 CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 35,132	\$ 16,635
Accrued compensated absences	210,057	217,042
Payable - Professionalism Center	<u>283,046</u>	<u>-</u>
Total liabilities	528,235	233,677
 FUND BALANCE		
Unrestricted	<u>5,413,201</u>	<u>9,521,573</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 5,941,436</u></u>	 <u><u>\$ 9,755,250</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, 2012 and 2011

	2012			2011		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
RECEIPTS						
Attorney assessments	\$ 4,455,625	\$ 4,584,520	\$ 128,895	\$ 4,375,875	\$ 4,505,227	\$ 129,352
Investment income	75,000	45,266	(29,734)	80,000	99,046	19,046
Recovered court costs	17,000	27,580	10,580	17,000	21,123	4,123
Fees from CPF - administrator	116,663	116,953	290	123,751	116,663	(7,088)
Fees from CPF - secretarial	52,467	52,467	-	55,505	52,467	(3,038)
Fees from CPF - administrative assistant	69,862	69,861	(1)	71,700	69,861	(1,839)
Fees from CPF - office clerk	26,722	25,472	(1,250)	31,446	26,721	(4,725)
Total receipts	4,813,339	4,922,119	108,780	4,755,277	4,891,108	135,831
EXPENDITURES						
Salary - bar counsel	125,000	125,750	(750)	240,662	240,670	(8)
- deputy bar counsel	91,252	92,752	(1,500)	91,251	91,902	(651)
- assistant bar counsel	584,208	564,228	19,980	513,344	487,111	26,233
- investigators	407,566	412,816	(5,250)	407,566	396,526	11,040
- office mgr. & admn. assistant	122,776	124,276	(1,500)	122,776	122,776	-
- paralegal	115,968	83,024	32,944	81,524	81,524	-
- secretaries	341,068	256,396	84,672	311,858	251,146	60,712
- CPF - secretarial	34,481	35,231	(750)	34,481	34,481	-
- CPF - administrator	86,547	87,297	(750)	86,547	86,547	-
- CPF - administrative assistant	47,080	47,830	(750)	47,080	47,080	-
- CPF - clerk	24,016	23,305	711	24,016	24,016	-
- Legal secretary	45,355	46,105	(750)	45,355	45,355	-
- Executive secretary	97,797	98,547	(750)	97,797	97,797	-
FICA	131,673	121,051	10,622	130,464	121,747	8,717
Medicare	30,794	28,198	2,596	30,512	28,594	1,918
Employee benefits	662,536	641,765	20,771	575,122	550,925	24,197
Telephone	29,340	14,070	15,270	16,000	13,813	2,187
Photocopy	12,400	6,574	5,826	10,000	12,657	(2,657)
Postage meter	5,500	4,740	760	6,000	4,740	1,260
Office supplies	35,000	32,312	2,688	35,000	26,688	8,312
Postage	28,000	24,339	3,661	30,000	23,200	6,800
Insurance and bonds	16,000	11,867	4,133	14,000	11,845	2,155
Travel and mileage	66,500	54,390	12,110	60,000	58,471	1,529
Equipment maintenance	4,500	5,409	(909)	4,500	2,945	1,555
Dues/professional organizations	10,000	9,860	140	10,000	4,418	5,582

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, 2012 and 2011 (Continued)

	2012			2011		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (Continued)						
Investigator/related costs	96,000	51,996	44,004	80,000	77,039	2,961
Contin. Education & related cost	10,000	11,357	(1,357)	-	-	-
Depositions and transcripts	26,000	30,711	(4,711)	20,000	24,275	(4,275)
Commission expenses	15,000	10,484	4,516	15,000	11,119	3,881
Peer review committee	107,412	74,754	32,658	98,637	69,377	29,260
Audit and periodic support	18,000	14,875	3,125	14,500	11,375	3,125
Bank fees	300	280	20	800	152	648
Outside legal and software support	10,000	5,179	4,821	15,000	5,883	9,117
Conservatorship costs	10,000	10,079	(79)	10,000	7,778	2,222
Office furniture	25,000	17,646	7,354	25,000	8,147	16,853
Computer hardware and software	85,000	29,117	55,883	125,000	41,654	83,346
Peer review training seminars	10,000	600	9,400	10,000	740	9,260
Law library	11,000	20,171	(9,171)	15,000	13,972	1,028
Lawyer assistance program	97,128	98,595	(1,467)	97,128	96,407	721
Office supplies	2,000	2,039	(39)	2,000	1,596	404
Mailing costs	25,000	1,996	23,004	2,500	1,200	1,300
Equipment purchases	10,500	1,924	8,576	5,500	-	5,500
Equipment maintenance	4,800	3,241	1,559	4,800	3,725	1,075
Telephone	3,000	-	3,000	3,000	-	3,000
Miscellaneous	1,000	300	700	1,000	300	700
Compensated absences	-	(6,985)	6,985	-	(18,392)	18,392
Total Expenditures	\$ 3,722,497	\$ 3,330,491	\$ 392,006	\$ 3,570,720	\$ 3,223,321	\$ 347,399
INCREASE IN UNRESTRICTED FUND BALANCE						
BEFORE COURT ORDERED TRANSFER	\$ 1,090,842	\$ 1,591,628	\$ (283,226)	\$ 1,184,557	\$ 1,667,787	\$ (211,568)
Court Ordered Transfer	\$ -	\$ 5,700,000	\$ (5,700,000)	\$ -	\$ -	\$ -
INCREASE (DECREASE) IN UNRESTRICTED FUND BALANCE	\$ 1,090,842	\$ (4,108,372)	\$ (283,226)	\$ 1,184,557	\$ 1,667,787	\$ (211,568)
UNRESTRICTED FUND BALANCE, BEGINNING OF YEAR		\$ 9,521,573			\$ 7,853,786	
UNRESTRICTED FUND BALANCE, END OF YEAR		\$ 5,413,201			\$ 9,521,573	

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, 2012 and 2011

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2012</u>	<u>2011</u>
Increase (decrease) in unrestricted fund balance:	\$(4,108,372)	\$ 1,667,787
Adjustments to reconcile increase in unrestricted fund balance to cash provided by operating activities		
(Increase) decrease in:		
Attorney assessments receivable	4,613	(1,933)
Due from Client Protection Fund	1,177	(6,680)
Prepaid expenses	(20,919)	(37,799)
Increase (decrease) in:		
Accounts payable	18,497	(4,097)
Accrued compensated absences	(6,985)	(18,392)
Payable - Professionalism Center	<u>283,046</u>	<u>-</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 279,429	 (68,901)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (Purchase) of investments - net	<u>3,512,818</u>	<u>(1,570,650)</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 3,512,818	 (1,570,650)
 NET INCREASE (DECREASE) IN CASH	 <u>(316,125)</u>	 <u>28,236</u>
 CASH AT BEGINNING OF YEAR	 <u>466,976</u>	 <u>438,740</u>
 CASH AT END OF YEAR	 <u><u>\$ 150,851</u></u>	 <u><u>\$ 466,976</u></u>

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011

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 of Procedure - Chapter 1100. 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, and accordingly, there is no receivable on these financial statements for uncollected assessments. The assessment for the Commission for the years ended June 30, 2012 and 2011 was \$125 and \$125, respectively, for each attorney in practice. The number of practicing attorneys assessed during the years ended June 30, 2012 and 2011 was 35,531 and 35,457, 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 material to the financial statements.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012 and 2011

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

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, 2012 and 2011, investment income consisted of the following:

<u>Year ended</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Interest Income	\$ 60,843	\$ 91,863
Unrealized Gain/(Loss)	<u>(15,577)</u>	<u>7,183</u>
Total Investment Income	<u>\$ 45,266</u>	<u>\$ 99,046</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:

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.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012 and 2011

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, 2012</u>	<u>June 30, 2011</u>
Certificates of Deposit	5,356,752	8,369,630
US Government Securities	301,084	801,024
Total Investments	<u>\$ 5,657,836</u>	<u>\$ 9,170,654</u>

NOTE 4 - PENSION PLAN

A defined contribution pension plan for full-time employees of the Commission was adopted with an effective date of July 1, 1976.

Contributions to the plan during the years ended June 30, 2012 and 2011 were \$257,650 and \$237,199, respectively. This amount is equal to 15% of the participant's compensation.

All contributions due have been paid and no prior service liability existed at June 30, 2012 and 2011.

NOTE 5 - 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, 2012 and 2011 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 \$264,753 and \$265,712 respectively. At June 30, 2012 and 2011, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$65,251 and \$66,428, respectively. In addition, the Client Protection Fund of the Bar of Maryland owed to the Commission attorney assessments in the amount of \$8,780 and \$13,393 at June 30, 2012 and 2011, 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.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012 and 2011

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. At June 30, 2012, \$16,954 of this transfer had been made by way of paying expenses on behalf of the Center. At June 30, 2012, \$283,046 was owed to the Center per the Court of Appeals of Maryland, and is included on the accompanying balance sheet as a current liability.

NOTE 6 – 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 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 7 - BOND

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

NOTE 8 – CONTINGENCIES

As an instrumentality of the State of Maryland, the State, at its discretion can order a transfer of funds from the Commission to other branches of the court system. At June 30, 2012, the Commission is not aware of any such orders, and the amount of any future Court ordered transfers cannot reasonably be determined.

NOTE 9 – MANAGERMENTS SUBSEQUENT REVIEW

The Commission has evaluated subsequent events through November 12, 2012, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.