ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
Annapolis, Maryland

AUDITED FINANCIAL STATEMENTS
June 30, 2019 and 2018

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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 statements of financial position as of June 30, 2019 and 2018, and the related statements of budget, receipts, expenditures, and net assets, 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.

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, 2019 and 2018, 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.

Heim Lantz

Annapolis, Maryland
September 18, 2019

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 589,956	$ 962,919
Investments - Other	3,500,000	3,750,000
Client Protection Fund Accounts Receivable	91,599	94,587
Prepaid expenses	10,504	9,068
TOTAL CURRENT ASSETS	4,192,059	4,816,574
Property and equipment, net	70,586	30,957
NON-CURRENT ASSETS		
Investments - Other	1,250,000	-
Security deposits	20,020	20,020
TOTAL NON-CURRENT ASSETS	1,270,020	20,020
TOTAL ASSETS	$ 5,532,665	$ 4,867,551

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts payable and other current liabilities	106,405	85,237
Pension payable	178,041	274,916
Accrued compensated absences	159,691	138,244
Current portion of deferred lease expense	5,859	5,859
TOTAL CURRENT LIABILITIES	449,996	504,256
Deferred lease expense	29,297	35,156
Retiree health insurance credit plan	859,014	864,167
TOTAL LIABILITIES	1,338,307	1,403,579
NET ASSETS		
Restricted	1,541,158	342,969
Unrestricted	2,653,200	3,121,003
TOTAL NET ASSETS	4,194,358	3,463,972
TOTAL LIABILITIES AND NET ASSETS	$ 5,532,665	$ 4,867,551

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF BUDGET, RECEIPTS, EXPENDITURES AND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	2019			2018
	Actual	Budget	Variance Positive (Negative)	Actual
COMMISSION RECEIPTS				
Attorney Assessments	$ 4,484,369	4,451,590	$ 32,779	$ 4,464,131
Investment Income	86,096	60,000	26,096	63,067
Court Recovered Costs	43,456	45,000	(1,544)	41,862
TOTAL RECEIPTS	4,613,921	4,556,590	57,331	4,569,060
COMMISSION EXPENSES				
Personnel Costs	2,522,606	3,144,637	(622,031)	2,620,315
Case Management Costs	172,793	305,000	(132,207)	291,714
Staff Support	98,834	109,700	(10,866)	85,908
Outside Services	101,774	109,500	(7,726)	118,548
Information Technology Support	146,295	228,200	(81,905)	164,339
Office Expense	330,413	373,445	(43,032)	320,004
Court Mandated Costs	167,851	180,000	(12,149)	160,127
TOTAL EXPENDITURES	3,540,566	4,450,482	(909,916)	3,760,955
INCREASE (DECREASE) IN NET ASSETS	$ 1,073,355	$ 106,108	$ 967,247	$ 808,105
NET ASSETS, BEGINNING OF YEAR	3,463,972			3,390,625
RESTRICTED NET ASSETS, PRIOR YEAR	(342,969)			(734,758)
RESTRICTED NET ASSETS, CURRENT YEAR	1,541,158			342,969
UNRESTRICTED NET ASSETS	2,653,200			3,121,003
NET ASSETS, END OF YEAR	$ 4,194,358			$ 3,463,972

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, 2019 and 2018

CASH FLOWS FROM OPERATING ACTIVITIES	**2019**	**2018**
Increase in net assets:	$ 1,073,355	$ 808,105
Adjustments to reconcile increase in unrestricted net assets to cash provided by (used in) operating activities		
Depreciation	14,766	17,244
(Increase) decrease in:		
Client Protection Fund Accounts Receivable	2,988	(58,337)
Prepaid expenses	(1,436)	43,528
Increase (decrease) in:		
Accounts payable	21,168	4,403
Pension payable	(96,875)	122,509
Accrued compensated absences	21,447	(69,959)
Retiree health insurance credit plan	(5,152)	(33,223)
Deferred lease expense	(5,860)	(5,860)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,024,401	828,410
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments - net	(1,000,000)	(3,522)
Purchase of property & equipment	(54,395)	(2,837)
Restricted net assets	(342,969)	(734,758)
NET CASH USED IN INVESTING ACTIVITIES	(1,397,364)	(741,117)
NET INCREASE (DECREASE) IN CASH	(372,963)	87,293
CASH AT BEGINNING OF YEAR	962,919	875,626
CASH AT END OF YEAR	$ 589,956	$ 962,919

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

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 oversee 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 Attorneys' 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.

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 (CPF) on a billing which includes assessments for CPF 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. When assessments are collected by the Client Protection Fund, but not yet remitted to the Commission, they appear as a receivable on these financial statements. 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, 2019 and $110 for the year ended June 30, 2018. The number of practicing attorneys assessed during the years ended June 30, 2019 and 2018 was 41,987 and 40,300, 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 and money market accounts with original maturities of less than ninety days.

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 per 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.

CPF Reimbursements – Change in Accounting Principle
The Commission provides office space, salary and benefits to four CPF employees. CPF reimburses the Commission for these expenses on a quarterly basis. Prior to FY 2019, the Commission accounted for these transactions as revenue and expense. In February 2018, the Maryland Courts directed the Commission to change its accounting principle to no longer report these transactions as revenue and expense. The Commission implemented this change on July 1, 2018. The FY 2018 financial statements are restated retrospectively – see Note 9 for detailed information.

NOTE 2 – INVESTMENTS - OTHER

The Commission invests only in negotiable certificates of deposit and accounts 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. Any certificates of deposit that mature within one year are classified as current assets and those with maturity dates greater than one year are classified as non-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.

NOTE 4 – PROPERTY AND EQUIPMENT

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

	2019	2018
Computer equipment	$105,519	$ 70,831
Furniture and fixtures	88,202	72,113
Leasehold improvements	17,390	17,390
Software	118,796	118,796
Total property and equipment	329,907	279,130
Less accumulated depreciation	259,321	248,173
Property and equipment, net	$ 70,586	$ 30,957

Depreciation expense for the periods ending June 30, 2019 and 2018 was $14,766 and $17,244 respectively.

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, 2019 and 2018 were $178,041 and $274,916, respectively. This amount is equal to 15% of the participant's compensation. For periods ending June 30, 2019 and 2018, the amount owed by the Commission to the plan was $178,041 and $274,916, respectively.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS

On September 1, 2012 the Commission adopted an Other Postemployment Benefit Plan (OPEB) to provide health insurance 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." Eligible retirees 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.

In accordance with GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pension,* the Commission recognizes the full OPEB liability on the balance sheet. The total contribution expense charged as an expenditure in the current year was $28,927.

Key Actuarial Factors

Actuarial cost method	Entry age normal cost method
Discount rate	3.58%
Actuarial valuation date	June 30, 2018
Expected average remaining service years of all participants	10

The chart below shows the Change in Net OPEB Liability. The calculation includes a deferred inflow of resources in the amount of $42,270 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.

Change in Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance as of June 30, 2017 for FYE 2018	**$ 893,093**	**-**	**$ 893,093**
Changes for the Year			
Service Cost	39,422		39,422
Interest	31,258	-	31,258
Changes of Benefit Terms	-		-
Experience Losses (Gains)	(32,870)		(32,870)
Trust Contribution – Employer		28,927	(28,927)
Net Investment Income		-	-
Changes in Assumptions	(4,280)		(4,280)
Benefit Payments (net of retiree contributions)	(28,927)	(28,927)	-
Administrative Expense		-	-
Net Changes	4,603	-	4,603
Balance as of June 30, 2018 for FYE 2019	**$ 897,696**	**-**	**$ 897,696**

The Commission made payments of $38,682 to current retirees. These payments were applied to the Net OPEB Liability, reducing the 2018 Net OPEB liability to $859,014.

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, at signing, the 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 $29,297. This amount is reported on the Statement of Financial Position 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, 2019	240,236
June 30, 2020	240,236
June 30, 2021	240,236
June 30, 2022	240,236
June 30, 2023	240,236
Total	**$ 1,201,180**

NOTE 8 - RELATED PARTY TRANSACTIONS

Revenue
The Commission has significant transactions with the Client Protection Fund of the Bar of Maryland (CPF), an instrumentality of the State of Maryland. All attorney assessments are collected by CPF and the Commission's portion is transferred monthly by check. At year end, CPF owed the Commission attorney assessments in the amount of $3,125 and $5,290 at June 30, 2019 and 2018, respectively.

Reimbursable Expenses
The Commission provided office space, salary and benefits to four CPF employees. CPF reimburses the Commission for these expenses on a quarterly basis. During the years ending June 30, 2019 and 2018, the Client Protection Fund of the Bar of Maryland was billed $339,634 and $393,829, respectively by the Commission for fees incurred for salaries, benefits and lease expenses At June 30, 2019 and 2018, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of $88,474 and $89,297, respectively.

NOTE 9 – CPF REIMBURSABLE EXPENSES – CHANGE IN ACCOUNTING PRINCIPLE

As stated in Note 8, the Commission provided office space, salary and benefits to four CPF employees. CPF reimburses the Commission for these expenses on a quarterly basis. In February 2018, the Maryland Courts directed the Commission to change its accounting principle to no longer report these transactions as revenue and expense. The Commission implemented this change on July 1, 2018 going forward.

Method
For comparison purposes, the FY 2018 numbers are restated retrospectively as follows. The CPF salaries were listed individually on the financial statements and were easily identified and removed. The costs for Employee Benefits and Employer Taxes were co-mingled with AGC employee expenses and so were separated out individually using payroll files. The CPF reimbursement for Office Lease Expense was used to reduce the overall AGC office expense. Finally, the CPF expense and liability associated with Accrued Compensated Absences were removed. We also reclassified the two accounts receivable accounts (Attorney assessments receivable and Due

from Client Protection Fund) into one account – Client Protection Fund Accounts Receivable. The details are shown in the following table.

FY 2018 Retrospective Change

Statement of Financial Position	FY 2018	Change	Restated FY 2018
Asset Accounts			
Due from Client Protection Fund	21,634	(21,634)	-
Liability Accounts			
Accrued Compensated Absences	159,878	(21,634)	138,244
Statement of Budget, Receipts, Expenditures and Net Assets			
Receipt Accounts			
CPF Executive Director	(170,330)	170,330	-
CPF Secretary	(65,512)	65,512	-
CPF Administrator	(83,412)	83,412	-
CPF Clerk	(52,756)	52,756	-
CPF Office Lease	(31,338)	31,338	-
Total Revenue		403,348	
Expenditure Accounts			
Salary - CPF Secretarial	40,900	(40,900)	-
Salary - Executive Director	107,453	(107,453)	-
Salary - CFP Administrator	55,870	(55,870)	-
Salary - CPF Clerk	36,550	(36,550)	-
Employee Benefits	680,034	(89,375)	590,659
Employer Taxes	175,715	(20,227)	155,488
Compensated Absences	44,643	(21,634)	23,009
Office Lease Expense	235,996	(31,338)	204,658
Total Expense		(403,348)	
Statement Cash Flows			
Client Protection Fund Accounts Receivable	(79,971)	21,634	(58,337)
Accrued Compensated Absences	(48,325)	(21,634)	(69,959)
	(128,296)	-	(128,296)
Increase in Net Assets			
Revenue	4,972,408	(403,348)	4,569,060
Expenditures	(4,164,303)	403,348	(3,760,955)
Increase in Net Assets	808,105	-	808,105

Direct Effects
The direct effect on the AGC financial statements is net zero.

Indirect Effects
There are two indirect effects to highlight. First, removing CPF expenses affected the excess fund balance calculation, described in Note 11, resulting in a larger return of dollars to CPF. There is no need to re-calculate the excess fund balance for 2018 since it is self-balancing each year.

Second, the Supplementary Schedules of Budget, Receipts, Expenditures and Net Assets show a comparison of the FY 2019 actuals to the approved budget. Because the budget was approved before the CPF changes were implemented, the AGC budget included CPF expenses. With the CPF expenses removed, the accounts below reflect significant negative variance.

	FY 2019 Actual	FY 2019 Budget	Budget Variance
Employee Benefits	486,099	705,280	(219,181)
Employer Taxes	150,701	169,286	(18,585)

The variance in Employee Benefits, is due to two-factors. First, as described above, the removal of CPF expenses reduced AGC expense. Second, AGC had 8 employees and CPF had 1 employee who did not meet the eligibility requirements to receive the employer paid pension contribution while the budgeted amount included contributions for all employees. The overall effect was a reduction of expenses associated with Employee Benefits.

The variance associated with Employer Taxes is due solely to the exclusion of CPF expenses.

NOTE 10 – BONDS

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

NOTE 11 – 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 net asset balance of 75% of the prior year's fiscal expenditures. Any excess net asset 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 net assets. Per this Order, at June 30, 2019 and 2018, the Commission owed $1,541,158 and $734,758 to the Client Protection Fund, respectively. This amount is set aside as "Restricted Net Assets" on the June 30, 2019 and 2018 Statements of Financial Position. The $342,969 owed as of June 30, 2018 was paid to the Client Protection Fund by the Commission on December 21, 2018.

Beginning Net Assets	$ 3,463,972
Plus Net Income	1,073,355
Less Balance paid prior year	(342,969)
Ending Net Assets	4,194,358
Total 2019 Expenditures	(3,540,566)
75% of Total Expenditures	(2,655,425)
Excess Fund Balance	$ 1,541,158

NOTE 12 – 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 13 – MANAGEMENT'S SUBSEQUENT REVIEW

The Commission has evaluated subsequent events through September 17, 2019, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.