

ATTORNEY GRIEVANCE COMMISSION
OF MARYLAND
Annapolis, Maryland

AUDITED FINANCIAL STATEMENTS
June 30, 2020 and 2019

<u>TABLE OF CONTENTS</u>	<u>Page(s)</u>
Independent Auditors' Report	3-4
Statements of Financial Position	5
Statements of Budget, Receipts, Expenditures, and Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8-13
Supplementary Schedules	14-15

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, 2020 and 2019, 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 qualified audit opinion.

ALEXANDRIA
1900 Duke Street, Suite 110
Alexandria, VA 22314
703.299.6565

ANNAPOLIS
180 Admiral Cochrane Drive, Suite 520
Annapolis, MD 21401
410.841.5575

LEXINGTON PARK
22738 Maple Road, Suite 201
Lexington Park, MD 20653
301.862.3367

Basis for Qualified Opinion

The Commission has accrued and included software costs in the accompanying statement of budgets, receipts, expenditures, and net assets for the year ending June 30, 2020, and the balance sheet as of June 30, 2020, which in our opinion should not be accrued and recognized in accordance with accounting principles generally accepted in the United States of America. If these software costs had not been expensed in the current period, prepaid expenses would be increased by \$50,000, and total net assets would be increased by \$173,000 as of June 30, 2020. In addition, total expenditures would be decreased by \$173,000 and the change in net assets would be increased by \$173,000 for the year ending June 30, 2020.

Qualified Opinion

In our opinion, except for the effects on the financial statements of expensing the software costs as described in the Basis for Qualified Opinion paragraph, 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, 2020 and 2019, 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.



Annapolis, Maryland
September 25, 2020

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

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 576,604	\$ 589,956
Investments - Other	3,500,000	3,500,000
Client Protection Fund accounts receivable	100,020	91,599
Prepaid expenses	12,147	10,504
TOTAL CURRENT ASSETS	4,188,771	4,192,059
Property and equipment, net	52,350	70,586
 NON-CURRENT ASSETS		
Investments - Other	750,000	1,250,000
Security deposits	20,020	20,020
TOTAL NON-CURRENT ASSETS	770,020	1,270,020
TOTAL ASSETS	\$ 5,011,141	\$ 5,532,665

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and other current liabilities	188,790	106,405
Payroll liabilities	15,197	-
Pension payable	318,789	178,041
Accrued compensated absences	199,238	159,691
Current portion of deferred lease expense	5,859	5,859
TOTAL CURRENT LIABILITIES	727,873	449,996
Deferred lease expense	23,438	29,297
Retiree health insurance credit plan	919,581	859,014
TOTAL LIABILITIES	1,670,892	1,338,307
 NET ASSETS		
Restricted	94,775	1,541,158
Unrestricted	3,245,474	2,653,200
TOTAL NET ASSETS	3,340,249	4,194,358
TOTAL LIABILITIES AND NET ASSETS	\$ 5,011,141	\$ 5,532,665

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**

	<u>2020</u>			<u>2019</u>
	<u>Actual</u>	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
COMMISSION RECEIPTS				
Attorney Assessments	\$ 4,497,115	4,451,590	\$ 45,525	\$ 4,484,369
Investment Income	138,862	60,000	78,862	86,096
Court Recovered Costs	36,905	45,000	(8,095)	43,456
TOTAL RECEIPTS	<u>4,672,882</u>	<u>4,556,590</u>	<u>116,292</u>	<u>4,613,921</u>
COMMISSION EXPENSES				
Personnel Costs	3,177,236	3,342,305	(165,069)	2,522,606
Case Management Costs	162,756	272,000	(109,244)	169,345
Staff Support	66,639	109,700	(43,061)	98,834
Outside Services	110,026	112,000	(1,974)	101,774
Information Technology Support	336,419	206,000	130,419	146,295
Office Expense	353,869	366,745	(12,876)	333,861
Court Mandated Costs	120,352	180,000	(59,648)	167,851
TOTAL EXPENDITURES	<u>4,327,299</u>	<u>4,588,750</u>	<u>(261,451)</u>	<u>3,540,566</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 345,583</u>	<u>\$ (32,160)</u>	<u>\$ 377,743</u>	<u>\$ 1,073,355</u>
NET ASSETS, BEGINNING OF YEAR	4,194,358			3,463,972
RESTRICTED NET ASSETS, PRIOR YEAR	(1,541,158)			(342,969)
RESTRICTED NET ASSETS, CURRENT YEAR	94,775			1,541,158
UNRESTRICTED NET ASSETS	<u>3,245,474</u>			<u>2,653,200</u>
NET ASSETS, END OF YEAR	<u>\$ 3,340,249</u>			<u>\$ 4,194,358</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, 2020 and 2019

CASH FLOWS FROM OPERATING ACTIVITIES	2020	2019
Increase in net assets:	\$ 345,583	\$ 1,073,355
Adjustments to reconcile increase in unrestricted net assets to cash provided by (used in) operating activities		
Depreciation	25,926	14,766
(Increase) decrease in:		
Client Protection Fund accounts receivable	(8,421)	2,988.00
Prepaid expenses	(1,643)	(1,436)
Increase (decrease) in:		
Accounts payable	82,385	21,168
Payroll liabilities	15,197	-
Pension payable	140,748	(96,875)
Accrued compensated absences	39,547	21,447
Retiree health insurance credit plan	60,567	(5,152)
Deferred lease expense	(5,859)	(5,860)
NET CASH PROVIDED BY OPERATING ACTIVITIES	694,030	1,024,401
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments - net	500,000	(1,000,000)
Purchase of property & equipment	(7,690)	(54,395)
NET CASH USED IN INVESTING ACTIVITIES	492,310	(1,054,395)
CASH FLOWS FROM FINANCING ACTIVITIES		
Court ordered transfer to the Client Protection Fund	(1,541,158)	(342,969)
Refund from the Maryland Professionalism Center	341,466	-
NET CASH USED IN FINANCING ACTIVITIES	(1,199,692)	(342,969)
NET INCREASE (DECREASE) IN CASH	(13,352)	(372,963)
CASH AT BEGINNING OF YEAR	589,956	962,919
CASH AT END OF YEAR	\$ 576,604	\$ 589,956

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019

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, 2020 and \$110 for the year ended June 30, 2019. The number of practicing attorneys assessed during the years ended June 30, 2020 and 2019 was 40,615 and 41,987, 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.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

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.

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 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.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

NOTE 3 – PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Computer equipment	\$ 113,208	\$105,519
Furniture and fixtures	88,202	88,202
Leasehold improvements	17,390	17,390
Software	118,796	118,796
Total property and equipment	<u>337,596</u>	<u>329,907</u>
Less accumulated depreciation	<u>285,246</u>	<u>259,321</u>
Property and equipment, net	<u>\$ 52,350</u>	<u>\$ 70,586</u>

Depreciation expense for the periods ending June 30, 2020 and 2019 was \$25,926 and \$14,766 respectively.

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 for the years ended June 30, 2020 and 2019 were \$318,789 and \$178,041 respectively. This amount is equal to 15% of the participant's compensation. For periods ending June 30, 2020 and 2019, the amount owed by the Commission to the plan was \$318,789 and \$178,041, respectively.

NOTE 5 – 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 \$38,682.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

Key Actuarial Factors

Actuarial cost method	Entry age normal cost method
Discount rate	3.13%
Actuarial valuation date	June 30, 2019

The chart below shows the Change in Net OPEB Liability. The calculation includes deferred inflow of resources in the amount of \$37,040 and deferred outflow of resources in the amount of \$48,578 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, 2018 for FYE 2019	\$ 897,696		\$ 897,696
Changes for the Year			
Service Cost	39,485		39,485
Interest	31,845		31,258
Changes of Benefit Terms			
Experience Losses (Gains)	(25,525)		(25,525)
Trust Contribution – Employer		38,682	(38,682)
Net Investment Income			
Changes in Assumptions	53,976		53,976
Benefit Payments (net of retiree contributions)	(38,682)	(38,682)	
Administrative Expense			
Net Changes	61,099		61,099
Balance as of June 30, 2019 for FYE 2020	\$ 958,795		\$ 958,795

The Commission made payments of \$39,214 to current retirees. These payments were applied to the Net OPEB Liability, reducing the 2019 Net OPEB liability to \$919,581.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

NOTE 6 – LEASE COMMITMENT

The Commission leases office space in Annapolis, MD. The lease calls for monthly rental payments beginning on July 1, 2016. In addition to lease payments, the Commission is responsible for their portion of common area maintenance and property tax of about \$900 per month. 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 \$23,438. 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, 2020	240,236
June 30, 2021	240,236
June 30, 2022	240,236
June 30, 2023	240,236
June 30, 2024	<u>240,236</u>
Total	<u>\$ 1,201,180</u>

NOTE 7 - 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 \$1,540 and \$3,125 at June 30, 2020 and 2019, respectively.

Reimbursable Expenses

The Commission provided office space, salary and benefits to three CPF employees. CPF reimburses the Commission for these expenses on a quarterly basis. During the years ending June 30, 2020 and 2019, the Client Protection Fund of the Bar of Maryland was billed \$338,395 and \$339,634, respectively, by the Commission for fees incurred for salaries, benefits and lease expenses. At June 30, 2020 and 2019, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$98,480 and \$88,474, respectively.

NOTE 8 – BONDS

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020 and 2019

NOTE 9 – 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, 2020 and 2019, the Commission owed \$94,775 and \$1,541,158 to the Client Protection Fund, respectively. This amount is set aside as "Restricted Net Assets" on the June 30, 2020 and 2019 Statements of Financial Position. The \$1,541,158 owed as of June 30, 2019 was paid to the Client Protection Fund by the Commission on October 21, 2019. In addition, on October 17, 2019, and as directed by the Court of Appeals of Maryland, the Commission received a refund of unspent funds from the Maryland Professionalism Center in the amount of \$341,466. This is a one-time refund as the Center has ceased operations. The Commission does not anticipate additional refunds in the future.

Beginning Net Assets	4,194,358
Plus Refund From Maryland Professionalism Center:	341,466
Plus Net Income:	345,583
Less Balance Paid Prior Year:	<u>(1,541,158)</u>
Ending Net Assets	3,340,249
Total FY2020 Expenditures	(4,327,299)
75% of Total Expenditures	(3,245,474)
Excess Fund Balance	<u><u>94,775</u></u>

NOTE 10 – 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 11 – MANAGEMENT'S SUBSEQUENT REVIEW

The Commission has evaluated subsequent events through September 25, 2020, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.