

ATTORNEY GRIEVANCE COMMISSION
OF MARYLAND
Annapolis, Maryland

AUDITED FINANCIAL STATEMENTS
June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the 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, 2018 and 2017, 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 audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Attorney Grievance Commission of Maryland as of June 30, 2018 and 2017, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information 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 audit 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.

A handwritten signature in blue ink, appearing to read "Heimir", with a stylized flourish at the end.

Annapolis, Maryland
October 19, 2018

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND

BALANCE SHEETS

JUNE 30, 2018 and 2017

2018

2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 962,919	\$ 875,626
Investments - Other	3,750,000	2,746,042
Attorney assessments receivable	94,587	2,865
Due from Client Protection Fund - salary and benefits	21,634	33,385
Prepaid expenses	9,068	52,596
TOTAL CURRENT ASSETS	4,838,208	3,710,514

Property and equipment, net	30,957	45,364
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NON-CURRENT ASSETS

Investments -Other	-	1,000,436
Security deposits	20,020	20,020
TOTAL NON-CURRENT ASSETS	20,020	1,020,456

TOTAL ASSETS	\$ 4,889,185	\$ 4,776,334
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LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES

Accounts payable and other current liabilities	85,237	80,834
Pension payable	274,916	152,407
Accrued compensated absences	159,878	208,203
Current portion of deferred lease expense	5,859	5,859
TOTAL CURRENT LIABILITIES	525,890	447,303

Deferred lease expense	35,156	41,016
Retiree health insurance credit plan	864,167	897,390

TOTAL LIABILITIES	1,425,213	1,385,709
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FUND BALANCE

Restricted	342,969	734,758
Unrestricted	3,121,003	2,655,867
TOTAL FUND BALANCE	3,463,972	3,390,625

TOTAL LIABILITIES AND FUND BALANCE	\$ 4,889,185	\$ 4,776,334
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The accompanying notes are an integral part of the financial statements.

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF BUDGET, RECEIPTS, EXPENDITURES, AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

	<u>2018</u>			<u>2017</u>
	<u>Actual</u>	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
COMMISSION RECEIPTS				
Attorney Assessments	\$ 4,464,131	4,432,900	\$ 31,231	\$ 4,428,111
Investment Income	63,067	28,500	34,567	20,422
Court Recovered Costs	41,862	45,400	(3,538)	53,151
Other Income	-	-	-	22,310
CPF Reimbursements	403,348	375,100	28,248	368,675
TOTAL RECEIPTS	<u>4,972,408</u>	<u>4,881,900</u>	<u>90,508</u>	<u>4,892,669</u>
COMMISSION EXPENSES				
Personnel Costs	2,751,551	3,277,600	(526,049)	2,786,055
Case Management Costs	291,714	295,300	(3,586)	258,664
Staff Support	85,908	105,900	(19,992)	101,724
Outside Services	118,548	115,100	3,448	108,158
Information Technology Support	164,339	252,500	(88,161)	226,095
Office Expense	351,343	406,400	(55,057)	381,526
Court Mandated Costs	160,127	175,200	(15,073)	145,516
Client Protection Fund - Payroll	240,773	236,650	4,122.84	236,564
TOTAL EXPENDITURES	<u>4,164,303</u>	<u>4,864,650</u>	<u>(700,347)</u>	<u>4,244,303</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 808,105</u>	<u>\$ 17,250</u>	<u>\$ 790,855</u>	<u>\$ 648,365</u>
FUND BALANCE, BEGINNING OF YEAR	3,390,625			2,935,158
RESTRICTED FUND BALANCE, PRIOR YEAR	(734,758)			(192,898)
RESTRICTED FUND BALANCE, CURRENT YEAR	342,969			734,758
UNRESTRICTED FUND BALANCE	<u>3,121,003</u>			<u>2,655,867</u>
FUND BALANCE, END OF YEAR	<u>\$ 3,463,972</u>			<u>\$ 3,390,625</u>

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, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Increase in fund balance:	\$ 808,105	\$ 648,365
Adjustments to reconcile increase in unrestricted fund balance to cash provided (used) by operating activities		
Depreciation	17,244	51,519
(Increase) decrease in:		
Attorney assessments receivable	(91,722)	16
Due from Client Protection Fund	11,751	83,955
Other receivables	-	-
Prepaid expenses	43,528	(29,142)
Pension receivable	-	10,421
Increase (decrease) in:		
Accounts payable	4,403	(94,047)
Pension payable	122,509	152,407
Accrued compensated absences	(48,325)	(64,166)
Retiree health insurance credit plan	(33,223)	102,559
Deferred lease expense	(5,860)	(5,859)
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 828,410	 856,028
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments - net	(3,522)	102,759
Purchase of property & equipment	(2,837)	(4,143)
Excess fund balance	(734,758)	(192,898)
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 (741,117)	 (94,282)
 NET INCREASE (DECREASE) IN CASH	 87,293	 761,746
 CASH AT BEGINNING OF YEAR	 875,626	 113,880
 CASH AT END OF YEAR	 <u>\$ 962,919</u>	 <u>\$ 875,626</u>

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

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 Maryland Court of Appeals, the Commission maintains its accounting records on a basis consistent with generally accepted accounting principles. The Commission's 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.

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 assessments for the Fund and the Commission. These annual assessments are required by the Maryland court system for any individual admitted to practice before the Court of Appeals or 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 collected by the Commission for each attorney in practice was \$110 for the year ended June 30, 2018 and \$110 for the year ended June 30, 2017. The number of practicing attorneys assessed during the years ended June 30, 2018 and 2017 was 40,300 and 39,890, 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 Maryland Court of Appeals 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.

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.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018 and 2017

Investments

The Commission invests solely in brokered certificates of deposit. These investments are identified as Investments – Other and are recorded at cost as of the balance sheet date.

Property and Equipment

Acquisitions of equipment and furniture and all expenditures for repairs, maintenance, and betterments costing \$1,000 or greater that materially prolong the useful lives of assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Equipment and furniture are stated at cost, less accumulated depreciation. Depreciation and amortization are computed using the straight-line method over estimated useful lives of three to thirty-nine years. Leasehold improvements are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

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 sixty days upon termination. Employees hired after 1988 are not reimbursed for accumulated sick leave.

NOTE 2 – INVESTMENTS - OTHER

Investments were previously accounted for in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*. Because all investments have been consolidated and include only negotiable certificates of deposit, the Commission revised its policy to account for these investments in accordance with FASB ASC 825, *Financial Instruments – Overall*, where they are classified as Held-to-Maturity and carried at amortized cost. Currently, all certificates of deposit mature within one year and are classified as current assets. Because the Certificates of Deposit are purchased in increments of \$250,000 or less, they are insured by the FDIC. Accordingly, there is virtually no risk of gain or loss, as long as the investments are held to maturity. It is the Commission’s intent to hold all investments to maturity. To transition to the new method, an unrealized gain of \$3,522 is included in investment income.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2018	2017
Computer equipment	\$ 70,831	\$ 70,831
Furniture and fixtures	72,113	69,277
Leasehold improvements	17,390	17,390
Software	118,796	118,796
Total property and equipment	279,130	276,293
Less accumulated depreciation	248,173	230,929
Property and equipment, net	\$ 30,957	\$ 45,364

Depreciation expense for the periods ending June 30, 2018 and 2017 was \$17,244 and \$51,519, respectively.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018 and 2017

NOTE 5 - 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 for the years ended June 30, 2018 and 2017 were \$274,916 and \$237,064, respectively. This amount is equal to 15% of the participant's compensation. For periods ending June 30, 2018 and 2017, the amount owed by the Commission to the plan was \$274,916 and \$152,407, respectively.

NOTE 6 – 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 \$4,200 annually or their actual health insurance premiums. The total contribution expense charged as an expenditure in the current year was \$29,309.

GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pension* replaced the prior guidance GASB 45. According to prior rules, OPEB liability equaled the cumulative amount of unpaid annual required contributions. GASB 75 requires organizations to record the net OPEB liability (the unfunded actuarial liability) on the balance sheet. To recognize the net OPEB liability, the Commission recorded a prior period change to increase the liability and reduce the fund balance as follows:

Summary of Prior Period Change

	<u>Ending Balance</u> <u>FY 2017</u>	<u>Change</u>	<u>Revised Ending</u> <u>Balance FY 2017</u>
Retiree Health Credit Liability	\$370,029	(+ \$527,361	\$897,390
Unrestricted Fund Balance	\$3,183,228	(-) \$527,361	\$2,655,867

Key actuarial factors used to the measure the Net OPEB liability include:

Key Actuarial Factors

Actuarial cost method	Entry age normal cost method
Discount rate	3.50%
Number of Employees	32
Number of Retirees	8
Average age	47.22
Average years of service	7.97
Actuarial valuation date	July 1, 2016
Expected Average Remaining Service Years of All Participants	10

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018 and 2017

The chart below shows the Change in Net OPEB Liability. The calculation includes a deferred inflow of resources in the amount of \$48,022 due to a change in assumptions, representing a decrease in liability. In accordance with GASB 75, this amount will be recognized in expense over the next 10 years.

	<u>Change in Net OPEB Liability</u>		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance as of June 30, 2016 for FYE 2017	\$897,390	-	\$897,390
Changes for the Year			
Service Cost	42,932		42,932
Interest	25,234	-	25,234
Changes of Benefit Terms	-		-
Experience Losses	-		-
ER Trust Contribution		24,441	(24,441)
Net Investment Income		-	-
Changes in Assumptions	(48,022)		(48,022)
Benefit Payments	(24,441)	(24,441)	-
Administrative Expense		-	-
Net Changes	(4,297)	-	(4,297)
Balance as of June 30, 2017 for FYE 2018	\$893,093	-	\$893,093
Funded status		0.00%	

The Commission made payments of \$28,926 to current retirees. These payments were applied to the Net OPEB Liability, reducing the 2018 Net OPEB liability to \$864,167.

NOTE 7 – LEASE COMMITMENT

The Commission leases office space in Annapolis, MD. The lease calls for monthly rental payments beginning on July 1, 2016. The lease is an operating lease and the agreement expires in 2025, with an option to renew for up to five years. In the normal course of business, it is expected that available options to renew will be exercised.

In addition, part of the new lease included a lease incentive of deferred lease expense for the first three months of the agreement. The total remaining amount of deferred lease expense provided by the lessor was \$41,016. This amount is reported on the Balance Sheet as deferred lease expense and is amortized over the life of the lease.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

June 30, 2018	240,236
June 30, 2019	240,236
June 30, 2020	240,236
June 30, 2021	240,236
June 30, 2022	<u>240,236</u>
Total	<u>\$ 1,201,180</u>

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018 and 2017

NOTE 8 - 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 check.

During the years ending June 30, 2018 and 2017 the Client Protection Fund of the Bar of Maryland was billed \$393,829 and \$369,773, respectively by the Commission for fees incurred for salaries, benefits and lease expenses. At June 30, 2018 and 2017, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$89,297 and \$2,865, respectively. In addition, the Client Protection Fund of the Bar of Maryland owed to the Commission attorney assessments in the amount of \$5,290 and \$2,880 at June 30, 2018 and 2017, respectively.

NOTE 9 – BONDS

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

NOTE 10 – CONTINGENCIES

Prior to the 2014 fiscal year, the Maryland Court of Appeals, at its discretion, was permitted to order a transfer of funds from the Commission to court related agencies. On March 13, 2014 an Administrative Order was issued by the Maryland Court of Appeals, requiring the Commission to maintain a Fund Balance of 75% of the prior year's fiscal expenditures. Any excess Fund Balance amount would be due to the Client Protection Fund, as of 30 days following the issuance of annual audited financial statements. As this amount cannot be determined by the Commission as of the fiscal year end, and it has not been declared or approved by the Courts, it is not a current liability of the Commission, but rather a restricted portion of the fund balance. Per this Order, at June 30, 2018 and 2017, the Commission owed \$143,326 and \$734,758 to the Client Protection Fund, respectively. This amount is set aside as "Restricted Fund Balance" on the June 30, 2018 and 2017 balance sheets. The \$734,758 owed as of June 30, 2017 was paid to the Client Protection Fund by the Commission on November 13, 2017.

NOTE 11 – RECLASSIFICATIONS

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

NOTE 12 – MANAGEMENT'S SUBSEQUENT REVIEW

The Commission has evaluated subsequent events through October 19, 2018, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.