

ATTORNEY GRIEVANCE COMMISSION  
OF MARYLAND  
Crownsville, Maryland

FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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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 the Maryland Court of Appeals of the State of Maryland as of June 30, 2010 and 2008, and the related statements of budget, receipts, expenditures and fund balance 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.

A more fully described in Note 1, the Commission has expensed property and equipment at the date of purchase. 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.

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, 2010 and 2009, 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  
September 30, 2010

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**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**BALANCE SHEETS**  
**June 30, 2010 and 2009**

**ASSETS**

	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 438,740	\$ 124,174
Investments	7,600,004	6,161,279
Attorney assessments receivable	11,460	-
Due from Client Protection Fund - salary and benefits	<u>59,748</u>	<u>101,486</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,109,952</u></u>	<u><u>\$ 6,386,939</u></u>

**LIABILITIES AND FUND BALANCE**

<b>CURRENT LIABILITIES</b>		
Accounts payable and other current liabilities	\$ 20,732	\$ 4,331
Accrued compensated absences	<u>235,434</u>	<u>179,350</u>
Total liabilities	256,166	183,681
<b>FUND BALANCE</b>		
Unrestricted	<u>7,853,786</u>	<u>6,203,258</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 8,109,952</u></u>	<u><u>\$ 6,386,939</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, 2010 and 2009**

	2010			2009		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>RECEIPTS</b>						
Attorney assessments	\$ 4,273,500	\$ 4,407,946	\$ 134,446	\$ 3,950,520	\$ 4,162,283	\$ 211,763
Investment income	120,000	77,265	(42,735)	120,000	120,967	967
Recovered court costs	17,000	36,992	19,992	15,000	28,278	13,278
Fees from CPF - administrator	123,751	116,663	(7,088)	109,732	118,604	8,872
Fees from CPF - secretarial	55,505	52,467	(3,038)	45,898	54,165	8,267
Fees from CPF - administrative assistant	71,700	69,861	(1,839)	62,049	70,344	8,295
	4,661,456	4,761,194	99,738	4,303,199	4,554,641	251,442
<b>EXPENDITURES</b>						
Salary - bar counsel	123,004	123,004	-	123,004	123,004	-
- deputy bar counsel	102,389	102,389	-	102,389	102,389	-
- assistant bar counsel	514,980	504,569	10,411	514,980	514,980	-
- investigators	422,085	363,408	58,677	422,085	393,085	29,000
- office mgr. & admn. assistant	122,776	122,776	-	116,590	118,137	(1,547)
- paralegal	81,524	81,524	-	91,800	77,218	14,582
- secretaries	323,482	278,899	44,583	324,245	283,799	40,446
- CPF - secretarial	34,481	34,481	-	34,481	34,481	-
- CPF - administrator	86,547	86,547	-	86,547	86,547	-
- CPF - administrative assistant	47,080	47,080	-	47,080	47,080	-
- Legal secretary	45,355	45,355	-	45,355	45,355	-
- Executive secretary	97,797	97,797	-	97,797	97,797	-
FICA	124,368	114,437	9,931	120,105	116,786	3,319
Medicare	29,087	26,831	2,256	28,089	26,251	1,838
Employee benefits	618,543	581,733	36,810	587,989	586,456	1,533
Telephone	15,000	13,597	1,403	20,000	10,025	9,975
Photocopy	10,000	7,610	2,390	10,000	10,207	(207)
Postage meter	6,000	5,038	962	6,000	4,740	1,260
Office supplies	30,000	26,378	3,622	30,000	24,653	5,347
Postage	30,000	23,367	6,633	30,000	21,949	8,051
Insurance and bonds	14,000	10,397	3,603	12,000	11,471	529
Travel and mileage	60,000	49,505	10,495	60,000	49,576	10,424
Equipment maintenance	5,000	2,542	2,458	9,100	4,562	4,538

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, 2010 and 2009**  
(Continued)

	2010			2009		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>EXPENDITURES</b> (Continued)						
Dues/professional organizations	\$ 5,000	\$ 5,490	\$ (490)	\$ 8,000	\$ 4,350	\$ 3,650
Investigator/related costs	90,000	47,540	42,460	63,000	96,783	(33,783)
Depositions and transcripts	20,000	12,811	7,189	23,000	11,582	11,418
Expenses - commission	15,000	15,425	(425)	15,000	8,231	6,769
Peer Review Committee	98,637	64,949	33,688	98,552	59,273	39,279
Audit	12,000	11,875	125	11,100	10,366	734
Bank fees	700	411	289	(200)	374	(574)
Outside services	15,000	5,957	9,043	15,000	13,228	1,772
Outside services - Conservatorship costs	5,000	6,974	(1,974)	-	90,000	(90,000)
Office furniture and equipment	-	16,599	(16,599)	25,000	16,535	8,465
Training seminars	10,000	-	10,000	7,000	1,649	5,351
Law library	14,000	14,934	(934)	14,000	10,695	3,305
Lawyer counseling	97,128	96,928	200	114,563	114,263	300
Office supplies	2,000	1,258	742	1,800	1,346	454
Mailing costs	2,500	153	2,347	2,500	-	2,500
Equipment purchases	30,500	143	30,357	5,500	535	4,965
Equipment maintenance	4,800	3,515	1,285	4,800	3,382	1,418
Telephone	3,000	-	3,000	3,000	-	3,000
Miscellaneous	1,000	356	644	500	690	(190)
Compensated absences	-	56,084	(56,084)	-	2,313	(2,313)
Total Expenditures	\$ 3,369,763	\$ 3,110,666	\$ 259,097	\$ 3,331,751	\$ 3,236,143	\$ 95,608
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ 1,291,693</u>	<u>\$ 1,650,528</u>	<u>\$ (159,359)</u>	<u>\$ 971,448</u>	<u>\$ 1,318,498</u>	<u>\$ 347,050</u>
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>		<u>\$ 6,203,258</u>			<u>\$ 4,884,760</u>	
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>		<u>\$ 7,853,786</u>			<u>\$ 6,203,258</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 ENDING JUNE 30, 2010 and 2009**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u><b>2010</b></u>	<u><b>2009</b></u>
Increase in unrestricted net assets:	\$ 1,650,528	\$ 1,318,498
Adjustments to reconcile increase in unrestricted net assets to cash provided by operating activities		
(Increase) decrease in:		
Attorney assessments receivable	(11,460)	(7,925)
Due from Client Protection Fund	41,738	(27,204)
Increase (decrease) in:		
Accounts payable	16,401	(2,158)
Accrued compensated absences	56,084	2,313
	<u>102,763</u>	<u>(34,974)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>102,763</b>	<b>(34,974)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(9,899)	-
Purchase of investments	<u>(1,399,583)</u>	<u>(1,244,382)</u>
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(1,399,583)</b>	<b>(1,244,382)</b>
<b>NET INCREASE IN CASH</b>	<u><b>353,708</b></u>	<u><b>39,142</b></u>
<b>CASH AT BEGINNING OF YEAR</b>	<u><b>85,032</b></u>	<u><b>85,032</b></u>
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 438,740</b></u></u>	<u><u><b>\$ 124,174</b></u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

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

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PROCEDURES**

**Nature of the Organization**

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. Significant accounting policies followed by the Commission are presented below.

**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 this fund. There are no permanently or temporarily restricted net assets.

**Attorney Assessments**

Attorney assessments are received through payments made by attorneys to the Client Protection Fund of the Bar of Maryland on a billing which includes assessment for both the Fund and the Commission.

The assessment for the Commission for the years ended June 30, 2010 and 2009 was \$125 and \$120, respectively, for each attorney in practice. The number of practicing attorneys assessed during the years ended June 30, 2010 and 2009 was 35,018 and 34,852, respectively.

**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.

**Cash and Equivalents**

Cash and equivalents represent cash held in checking, savings and money market accounts.

**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.

**Property and Equipment**

As an instrumentality of the State of Maryland, the Commission customarily budgets for and expenses property and equipment in the year of purchase. The historical cost of these assets still on hand amounted to \$522,862 at June 30, 2010 and \$512,963 at June 30, 2009.

**Investments**

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

This information is an integral part of the financial statements.



**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PROCEDURES - (continued)**

**Compensated Absences**

The entity accrues a liability for 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 after 1988 are not reimbursed for accumulated sick leave. Payments made to employees for sick leave are recorded as expenses when paid.

**NOTE 2 - 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 periodically by a bank transfer.

During the years ending June 30, 2010 and 2009 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 \$238,991 and \$243,113, respectively. At June 30, 2010 and 2009, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$59,748 and \$93,561, respectively. In addition, the Client Protection Fund of the Bar of Maryland owed to the Commission attorney assessments in the amount of \$11,460, at June 30, 2010.

**NOTE 3 - BOND**

The Commission has a \$5,000,000 blanket crime protection insurance policy in effect for employee dishonesty.

**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, 2010 and 2009 were \$188,197 and \$298,115, 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, 2010 and 2009.

This information is an integral part of the financial statements.

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 5 – INVESTMENTS**

For the years ending June 30, 2010 and 2009, investment income consisted of the following:

<u>Year ending</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Interest Income	\$ 69,364	\$ 114,756
Realized Gain/(Loss)	-	-
Unrealized Gain/(Loss)	<u>7,901</u>	<u>6,212</u>
Total Investment Income	<u>\$ 77,265</u>	<u>\$ 120,968</u>

Investments are stated at fair value on a recurring basis, using level 1 inputs. Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. At June 30, 2010 and 2009, investments consisted of the following:

<u>Year ending</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Certificates of Deposit	\$ 7,185,000	\$ 3,500,000
US Government Securities	400,891	2,655,067
Unrealized Gain/(Loss)	<u>14,113</u>	<u>6,212</u>
Total Investments	<u>\$ 7,600,004</u>	<u>\$ 6,161,279</u>

**NOTE 6 – MANAGERMENTS SUBSEQUENT REVIEW**

The Company has evaluated subsequent events through September 30, 2010, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.

This information is an integral part of the financial statements.