

ATTORNEY GRIEVANCE COMMISSION
OF MARYLAND
Crownsville, Maryland

AUDITED FINANCIAL STATEMENTS
June 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

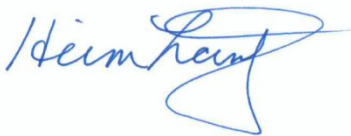
Commissioners
Attorney Grievance Commission of Maryland

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, 2011 and 2010, 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, 2011 and 2010, 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
October 26, 2011

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**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
BALANCE SHEETS
June 30, 2011 and 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 466,976	\$ 438,740
Investments	9,170,654	7,600,004
Attorney assessments receivable	13,393	11,460
Due from Client Protection Fund - salary and benefits	66,428	59,748
Prepaid Expenses - employee pension	37,799	-
TOTAL ASSETS	<u><u>\$ 9,755,250</u></u>	<u><u>\$ 8,109,952</u></u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 16,635	\$ 20,732
Accrued compensated absences	217,042	235,434
 Total liabilities	 233,677	 256,166
FUND BALANCE		
Unrestricted	9,521,573	7,853,786
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 9,755,250</u></u>	<u><u>\$ 8,109,952</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, 2011 and 2010

	2011			2010		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
RECEIPTS						
Attorney assessments	\$ 4,375,875	\$ 4,505,227	\$ 129,352	\$ 4,273,500	\$ 4,407,946	\$ 134,446
Investment income	80,000	99,046	19,046	120,000	77,265	(42,735)
Recovered court costs	17,000	21,123	4,123	17,000	36,992	19,992
Fees from CPF - administrator	123,751	116,663	(7,088)	123,751	116,663	(7,088)
Fees from CPF - secretarial	55,505	52,467	(3,038)	55,505	52,467	(3,038)
Fees from CPF - administrative assistant	71,700	69,861	(1,839)	71,700	69,861	(1,839)
Fees from CPF - office clerk	31,446	26,721	(4,725)	-	-	-
Total receipts	4,755,277	4,891,108	135,831	4,661,456	4,761,194	99,738
EXPENDITURES						
Salary - bar counsel	240,662	240,670	(8)	123,004	123,004	-
- deputy bar counsel	91,251	91,902	(651)	102,389	102,389	-
- assistant bar counsel	513,344	487,111	26,233	514,980	504,569	10,411
- investigators	407,566	396,526	11,040	422,085	363,408	58,677
- office mgr. & admn. assistant	122,776	122,776	-	122,776	122,776	-
- paralegal	81,524	81,524	-	81,524	81,524	-
- secretaries	311,858	251,146	60,712	323,482	278,899	44,583
- 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	-
- CPF - clerk	24,016	24,016	-	-	-	-
- Legal secretary	45,355	45,355	-	45,355	45,355	-
- Executive secretary	97,797	97,797	-	97,797	97,797	-
FICA	130,464	121,747	8,717	124,368	114,437	9,931
Medicare	30,512	28,594	1,918	29,087	26,831	2,256
Employee benefits	575,122	550,925	24,197	618,543	581,733	36,810
Telephone	16,000	13,813	2,187	15,000	13,597	1,403
Photocopy	10,000	12,657	(2,657)	10,000	7,610	2,390
Postage meter	6,000	4,740	1,260	6,000	5,038	962
Office supplies	35,000	26,688	8,312	30,000	26,378	3,622
Postage	30,000	23,200	6,800	30,000	23,367	6,633
Insurance and bonds	14,000	11,845	2,155	14,000	10,397	3,603

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, 2011 and 2010
(Continued)

	2011			2010		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (Continued)						
Travel and mileage	60,000	58,471	1,529	60,000	49,505	10,495
Equipment maintenance	4,500	2,945	1,555	5,000	2,542	2,458
Dues/professional organizations	10,000	4,418	5,582	5,000	5,490	(490)
Investigator/related costs	80,000	77,039	2,961	90,000	47,540	42,460
Depositions and transcripts	20,000	24,275	(4,275)	20,000	12,811	7,189
Expenses - commission	15,000	11,119	3,881	15,000	15,425	(425)
Peer review committee	98,637	69,377	29,260	98,637	64,949	33,688
Audit	14,500	11,375	3,125	12,000	11,875	125
Bank fees	800	152	648	700	411	289
Outside services	15,000	5,883	9,117	15,000	5,957	9,043
Outside services - Conservatorship costs	10,000	7,778	2,222	5,000	6,974	(1,974)
Office furniture and equipment	150,000	49,801	100,199	25,000	16,599	8,401
Training seminars	10,000	740	9,260	10,000	-	10,000
Law library	15,000	13,972	1,028	14,000	14,934	(934)
Lawyer counseling	97,128	96,407	721	97,128	96,928	200
Office supplies	2,000	1,596	404	2,000	1,258	742
Mailing costs	2,500	1,200	1,300	2,500	153	2,347
Equipment purchases	5,500	-	5,500	30,500	143	30,357
Equipment maintenance	4,800	3,725	1,075	4,800	3,515	1,285
Telephone	3,000	-	3,000	3,000	-	3,000
Miscellaneous	1,000	300	700	1,000	356	644
Compensated absences	-	(18,392)	18,392	-	56,084	(56,084)
Total Expenditures	\$ 3,570,720	\$ 3,223,321	\$ 347,399	\$ 3,394,763	\$ 3,110,666	\$ 284,097
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 1,184,557</u>	<u>\$ 1,667,787</u>	<u>\$ (211,568)</u>	<u>\$ 1,266,693</u>	<u>\$ 1,650,528</u>	<u>\$ (184,359)</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR		<u>\$ 7,853,786</u>			<u>\$ 6,203,258</u>	
UNRESTRICTED NET ASSETS, END OF YEAR		<u>\$ 9,521,573</u>			<u>\$ 7,853,786</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, 2011 and 2010

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2011</u>	<u>2010</u>
Increase in unrestricted net assets:	\$ 1,667,787	\$ 1,650,528
Adjustments to reconcile increase in unrestricted net assets to cash provided by operating activities		
(Increase) decrease in:		
Attorney assessments receivable	(1,933)	(11,460)
Due from Client Protection Fund	(6,680)	41,738
Prepaid expenses - employee pension	(37,799)	-
Increase (decrease) in:		
Accounts payable	(4,097)	16,401
Accrued compensated absences	(18,392)	56,084
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(68,901)</u>	<u>102,763</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(35,031)	(9,899)
Purchase of investments	(1,535,619)	(1,399,583)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(1,570,650)</u>	<u>(1,399,583)</u>
NET INCREASE IN CASH	<u>28,236</u>	<u>353,708</u>
CASH AT BEGINNING OF YEAR	<u>438,740</u>	<u>85,032</u>
CASH AT END OF YEAR	<u><u>\$ 466,976</u></u>	<u><u>\$ 438,740</u></u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING 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. 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, 2011 and 2010 was \$125 and \$125, respectively, for each attorney in practice. The number of practicing attorneys assessed during the years ended June 30, 2011 and 2010 was 35,457 and 35,018, 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. 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 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 \$557,893 at June 30, 2011 and \$522,862 at June 30, 2010.

This information is an integral part of the financial statements.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

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.

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, 2011 and 2010 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 \$265,712 and \$238,991, respectively. At June 30, 2011 and 2010, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$66,428 and \$59,748, respectively. In addition, the Client Protection Fund of the Bar of Maryland owed to the Commission attorney assessments in the amount of \$13,393 and \$11,460, at June 30, 2011 and 2010, respectively.

NOTE 3 - 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, 2011 and 2010 were \$237,199 and \$188,197, 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, 2011 and 2010.

This information is an integral part of the financial statements.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 4 - BOND

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

NOTE 5 – INVESTMENTS

For the years ending June 30, 2011 and 2010, investment income consisted of the following:

<u>Year ending</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Interest Income	\$ 91,863	\$ 69,364
Unrealized Gain/(Loss)	<u>7,183</u>	<u>7,901</u>
Total Investment Income	<u>\$ 99,046</u>	<u>\$ 77,265</u>

NOTE 6 – FAIR VALUE MEASUREMENTS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 157, the Commission 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. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Commission has the ability to access.

Level 2. These are investment 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 investments.

Level 3. These are investments 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 investments. These investments include non-readily marketable securities that do not have an active market.

This information is an integral part of the financial statements.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 6 - SUMMARY FAIR VALUE MEASUREMENTS - (continued)

Investments are stated at fair value on a recurring basis, using level 1 inputs. Financial assets at June 30, 2011 and 2010, investments consisted of the following:

<u>Year ending</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Certificates of Deposit	\$ 8,348,334	\$ 7,185,000
US Government Securities	801,024	400,891
Unrealized Gain/(Loss)	<u>21,296</u>	<u>14,113</u>
Total Investments	<u>\$ 9,170,654</u>	<u>\$ 7,600,004</u>

NOTE 7 – MANAGERMENTS SUBSEQUENT REVIEW

The Commission has evaluated subsequent events through October 26, 2011, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.