



ADELFA LLC

CERTIFIED PUBLIC ACCOUNTANTS

400 E RANDOLPH STREET, SUITE 705

CHICAGO, ILLINOIS 60601

TEL (312) 240-9500 FAX (312) 240-0295

www.adelfiacpas.com

State of Illinois

**ATTORNEY REGISTRATION AND
DISCIPLINARY COMMISSION**

**FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION**

For the Two Years Ended December 31, 2017

Performed as Special Assistant Auditors for the
Auditor General, State of Illinois

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended December 31, 2017**

TABLE OF CONTENTS

		<u>Page(s)</u>
Agency Officials		1
Management Assertion Letter		2-3
Compliance Report:		
Summary		4
Independent Accountant’s Report on State Compliance and on Internal Control over Compliance		5-7
Financial Statement Report:		
Summary		8
Independent Auditor’s Report		9-11
Basic Financial Statements		
Statements of Financial Position		12
Statements of Activities		13
Statements of Cash Flows		14
Notes to the Basic Financial Statements		15-28
	<u>Schedule</u>	<u>Page(s)</u>
Supplementary Information for State Compliance Purposes:		
Summary		29
Fiscal Schedules and Analysis		
Schedule of Changes in Property and Equipment	1	30
Comparative Schedule of Cash Receipts – Excluding Investment Proceeds	2	31
Comparative Schedule of Expenses	3	32-33
Analysis of Operations (Unaudited)		
Commission Functions and Planning Program (Unaudited)		34
Average Number of Employees (Unaudited)		35
Analysis of Significant Variations in Receipts and Expenses (Unaudited)		36-37
Service Efforts and Accomplishments (Unaudited)		38

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended December 31, 2017**

AGENCY OFFICIALS

Administration

Administrator	Jerome Larkin
Deputy Administrator	James J. Grogan
Director of Finance	Vick Paul
Director of Human Resources and Administrative Services	Eva Tramutolo

Commissioners

Chairman	James R. Mendillo
Commissioner	Timothy Louis Bertschy
Commissioner	Karen Hasara
Commissioner	Bernard Judge
Commissioner	David F. Rolewick
Commissioner	John H. Simpson
Commissioner	Cedric D. Thurman

Commission offices are located at:

One Prudential Plaza
130 East Randolph Drive, Suite 1500
Chicago, IL 60601

Novanis E-Business Center Building
3161 West White Oaks Drive, Suite 301
Springfield, IL 62704



ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
of the
SUPREME COURT OF ILLINOIS
www.iardc.org

One Prudential Plaza
130 East Randolph Drive, Suite 1500
Chicago, IL 60601-6219
(312) 565-2600 (800) 826-8625
Fax (312) 565-2320

3161 West White Oaks Drive, Suite 301
Springfield, IL 62704
(217) 546-3523 (800) 252-8048
Fax (217) 546-3785

STATE COMPLIANCE EXAMINATION
MANAGEMENT ASSERTION LETTER

May 10, 2018

Adelfia LLC
400 E. Randolph Street, Suite 705
Chicago, Illinois 60601

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Attorney Registration and Disciplinary Commission. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Commission's compliance with the following assertions during the two-year period ended December 31, 2017. Based on this evaluation, we assert that during the years ended December 31, 2017 and December 31, 2016, the Attorney Registration and Disciplinary Commission has materially complied with the assertions below.

- A. The Attorney Registration and Disciplinary Commission has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Attorney Registration and Disciplinary Commission has obligated, expended, received, and used public funds in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Attorney Registration and Disciplinary Commission has complied, in all material respects, with applicable laws and regulations, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Attorney Registration and Disciplinary Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Attorney Registration and Disciplinary Commission or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Attorney Registration and Disciplinary Commission

SIGNED ORIGINAL ON FILE

Jerome Larkin, Administrator

SIGNED ORIGINAL ON FILE

James J. Grogan, Deputy Administrator and Chief Counsel

SIGNED ORIGINAL ON FILE

Vick Paul, Director of Finance

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended December 31, 2017**

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with the Illinois State Auditing Act.

ACCOUNTANT'S REPORTS

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	0	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

SCHEDULE OF FINDINGS

No findings were noted during the financial audit and compliance examination for the two years ended December 31, 2017.

EXIT CONFERENCE

An exit conference was held on April 30, 2018 with the following attendees:

Commission
Jerome Larkin, Administrator
Vick Paul, Director of Finance
Karyn Borell-Lee, Controller

Adelfia LLC
Stella Marie Santos, Partner
Jennifer Roan, Partner
Maria Fides Balita, Partner
Svetlana Padua, Supervisor

Office of the Auditor General
Lisa Warden, Manager



ADELFA LLC

CERTIFIED PUBLIC ACCOUNTANTS

400 E RANDOLPH STREET, SUITE 705

CHICAGO, ILLINOIS 60601

TEL (312) 240-9500 FAX (312) 240-0295

www.adelfiacpas.com

INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Commissioners
Attorney Registration and Disciplinary Commission

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Attorney Registration and Disciplinary Commission's (Commission) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended December 31, 2017. The management of the Commission is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Commission's compliance based on our examination.

- A. The Commission has obligated, expended, received, and used funds in accordance with the purpose for which such funds have been collected or otherwise authorized by law.
- B. The Commission has obligated, expended, received, and used funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, in its financial and fiscal operations.
- D. Revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

- E. Money or negotiable securities or similar assets handled by the Commission or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the Commission complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the Commission complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Commission's compliance with specified requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended December 31, 2017.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Internal Control

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Commission's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance

with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

There were no immaterial findings that have been excluded from this report.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Chicago, Illinois

May 10, 2018

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended December 31, 2017**

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the Attorney Registration and Disciplinary Commission (Commission) was performed by Adelfia LLC.

Based on their audit, the auditors expressed an unmodified opinion on the Commission's basic financial statements.

EXIT CONFERENCE

An exit conference was held on April 30, 2018 with the following attendees:

Commission

Jerome Larkin, Administrator
Vick Paul, Director of Finance
Karyn Borell-Lee, Controller

Office of the Auditor General

Lisa Warden, Manager

Adelfia LLC

Stella Marie Santos, Partner
Jennifer Roan, Partner
Maria Fides Balita, Partner
Svetlana Padua, Supervisor



ADELFLIA LLC

CERTIFIED PUBLIC ACCOUNTANTS

400 E RANDOLPH STREET, SUITE 705

CHICAGO, ILLINOIS 60601

TEL (312) 240-9500 FAX (312) 240-0295

www.adelfiacpas.com

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Commissioners
Attorney Registration and Disciplinary Commission

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Attorney Registration and Disciplinary Commission (Commission), as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission, as of December 31, 2017 and 2016, and the respective changes in its net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits for the years ended December 31, 2017 and 2016 were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying supplementary information in the State Compliance Schedules 1 through 3, and the Analysis of Operations Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information for the years ended December 31, 2017 and 2016, in the State Compliance Schedules 1 through 3 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the years ended December 31, 2017 and 2016, in the State Compliance Schedules 1 through 3 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended December 31, 2017 and 2016, in the State Compliance Schedules 1 through 3 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Commission's basic financial statements as of and for the years ended December 31, 2015 (not presented herein), and have issued our report thereon dated April 21, 2016, which contained an unmodified opinion on the respective basic financial statements. The accompanying supplementary information for the year ended December 31, 2015 in Schedules 1 through 3 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the December 31, 2015 financial statements. The accompanying supplementary information for the year ended December 31, 2015 in Schedules 1 through 3 has been subjected to the auditing procedures applied in the audit of the December 31, 2015 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended December 31, 2015 in Schedules 1 through 3 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The accompanying supplementary information in the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

SIGNED ORIGINAL ON FILE

Chicago, Illinois

May 10, 2018

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,103,430	2,686,963
Short-term investments	31,188,552	30,171,653
Accrued interest receivable	81,323	49,478
Accounts receivable	722	463
Prepaid expenses and other assets	169,281	169,610
Total current assets	34,543,308	33,078,167
Property and equipment - net	1,756,123	2,019,338
Long-term investments	23,437,282	18,812,020
Total assets	\$ 59,736,713	\$ 53,909,525
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other accruals	\$ 851,654	273,543
Amounts held for others	4,140,117	4,139,013
Accrued vacation	476,969	460,982
Deferred registration and program fees	16,514,642	16,258,397
Current portion of net postretirement benefit obligation	35,509	33,415
Deposits	4,000	4,000
Total current liabilities	22,022,891	21,169,350
Long-term liabilities		
Noncurrent portion of net postretirement benefit obligation	1,881,254	1,799,509
Deferred rent expense	2,248,144	1,779,226
Total long-term liabilities	4,129,398	3,578,735
Total liabilities	26,152,289	24,748,085
Unrestricted net assets	33,584,424	29,161,440
Total liabilities and net assets	\$ 59,736,713	\$ 53,909,525

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Registration and Discipline	Client Protection Program	Total	Registration and Discipline	Client Protection Program	Total
REVENUE						
Investment income						
Interest	\$ 445,892	\$ 14,727	\$ 460,619	\$ 316,973	\$ 8,364	\$ 325,337
Net appreciation (depreciation) in fair value of investments	48,670	(1,473)	\$ 47,197	63,128	(27)	\$ 63,101
Total investment income	494,562	13,254	507,816	380,101	8,337	388,438
Registration and program fees and delinquent charges	19,883,633	1,841,590	21,725,223	19,768,389	1,820,135	\$ 21,588,524
Cost reimbursements collected	89,142	-	89,142	111,971	-	\$ 111,971
Administrative expense reimbursement from Client Protection Program	304,543	-	304,543	292,863	-	\$ 292,863
Client Protection Program reimbursements	-	260,049	260,049	-	175,165	\$ 175,165
Total revenue	20,771,880	2,114,893	22,886,773	20,553,324	2,003,637	22,556,961
EXPENSES						
Salaries and related expenses	12,153,114	-	12,153,114	11,889,727	-	11,889,727
Travel expenses	111,074	-	111,074	127,337	-	127,337
Library and continuing education	201,888	-	201,888	150,463	-	150,463
General expenses and office support	2,419,124	-	2,419,124	2,388,365	-	2,388,365
Computer expenses	515,197	-	515,197	542,478	-	542,478
Other professional and case-related expenses	602,010	-	602,010	636,352	-	636,352
Client Protection Program direct expenses						
Awards	-	1,773,919	1,773,919	-	3,094,188	3,094,188
Administrative	-	3,032	3,032	-	4,155	4,155
Administrative expense reimbursement to Registration and Discipline	-	304,543	304,543	-	292,863	292,863
Depreciation and amortization expense	379,888	-	379,888	390,611	-	390,611
Total expenses	16,382,295	2,081,494	18,463,789	16,125,333	3,391,206	19,516,539
Change in net assets	4,389,585	33,399	4,422,984	4,427,991	(1,387,569)	3,040,422
Unrestricted net assets						
Beginning of year	28,152,348	1,009,092	29,161,440	23,724,357	2,396,661	26,121,018
End of year	\$ 32,541,933	\$ 1,042,491	\$ 33,584,424	\$ 28,152,348	\$ 1,009,092	\$ 29,161,440

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 4,422,984	\$ 3,040,422
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net (appreciation) depreciation in fair value of investments	(47,197)	(63,101)
Depreciation and amortization expense	379,888	390,611
(Increase) decrease in assets		
Accounts receivable and accrued interest receivable	(32,104)	(8,232)
Prepaid expenses and other assets	329	(120,858)
Increase (decrease) in liabilities		
Accounts payable and other accruals	578,111	(850,141)
Amounts held for others	1,104	193,116
Accrued vacation	15,987	19,248
Deferred registration and program fees	256,245	(372,457)
Deposits	-	1,500
Net postretirement benefit obligation	83,839	115,425
Deferred rent expense	468,918	(122,256)
Net cash provided by operating activities	6,128,104	2,223,277
Cash flows from investing activities		
Purchases of investment securities	(38,661,264)	(34,760,496)
Maturities of investment securities	33,066,300	32,693,961
Acquisitions of property and equipment	(116,673)	(125,666)
Net cash used in investing activities	(5,711,637)	(2,192,201)
Net increase in cash and cash equivalents	416,467	31,076
Cash and cash equivalents		
Beginning of year	2,686,963	2,655,887
End of year	\$ 3,103,430	\$ 2,686,963

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. GENERAL PURPOSE DESCRIPTION

Nature of Activities

The Attorney Registration and Disciplinary Commission of the Supreme Court of Illinois (Commission) was created by the Illinois Supreme Court (Court) under Rules 751 through 756 of the Court effective February 1, 1973, and subsequent additional rules and amendments. The Commission and the Office of the Administrator (Administrator) maintain the Master Roll of Attorneys, and investigate and prosecute claims against Illinois attorneys whose conduct might tend to defeat the administration of justice or bring the Court or the legal profession into disrepute, and collect and administer the Disciplinary Fund and collect and remit funds due to other entities as provided in Rules 751 and 756.

Organization Structure

Seven commissioners appointed by the Court direct the Commission. Four of these appointees are attorneys; three are public members. The Commissioners appoint, with the approval of the Court, the Administrator of the Commission; oversee the collection and administration of funds; develop rules for disciplinary proceedings and appoint attorney and lay members of the Hearing and Inquiry Boards that are involved in disciplinary matters.

The Administrator is the principal executive officer of the Commission. The Administrator's responsibilities include directing the disciplinary system, monitoring the registration of attorneys, collection of annual registration fees, overseeing the investigation of charges of misconduct and the prosecution of disciplinary cases. The Administrator directs a staff of more than 100 employees to meet these responsibilities.

Recent amendments to those rules and additional significant rules of the Court impacting the Commission's operations are as follows:

- Rule 756(a) (Rule), as amended, has set the annual registration and program fees for active lawyers licensed to practice law for three years or more at \$385 and the annual registration fees for active lawyers licensed to practice between one and three years and inactive lawyers at \$121. The full fee was increased from \$382 to \$385 effective with the 2017 registration season, with the \$3 increase being allocated in full to the Illinois Lawyers Assistance Program. Prior to this, the last fee increase occurred effective with the 2015 registration season. The charge for late payment of annual registration fees is \$25 per month for every month that fees are delinquent. The Rule requires that the

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

1. GENERAL PURPOSE DESCRIPTION (Continued)

Commission, as part of the annual \$385 fee, collect and remit the following amounts to the following other Supreme Court entities that are not administered by the Commission: \$95 to the Lawyers Trust Fund of Illinois, \$25 to the Illinois Supreme Court Commission on Professionalism, and \$10 to the Illinois Lawyers Assistance Program.

- Rule 780(b) provided for the establishment of the Client Protection Program (Program) and sets forth that the purpose of the Program “is to promote public confidence in the administration of justice and the integrity of the legal profession by reimbursing losses caused by the dishonest conduct” of Illinois lawyers who have been disciplined. Since the Program’s inception, the Commission has administered the Client Protection Program and has maintained a separate Client Protection Fund account. Amended Rule 756 provides that \$25 of the full registration fee be set aside for the Client Protection Program to fund awards made by the Client Protection Program. Prior to the Rule 756 amendment, the Commission funded payment of awards by making an annual allocation from the Disciplinary Fund. The Commission includes in its general budget allocations for administrative expenses of the Program to be paid from the Disciplinary Fund. The Program reimburses the Commission for the cost of administering the Program.
- Rule 707, as amended, provides that eligible out-of-state attorneys may appear in an Illinois proceeding upon meeting certain requirements, including the payment of a \$250 per proceeding fee and an annual registration fee, which is currently \$121. The \$250 per proceeding fee is allocated between the Illinois Supreme Court Commission on Access to Justice (\$175) and the Commission (\$75). The registration fee is allocated to the Commission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Commission have been prepared on the accrual basis of accounting.

Basis of Presentation

In compliance with provisions of generally accepted accounting principles, the Commission is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

net assets, and permanently restricted net assets. The Commission does not have any temporarily restricted or permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all deposits in checking and savings accounts. The Commission also considers all liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

The Commission fully reserves reimbursements owed by attorneys under its Cost Reimbursements Program and the Client Protection Program. Whether the Commission can fully collect all reimbursements is dependent upon each identified attorney's ability to pay and the current economic environment. Therefore, the Commission records these reimbursements as revenue under the cost recovery method when the reimbursements are received.

Investments

The investments are reported at fair value. The fair value of the financial instrument is the amount that would be received to sell that asset (or paid to transfer in a liability) in an orderly transaction between market participants at the measurement date (the exit price).

Purchases and sales of the investments are reflected on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Property and Equipment

Property and equipment are stated at cost. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation and amortization are provided over the estimated useful lives of the assets or asset groups, based on the straight-line method. Upon disposal of assets, gains or losses related to dispositions are included in current year operations. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining lease period.

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated useful lives of the property and equipment are as follows:

	<u>Years</u>
Computer and related equipment	3-5
Office furniture and equipment	3-10
Library	7
Leasehold improvements	5-15

Amounts Held for Others

Amounts held for others at year-end were as follows:

	<u>2017</u>	<u>2016</u>
Illinois Lawyers Assistance Program	\$ 317,379	\$ 317,318
Lawyers Trust Fund of Illinois	3,015,408	3,017,112
Illinois Supreme Court Commission on Professionalism	793,505	793,933
Illinois Supreme Court Commission on Access to Justice	13,825	10,650
	<u>\$ 4,140,117</u>	<u>\$ 4,139,013</u>

These amounts were remitted to the respective entities subsequent to year-end.

Deferred Registration and Program Fees

The Commission is funded by an annual registration fee assessed on Illinois attorneys which includes a \$25 Client Protection Program fee applied to attorneys admitted greater than three years. The annual fees for the subsequent year are billed before November 1 and are due January 1. Deferred registration and program fees represent the fees for next year received in the current year.

Deposits

Portions of these funds are the reinstatement deposits that accompany the petition of any attorney who is filing for reinstatement under Rule 767. The amount the attorney actually owes is assessed at the conclusion of the proceedings. Reinstatement deposits held both at December 31, 2017 and 2016 was \$4,000.

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Rent Expense

Deferred rent expense consists of a combination of “free rent” and past and future lease incentive payments from the landlord. The Commission is recognizing operating lease expense on the straight-line basis over the term of the lease.

Income Taxes

The Internal Revenue Service has determined that the Commission is exempt from Federal income taxes as an instrumentality of the State of Illinois.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Commission to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

Functional Allocation of Expenses

The costs of providing the programs and administrative services have been summarized on a functional basis in Note 12. The Commission allocates certain common expenses based on management’s estimate of time incurred on these programs or other reasonable and consistent methodologies.

Subsequent Events

Subsequent events have been evaluated through May 10, 2018, which is the date the financial statements were available to be issued.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

3. INVESTMENTS

The fair value of investments as of December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
U.S. Treasury notes and bills	\$ 22,069,814	\$ 18,126,849
U.S. bank certificates	21,722,000	18,847,000
Money market funds	9,380,473	10,749,748
Mutual funds and exchange traded funds		
Fixed Income	822,600	740,349
Equity	630,947	519,727
Total	<u>\$ 54,625,834</u>	<u>\$ 48,983,673</u>

The following table lists the maturities of securities held for the years ended December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>0-1 Year</u>	<u>1-5 Years</u>	<u>0-1 Year</u>	<u>1-5 Years</u>
U.S. Treasury notes and bills	\$10,570,532	\$11,499,282	\$ 8,600,829	\$ 9,526,020
U.S. bank certificates	9,784,000	11,938,000	9,561,000	9,286,000
Money market funds	9,380,473	-	10,749,748	-
Mutual funds and exchange traded funds				
Fixed Income	822,600	-	740,349	-
Equity	630,947	-	519,727	-
Total	<u>\$31,188,552</u>	<u>\$23,437,282</u>	<u>\$30,171,653</u>	<u>\$18,812,020</u>

4. FAIR VALUE MEASUREMENTS

The Commission is subject to the requirements of the *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification, which established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS (Continued)

Basis of Fair Value Measurement

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following tables set forth, by level within the fair value hierarchy, the Commission's investment assets at fair value as of December 31, 2017 and 2016. As required, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Commission did not own any assets that required measurement using Level 3 inputs as of December 31, 2017 and 2016.

	Total	Fair Value Measurements at 12/31/17 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury notes and bills	\$22,069,814	\$22,069,814	\$ -	\$ -
U.S. bank certificates	21,722,000	-	21,722,000	-
Money market funds	9,380,473	9,380,473	-	-
Mutual funds and exchange traded funds				
Fixed income	822,600	822,600	-	-
Equity:				
Small cap	85,398	85,398	-	-
Mid cap	84,452	84,452	-	-
Large cap	338,331	338,331	-	-
International	122,766	122,766	-	-
	<u>\$54,625,834</u>	<u>\$32,903,834</u>	<u>\$21,722,000</u>	<u>\$ -</u>

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS (Continued)

	Total	Fair Value Measurements at 12/31/16 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury notes and bills	\$18,126,849	\$18,126,849	\$ -	\$ -
U.S. bank certificates	18,847,000	-	18,847,000	-
Money market funds	10,749,748	10,749,748	-	-
Mutual funds and exchange traded funds				
Fixed income	740,349	740,349	-	-
Equity:				
Small cap	68,954	68,954	-	-
Mid cap	69,007	69,007	-	-
Large cap	276,577	276,577	-	-
International	105,189	105,189	-	-
	<u>\$48,983,673</u>	<u>\$30,136,673</u>	<u>\$18,847,000</u>	<u>\$ -</u>

Level 1 Measurements

U.S. Treasury notes and bills are traded in active markets on national securities exchanges and are valued at closing prices on the last business day of each period presented.

The fair values of the mutual funds and exchange traded funds are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Shares held in the mutual funds are traded on national securities exchanges and are valued at the net asset value on the last business day of each period presented.

Money market funds represent shares in mutual funds.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

4. FAIR VALUE MEASUREMENTS (Continued)

Level 2 Measurements

U.S. bank certificates are valued at cost which approximates fair value due to their liquid or short-term nature. The Commission's Level 2 investments consisted of U.S. bank certificates of \$21,722,000 and \$18,847,000 as of December 31, 2017 and 2016, respectively. At December 31, 2017, the U.S. bank certificates have interest rates ranging from 0.70% to 2.05% and are set to mature at various dates between January 2018 and September 2020. At December 31, 2016, the U.S. bank certificates have interest rates ranging from 0.70% to 1.50% and are set to mature at various dates between January 2017 and January 2019.

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 and 2016 consist of the following:

	2017	2016
Office furniture and equipment	\$ 1,108,409	\$ 1,159,037
Computer and related equipment	2,921,200	2,840,573
Library	25,433	35,225
Leasehold improvements	2,471,949	2,471,949
Property and equipment, total	6,526,991	6,506,784
Less accumulated depreciation and amortization	(4,770,868)	(4,487,446)
Property and equipment, net	\$ 1,756,123	\$ 2,019,338

6. LEASE COMMITMENTS

The Commission leases its Chicago and Springfield offices under operating lease agreements.

The Chicago office lease was set to expire in May 2015. However, in February 2011, the Chicago office lease was extended through May 2027. This lease provides for pro-rata operating expenses and real estate taxes in addition to the scheduled rent payments. In addition, the original lease provided 32 months "free rent" with the first rent payment made on January 1, 1996. Under the terms of an amendment, base rent was reduced from December 2003 through May 2008, and the landlord provided certain rent concessions which were fully applied as of December 31, 2012.

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

6. LEASE COMMITMENTS (Continued)

The Commission also received an allowance for leasehold improvements and other rent concessions of approximately \$2,575,000 between January 2012 and December 2017.

Effective November 1, 2012, the Commission entered into a fifteen year agreement for office space in Springfield, Illinois. The agreement, which included an allowance of \$20,000 for leasehold improvements, requires escalating rental payments of 2% over the life of the lease. The Commission's scheduled rent payments for this lease include operating expenses and real estate taxes.

Rent expense under all lease agreements was \$1,348,228 in 2017 and \$1,351,162 in 2016.

Future minimum lease payments, net of scheduled rent abatements, are as follows:

	<u>Springfield</u>	<u>Chicago</u>	<u>Total</u>
Year ending December 31,			
2018	\$ 107,623	\$ 729,558	\$ 837,181
2019	109,776	747,806	857,582
2020	111,971	766,660	878,631
2021	114,211	785,835	900,046
2022	116,495	805,457	921,952
Thereafter	<u>596,577</u>	<u>3,802,367</u>	<u>4,398,945</u>
	<u>\$ 1,156,653</u>	<u>\$ 7,637,683</u>	<u>\$ 8,794,336</u>

7. POSTRETIREMENT BENEFIT OBLIGATIONS

On August 9, 1985, the Commission formed a trust to replace the Medicare coverage lost by its employees when the Social Security Administration ruled that Commission employees were ineligible for benefits.

The Commission committed to pay the future cost of Medicare premiums for former employees who were employed by the Commission before March 31, 1986. Furthermore, the Commission agreed to pay eligible former employees' reimbursement credits for supplemental medical and hospitalization insurance coverage beginning at age 65. Therefore, the Commission records a liability associated with its employees' lost Medicare coverage and supplemental health benefits for retirees.

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

7. POSTRETIREMENT BENEFIT OBLIGATIONS (Continued)

The following sets forth information with respect to this benefit obligation as of and for the years ended December 31, 2017 and 2016. The benefit obligation at December 31, 2017 was actuarially determined by Towers Watson, and was estimated by Commission management for 2016.

	<u>2017</u>	<u>2016</u>
Change in accumulated benefit obligation		
Benefit obligation at beginning of year	\$ 1,832,924	\$ 1,717,499
Service cost	57,907	59,552
Interest cost	71,932	64,097
Benefits paid	(18,641)	(14,774)
Actuarial (gain)/loss	<u>(27,359)</u>	<u>6,550</u>
Benefit obligation at end of year	<u>\$ 1,916,763</u>	<u>\$ 1,832,924</u>

Net periodic benefit costs for 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 57,907	\$ 59,552
Interest cost	71,932	64,097
Amortization	<u>(27,359)</u>	<u>6,550</u>
Net periodic benefit cost	<u>\$ 102,480</u>	<u>\$ 130,199</u>

The key assumptions are as follows:

	<u>2017</u>	<u>2016</u>
Actuarial cost method	Projected unit credit method	Projected unit credit method
Mortality table	RP-2014 Employee and Annuitant	RP-2014 Employee and Annuitant
Discount rate	4.10%	4%
Retirement age	Between ages 55 and 65	Between ages 55 and 65
Medical trend rate ultimate	5%	5%

Assumed healthcare cost trend rates can have a significant effect on the amounts reported for health care benefits. At December 31, 2017, the actuary noted that the effect of a 1% increase in health care cost trend rates (medical trend ultimate) would be an increase of \$6,366 on total service cost and interest cost components and an increase of \$88,198 on the postretirement benefit obligation.

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

7. POSTRETIREMENT BENEFIT OBLIGATIONS (Continued)

The liability will increase or decrease in future years due to changes in eligible employees, benefits paid, and possible changes in assumptions based on experience factors and applicable discount rates.

Actuarially determined projected benefit payments for each of the next five years and the five years thereafter are as follows:

2018	\$ 35,509
2019	37,342
2020	41,755
2021	46,876
2022	61,292
2023 - 2027	519,991
	<u>\$ 742,765</u>

The Commission maintains investments in a separate trust account for the Medicare replacement reserve. The assets are invested using prudent asset allocation parameters, with the goal of minimizing risk and achieving asset returns that will help the plan meet its future obligations. The plan's returns should be competitive with like institutions employing similar investment strategies. Because these investments are not considered to be plan assets, they are included in the total investment balances on the Statements of Financial Position. The fair value of these investments including accrued interest totaled \$2,005,591 and \$1,755,950 at December 31, 2017 and 2016, respectively.

8. COST REIMBURSEMENTS

The Commission receives cost reimbursements for investigative and disciplinary costs from disciplined attorneys. Cost reimbursements are billed at the time that discipline is imposed by the Court. Such billings may not reflect the total costs or match the period in which the investigative disciplinary costs were incurred. The Commission is limited to \$1,000 in cost reimbursements for each discipline case, absent exceptional circumstances. During the years ended December 31, 2017 and 2016, the Commission regularly sought entry of judgments by the Court. Interest accrues upon the unsatisfied portions of those judgments at a rate of 9% per annum, from the date of judgment until satisfied, as provided by 735 ILCS 5/2-1303. The Commission has also established payment plans for disciplined attorneys.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

9. EMPLOYEE BENEFIT PLANS

The Commission maintains a defined contribution retirement plan and trust for the benefit of all eligible employees. The Commission provides enhanced retirement plan contributions due to a Social Security Administration ruling that Commission employees are not eligible for benefits. Employee contributions are not permitted under the plan's provisions. The Commission contributes 18% of compensation for eligible employees, which totaled \$1,509,166 in 2017 and \$1,504,615 in 2016. The Commission also pays the plan's administrative expenses, which totaled \$191,588 in 2017 and \$154,379 in 2016.

The Commission also maintains a Section 457 savings plan which is primarily funded by voluntary pre-tax employee contributions. The Commission paid the savings plan's administrative expenses, which totaled \$5,450 in 2017 and \$3,200 in 2016. Effective January 1, 2015, the Commission began matching employee contributions at the rate of 10% of the employee deferral amount, subject to an annual cap of \$500 per employee. The matching formula was changed to 50% effective January 1, 2017, but subject to the same annual cap of \$500 per employee. Matching contributions totaled \$36,864 in 2017 and \$20,970 in 2016.

10. LITIGATION

Various complaints and actions are periodically filed against the Commission. At December 31, 2017 and 2016, the Commission believes that pending matters do not present any serious prospect for negative financial consequences.

11. RISK AND UNCERTAINTIES

The Commission invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near future and such changes could materially affect the amounts reported in the statements of financial position.

The actuarial present value of postretirement benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

12. FUNCTIONAL EXPENSES

An analysis of the Commission's functional expenses, by natural classification, is as follows for the years ended December 31, 2017 and 2016:

	2017			
	Program			Total
	Registration and Discipline	Client Protection Program	Administration and Support	
Salaries and related expenses	\$ 9,788,834	\$ 239,491	\$ 2,124,789	\$ 12,153,114
Travel expenses	85,668	1,180	24,226	111,074
Library and continuing education	161,891	3,490	36,507	201,888
General expenses and office support	1,958,308	40,221	420,595	2,419,124
Computer expenses	413,124	8,909	93,164	515,197
Other professional and case-related expenses	548,575	4,664	48,771	602,010
Client Protection Program direct expenses				
Awards	-	1,773,919	-	1,773,919
Administrative	-	3,032	-	3,032
Administrative expense reimbursement to Registration and Discipline	-	-	304,543	304,543
Depreciation and amortization expense	304,605	6,588	68,695	379,888
	<u>\$ 13,261,005</u>	<u>\$ 2,081,494</u>	<u>\$ 3,121,290</u>	<u>\$ 18,463,789</u>
	2016			
	Program			
	Registration and Discipline	Client Protection Program	Administration and Support	Total
Salaries and related expenses	\$ 9,521,144	\$ 233,696	\$ 2,134,887	\$ 11,889,727
Travel expenses	97,484	1,051	28,802	127,337
Library and continuing education	119,207	2,394	28,862	150,463
General expenses and office support	1,910,806	36,576	440,983	2,388,365
Computer expenses	429,791	8,629	104,058	542,478
Other professional and case-related expenses	580,185	4,302	51,865	636,352
Client Protection Program direct expenses				
Awards	-	3,094,188	-	3,094,188
Administrative	-	4,155	-	4,155
Administrative expense reimbursement to Registration and Discipline	-	-	292,863	292,863
Depreciation and amortization expense	309,469	6,215	74,927	390,611
	<u>\$ 12,968,086</u>	<u>\$ 3,391,206</u>	<u>\$ 3,157,247</u>	<u>\$ 19,516,539</u>

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended December 31, 2017**

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Changes in Property and Equipment
 - Comparative Schedule of Cash Receipts – Excluding Investment Proceeds
 - Comparative Schedule of Expenses

- Analysis of Operations (Unaudited):
 - Commission Functions and Planning Program (Unaudited)
 - Average Number of Employees (Unaudited)
 - Analysis of Significant Variations in Receipts and Expenses (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

The auditor's report that covers the Supplementary Information for State Compliance Purposes presented in the Financial Statement Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, it is fairly stated, in all material respects, in relation to the basic financial statements as a whole from which it has been derived. The auditor's report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
SCHEDULE OF CHANGES IN PROPERTY AND EQUIPMENT
December 31, 2017 and 2016

	Balance January 1, 2017	Acquisitions	Dispositions	Balance December 31, 2017
Office furniture and equipment	\$ 1,159,037	\$ -	\$ 50,628	\$ 1,108,409
Computer and related equipment	2,840,573	116,673	36,046	2,921,200
Library	35,225	-	9,792	25,433
Leasehold improvements	2,471,949	-	-	2,471,949
Property and equipment, total	6,506,784	116,673	96,466	6,526,991
Accumulated depreciation	(4,487,446)	(379,888)	(96,466)	(4,770,868)
Property and equipment, net	<u>\$ 2,019,338</u>	<u>\$ (263,215)</u>	<u>\$ -</u>	<u>\$ 1,756,123</u>

	Balance January 1, 2016	Acquisitions	Dispositions	Balance December 31, 2016
Office furniture and equipment	\$ 1,198,972	\$ 56,398	\$ 96,333	\$ 1,159,037
Computer and related equipment	2,784,509	69,268	13,204	2,840,573
Library	52,569	-	17,344	35,225
Leasehold improvements	2,471,949	-	-	2,471,949
Property and equipment, total	6,507,999	125,666	126,881	6,506,784
Accumulated depreciation	(4,223,716)	(390,611)	(126,881)	(4,487,446)
Property and equipment, net	<u>\$ 2,284,283</u>	<u>\$ (264,945)</u>	<u>\$ -</u>	<u>\$ 2,019,338</u>

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
COMPARATIVE SCHEDULE OF CASH RECEIPTS - EXCLUDING INVESTMENT PROCEEDS
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Accrual Basis:			
Registration and program fees and delinquent charges	\$ 21,725,223	\$ 21,588,524	\$ 21,241,739
Investment income			
Interest	460,619	325,337	215,925
Net appreciation (depreciation) of investments	47,197	63,101	(86,873)
Total investment income	<u>507,816</u>	<u>388,438</u>	<u>129,052</u>
Costs reimbursements collected	89,142	111,971	82,782
Administrative expense reimbursements from			
Client Protection Program	304,543	292,863	286,324
Client Protection Program reimbursements	<u>260,049</u>	<u>175,165</u>	<u>16,355</u>
Total revenue (accrual basis)	<u>22,886,773</u>	<u>22,556,961</u>	<u>21,756,252</u>
Plus:			
Deferred fees - end of year	16,514,642	16,258,397	16,630,854
Interest receivable - beginning of year	49,478	38,367	23,822
Accounts receivable - beginning of year	463	3,342	2,794
Deposits - end of year	4,000	4,000	2,500
Less:			
Deferred fees - beginning of year	(16,258,397)	(16,630,854)	(16,210,099)
Interest receivable - end of year	(81,323)	(49,478)	(38,367)
Accounts receivable - end of year	(722)	(463)	(3,342)
Deposits - beginning of year	<u>(4,000)</u>	<u>(2,500)</u>	<u>(5,000)</u>
Total receipts (cash basis)	<u>\$ 23,110,914</u>	<u>\$ 22,177,772</u>	<u>\$ 22,159,414</u>

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
COMPARATIVE SCHEDULE OF EXPENSES
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and related expenses			
Full-time staff	\$ 8,597,047	\$ 8,455,289	\$ 8,438,403
Temporary help	221,895	178,277	194,787
Employment taxes	124,203	118,572	118,657
Employee group insurance	1,561,459	1,481,805	1,437,765
Postretirement benefits	102,480	130,199	234,377
Retirement plan	1,546,030	1,525,585	1,509,856
Total salaries and related expenses	<u>12,153,114</u>	<u>11,889,727</u>	<u>11,933,845</u>
Travel expenses			
Staff	43,152	43,152	33,013
Vehicles	25,084	22,926	26,897
Commissioners	11,887	16,126	16,192
Review board	9,152	21,270	16,335
Hearing board	20,041	22,210	36,398
Inquiry and oversight boards	1,758	1,653	1,444
Total travel expenses	<u>111,074</u>	<u>127,337</u>	<u>130,279</u>
Library and continuing education	<u>201,888</u>	<u>150,463</u>	<u>143,206</u>
General expenses and office support			
Office rent	1,348,228	1,351,162	1,200,956
Utilities and maintenance	52,269	40,536	46,968
Telephone	125,837	120,673	150,723
Insurance general	156,018	152,222	154,954
Postage	135,731	131,186	156,448
Equipment rental and maintenance	24,742	40,115	52,376
Office supplies and expense	524,217	495,790	482,171
Stationery and forms	52,082	56,681	54,725
Total general expenses and office support	<u>2,419,124</u>	<u>2,388,365</u>	<u>2,299,321</u>
Computer expense	<u>515,197</u>	<u>542,478</u>	<u>479,508</u>

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
COMPARATIVE SCHEDULE OF EXPENSES
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Other professional and case-related expenses			
Auditing	\$ 26,340	\$ 54,109	\$ 23,357
Consultants and fees	176,109	139,235	153,969
Court reporting	201,994	236,779	283,136
Witness fees - professional	115,298	106,202	281,675
Witness fees - other	3,166	6,044	8,851
Duplication of records	11,844	16,944	15,964
Online legal research fees	67,259	77,039	68,714
Total other professional and case-related expenses	<u>602,010</u>	<u>636,352</u>	<u>835,666</u>
Client Protection Program payments	<u>1,776,951</u>	<u>3,098,343</u>	<u>2,496,544</u>
Administrative expense reimbursement to Registration and Discipline	<u>304,543</u>	<u>292,863</u>	<u>286,324</u>
Depreciation and amortization expense	<u>379,888</u>	<u>390,611</u>	<u>412,451</u>
Total expenses	<u><u>\$ 18,463,789</u></u>	<u><u>\$ 19,516,539</u></u>	<u><u>\$ 19,017,144</u></u>

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
COMMISSION FUNCTIONS AND PLANNING PROGRAM (UNAUDITED)
For the Years Ended December 31, 2017 and 2016

The Attorney Registration and Disciplinary Commission (Commission) was established in 1973 by the Illinois Supreme Court (the Court) to monitor the registration and regulation of attorneys admitted to practice law in Illinois. In 1994, the Court established the Client Protection Program to provide reimbursements to clients who have lost money or property because of dishonest conduct by lawyers admitted to practice law in Illinois. This program reimburses, up to a maximum of \$100,000, clients who cannot obtain reimbursement from the lawyer who caused the loss or from other sources.

Seven commissioners are appointed by the Illinois Supreme Court to direct the Commission. Four of these appointees are attorneys; three are public members. The Commissioners appoint, with the approval of the Court, the Administrator of the Commission; oversee the collection and administration of funds; develop rules for disciplinary proceedings and appoint attorney and lay members of the Hearing and Inquiry Boards which are involved in disciplinary matters.

The Administrator is the principal executive officer of the Commission. The Administrator's responsibilities include directing the disciplinary system, monitoring the registration of attorneys and collection of annual registration fees and overseeing the investigation of charges of misconduct and the prosecution of disciplinary cases.

The organization as well as the general policies and procedures of the Commission are established by the Illinois Supreme Court rules.

The Commission maintains a multi-year forecast to identify the budgeting goals of the Commission. The Commission staff prepares an annual budget based on the plans and objectives of the Commission as well as the case load projections. This budget is assembled on a line-item by line-item basis with explanations for all significant changes from the previous year's budget and actual performance. Upon its completion, the budget is presented to the Commissioners for their approval. After the budget is approved, it is compared against the actual operations of the Commission through the identification of favorable and unfavorable variances. The Commissioners are provided monthly reports that compare the budget with actual results.

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
AVERAGE NUMBER OF EMPLOYEES (UNAUDITED)
For the Years Ended December 31, 2017, 2016, and 2015**

Average Number of Employees by Function

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Registration and Discipline	81	87	90
Client Protection Program	2	2	2
Administration and Support	<u>18</u>	<u>21</u>	<u>20</u>
Total average number of employees by function	<u><u>101</u></u>	<u><u>110</u></u>	<u><u>112</u></u>

**STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS AND EXPENSES
(UNAUDITED)
For the Years Ended December 31, 2017 and 2016**

A comparative schedule of significant variations in receipts and expenses by account category greater than \$110,000 and more than 15% for the year ended December 31, 2017 is shown below:

	2017	2016	Variance	
			Amount	%
<u>Receipts</u>				
Investment Income	\$507,816	\$388,438	\$119,378	31%
<u>Expenses</u>				
Client Protection Program payments	\$1,776,951	\$3,098,343	(\$1,321,392)	(43%)

Investment Income

The increase in this account resulted from a combination of an increase in investments held and an increase in interest rates in 2017.

Client Protection Program payments

The significant decrease in this account was mainly attributable to the decrease in the number of approved and paid claims.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS AND EXPENSES
(UNAUDITED)
For the Years Ended December 31, 2017 and 2016

A comparative schedule of significant variations in receipts and expenses by account category greater than \$110,000 and more than 15% for the year ended December 31, 2016 is shown below:

	2016	2015	Variance	
			Amount	%
<u>Receipts</u>				
Investment Income	\$388,438	\$129,052	\$259,386	201%
Client Protection Program reimbursements	\$175,165	\$16,355	158,810	971%
<u>Expenses</u>				
Other professional and case-related expenses	\$636,352	\$835,666	(\$199,314)	(24%)
Client Protection Program payments	\$3,098,343	\$2,496,544	\$601,799	24%

Investment Income

The significant increase in this account resulted from a combination of an increase in investments held and an increase in interest rates in 2016.

Client Protection Program reimbursements

The significant increase in this account was mainly attributable to the increase in payments made by lawyers in 2016.

Other professional and case-related expenses

The decrease in this account was mainly attributable to the decrease in witness fees during 2016.

Client Protection Program payments

The significant increase in this account was mainly attributable to the increase in the number of approved and paid claims.

STATE OF ILLINOIS
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION
SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)
For the Years Ended December 31, 2017, 2016, and 2015

<u>Attorneys Initially Admitted to the Bar</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Attorneys admitted during current fiscal year	1,999	1,870	2,242
Attorneys admitted longer than one year, but less than three years	4,269	4,845	5,025
Attorneys admitted for three years or longer	73,372	72,447	71,594
Serving:			
Active military duty	379	362	324
Judges or judicial clerk	1,789	1,749	1,700
Over age 75 exemption	1	1	-
Inactive status	11,854	11,971	11,882
Rule 707 (Out-of-State)	1,334	1,216	1,057
Total active and registered attorneys	<u>94,997</u>	<u>94,461</u>	<u>93,824</u>
Removed from master roll (arrear, deceased, retired, disciplined and Minimum Continuing Legal Education (MCLE) removals)	<u>2,657</u>	<u>2,694</u>	<u>2,882</u>
<u>Annual Attorney Registration Fees</u>			
Attorneys admitted longer than one year, but less than three years	\$121	\$121	\$121
Attorneys admitted for three years or longer	\$385	\$382	\$382
Attorneys or inactive status	\$121	\$121	\$121