

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Two Years Ended December 31, 2007

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, 2007

TABLE OF CONTENTS

	<u>Page</u>
Commission Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	3
Auditors' Report	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	4
Financial Statement Report	
Summary	7
Independent Auditors' Report	8
Basic Financial Statements	
Statements of Financial Position	10
Statements of Activities	11
Statements of Cash Flows	12
Notes to the Basic Financial Statements	13
Supplemental Information	
Statements of Functional Expenses	25
Supplementary Information for State Compliance Purposes	
Summary	26
Fiscal Schedules and Analysis	
Schedule of Changes in Property and Equipment	27
Comparative Schedule of Cash Receipts	28
Comparative Schedule of Expenses	29
Analysis of Significant Variations in Receipts and Expenses	31
Analysis of Operations	
Agency Functions and Planning Program	33
Average Number of Employees	34
Service Efforts and Accomplishments (Unaudited)	34

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Two Years Ended December 31, 2007

**CENTER OFFICIALS**

**Administration**

Administrator	Jerome Larkin
Deputy Administrator	James J. Grogan
Director, Administrative Services	Marilynn Crossman

**Commissioners**

Chairman	Benedict Schwartz, II
Commissioner	Derrick K. Baker
Commissioner	Joan Myers Eagle
Commissioner	John R. Carroll
Commissioner	R. Michael Henderson
Commissioner	John P. Kujawski
Commissioner	Brian McFadden

Commission offices are located at:

130 East Randolph Drive  
Chicago, IL 60601



ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
of the  
SUPREME COURT OF ILLINOIS

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

One North Old Capitol Plaza, Suite 333  
Springfield, IL 62701  
(217) 522-6838 (800) 252-8048  
Fax (217) 522-2417

May 27, 2008

Hill, Taylor LLC  
116 South Michigan, 11<sup>th</sup> Floor  
Chicago, IL 60603

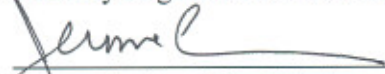
Ladies and Gentlemen:

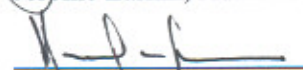
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Attorney Registration and Disciplinary Commission (Commission). We are responsible for and we have established 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, 2007. Based on this evaluation, we assert that during the years ended December 31, 2007 and December 31, 2006, the Commission has materially complied with the assertions below.

- A. The Commission has received and used fees in accordance with the purpose for which such fees have been collected or otherwise authorized by law.
- B. The Commission has received and used fees 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. The 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.

Yours very truly,

Attorney Registration and Disciplinary Commission

  
\_\_\_\_\_  
Jerome Larkin, Administrator

  
\_\_\_\_\_  
Marilynn Crossman, Director, Administrative Services

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Two Years Ended December 31, 2007

**COMPLIANCE REPORT**

**SUMMARY**

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

**AUDITORS' REPORT**

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

**SUMMARY OF FINDINGS**

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

There were no findings noted in our testing which are required to be included in the report.

**SCHEDULE OF FINDINGS**

**CURRENT FINDINGS**

NONE

**PRIOR YEAR FINDINGS NOT REPEATED**

NONE

**EXIT CONFERENCE**

Commission management waived having an exit conference per a letter dated May 7, 2008.



Hill, Taylor LLC  
Certified Public Accountants  
116 South Michigan Avenue, 11th Floor  
Chicago, Illinois 60603  
V 312-332-4964 F 312-332-0181

Member of the  
American Institute  
of Certified Public Accountants

Member of the  
Illinois CPA Society

**INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,  
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON  
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

Honorable William G. Holland  
Auditor General  
State of Illinois

and

Commissioners  
Attorney Registration and Disciplinary Commission  
Chicago, Illinois

**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 years ended December 31, 2007 and 2006. 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 received and used fees in accordance with the purpose for which such fees have been collected or otherwise authorized by law.
- B. The Commission has received and used fees in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such fees.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, in its financial and fiscal operations.
- D. The fees collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such fees 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.

We conducted our examination 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; and, accordingly, included examining, on a test basis, evidence about the Commission's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides 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 requirements listed in the first paragraph of this report during the years ended December 31, 2007 and 2006. The results of our procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General. There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

### **Internal Control**

The 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 in order to determine our examination procedures 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 *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Commission as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 27, 2008. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission. The 2007 and 2006 Supplementary Information for State Compliance purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2007 and 2006, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Commission's financial statements for the years ended December 31, 2005 and 2004. In our report dated March 24, 2006, we expressed unqualified opinions on the respective financial statements. In our opinion, the 2005 and 2004 Supplementary Information for State Compliance purposes, except for the portion marked "Unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2005 and 2004, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Illinois Supreme Court, Commission management, and the agency's governing board, and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Taylor UC*

May 27, 2008



STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Two Years Ended December 31, 2007

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Attorney Registration and Disciplinary Commission was performed by Hill, Taylor LLC, CPAs.

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



Hill, Taylor LLC  
Certified Public Accountants  
116 South Michigan Avenue, 11th Floor  
Chicago, Illinois 60603  
V 312-332-4964 F 312-332-0181

Member of the  
American Institute  
of Certified Public Accountants

Member of the  
Illinois CPA Society

## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

and

Commissioners  
Attorney Registration and Disciplinary Commission  
Chicago, Illinois

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 and for the years ended December 31, 2007 and 2006, which collectively comprise the Commission's financial statements as listed in the table of contents. 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 audit.

We conducted our audit 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Statements of Functional Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The Statements of Functional

Expenses have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note 7 to the financial statements, the Commission adopted Statement of Financial Accounting Standards Board No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* in 2007.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, Commission management, and the agency's governing board, and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Taylor UC

May 27, 2008

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2007 AND 2006

	2007	2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,341,838	\$ 861,451
Short-term investments	19,386,788	16,206,249
Accrued interest receivable	145,879	215,747
Accounts receivable	31,871	35,772
Prepaid expenses and other assets	79,323	91,894
Total current assets	20,985,699	17,411,113
Property and equipment - net	770,228	503,372
Long-term investments	3,904,822	3,970,420
Total assets	\$ 25,660,749	\$ 21,884,905
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Bank overdraft	\$ 836	\$ 223
Accounts payable and other accruals	324,611	885,692
Amounts held for others	1,396,538	1,310,852
Accrued vacation	317,968	294,875
Deferred registration and program fees	12,325,359	11,961,320
Current portion of net postretirement benefit obligation	8,198	7,736
Deposits	11,651	8,113
Total current liabilities	14,385,161	14,468,811
Long-term liabilities		
Net postretirement benefit obligation	553,131	110,680
Deferred rent expense	2,081,314	2,153,589
Total long-term liabilities	2,634,445	2,264,269
Total liabilities	17,019,606	16,733,080
Unrestricted net assets	8,641,143	5,151,825
Total liabilities and net assets	\$ 25,660,749	\$ 21,884,905

See notes to the financial statements.

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007		2006	
	Registration and Discipline	Client Protection Program	Total	Total
<b>REVENUE</b>				
Investment income				
Interest	\$ 748,553	\$ 69,252	\$ 817,805	\$ 694,296
Net appreciation (depreciation) of investments	195,403	1,986	197,389	(9,666)
Total investment income	943,956	71,238	1,015,194	684,630
Registration and program fees and delinquent charges	14,395,209	1,531,163	15,926,372	12,367,335
Cost reimbursements collected	94,244	-	94,244	80,237
Client Protection Program reimbursements	-	25,058	25,058	43,543
Total revenue	<u>15,433,409</u>	<u>1,627,459</u>	<u>17,060,868</u>	<u>13,175,745</u>
<b>EXPENSES</b>				
Salaries and related expenses	8,877,241	-	8,877,241	8,671,001
Travel expenses	128,499	-	128,499	93,443
Library and continuing education	230,042	-	230,042	174,870
General expenses and office support	1,840,648	-	1,840,648	1,931,622
Computer expenses	304,775	-	304,775	236,231
Other professional and case-related expenses	939,268	-	939,268	944,733
Client Protection Program direct expenses:				
Awards	-	697,358	697,358	843,305
Bank fees	-	1,471	1,471	-
Depreciation and amortization expense	157,942	-	157,942	154,605
Total expenses	<u>12,478,415</u>	<u>698,829</u>	<u>13,177,244</u>	<u>13,049,810</u>
Change in net assets before effect of adoption of FASB Statement No. 158	2,954,994	928,630	3,883,624	125,935
Effect of adoption of recognition provisions of FASB Statement No. 158	<u>(394,306)</u>	<u>-</u>	<u>(394,306)</u>	<u>-</u>
Increase in net assets	2,560,688	928,630	3,489,318	125,935
Unrestricted net assets				
Beginning of year	5,148,681	3,144	5,151,825	5,025,890
End of year	<u>\$ 7,709,369</u>	<u>\$ 931,774</u>	<u>\$ 8,641,143</u>	<u>\$ 5,151,825</u>

See notes to the financial statements.

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash flows from operating activities		
Increase in net assets	\$ 3,489,318	\$ 125,935
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Net unrealized (appreciation) depreciation of investments	(157,949)	15,138
Depreciation expense	157,942	154,605
Loss on disposal of assets	69	-
(Increase) decrease in assets		
Accounts receivable and accrued interest receivable	73,769	(165,590)
Prepaid expenses and other assets	12,571	(1,643)
Increase (decrease) in liabilities		
Bank overdraft	613	(496,378)
Accounts payable and other accruals	(561,081)	(223,443)
Amounts held for others	85,686	(478,358)
Accrued vacation	23,093	12,749
Deferred registration and program fees	364,039	2,980,692
Deposits	3,538	(3,269)
Net postretirement benefit obligation	442,913	154,317
Deferred rent expense	(72,275)	(36,007)
Net cash provided by operating activities	3,862,246	2,038,748
Cash flows from investing activities		
Purchases of investment securities	(20,136,200)	(33,097,486)
Maturities of investment securities	17,179,208	32,029,326
Acquisitions of property and equipment	(424,867)	(119,139)
Net cash used in investing activities	(3,381,859)	(1,187,299)
Net increase in cash and cash equivalents	480,387	851,449
Cash and cash equivalents		
Beginning of year	861,451	10,002
End of year	\$ 1,341,838	\$ 861,451

See notes to the financial statements.

STATE OF ILLINOIS

ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS

TWO YEARS ENDED DECEMBER 31, 2007

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 through 756.

Organization Structure

Seven commissioners appointed by the Illinois Supreme 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 to meet these responsibilities.

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

- Rule 756(a), as amended effective September 14, 2006, increased the annual registration fees for active lawyers licensed to practice law for three years or more from \$239 to \$289, the annual registration fees for active lawyers licensed to practice between one and three years and inactive lawyers from \$90 to \$105. The amendment also raised the fee for late payment of annual registration fees from \$10 to \$25 per month for every month that fees are delinquent. The Rule requires that the Commission, as part of the annual \$289 fee, collect and remit the following amounts

STATE OF ILLINOIS

ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

1. **General Purpose Description (Continued):**

Organization Structure (Continued)

to the following other Supreme Court entities that are not administered by the Commission: \$42 to the Lawyers Trust Fund, \$10 to the Supreme Court Commission on Professionalism, and \$7 to the Lawyers Assistance Program Fund.

- Rule 756(f), effective June 14, 2006, provides that as part of the annual registration process, lawyers must provide information about voluntary hours and money contributed to *pro bono* legal services. Lawyers who do not provide the information will be deemed not to be registered until they do. Pursuant to an amendment to Supreme Court Rule 766, also effective June 14, 2006, the information about voluntary *pro bono* contributions is deemed confidential and is to be reported publicly only in the aggregate.
- Rule 780(b) provided for the establishment of the Client Protection Program and set 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 effective September 14, 2006 (beginning in 2007), \$25 of the \$289 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 continues to include in its general budget allocations for administrative expenses of the Program to be paid from the Disciplinary Fund.

2. **Summary of Significant Accounting Policies:**

Basis of Accounting

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



STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

2. **Summary of Significant Accounting Policies (Continued):**

Basis of Presentation

The financial statements are presented in accordance with Statement of Financial Accounting Standard No. 117, *Financial Statements of Not-for-Profit Organizations*, which requires the Commission to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted 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 statements of cash flows, cash and cash equivalents include all deposits in checking and saving accounts. Money market accounts and cash balances held in investment trust accounts are not considered cash equivalents since the Commission intends to reinvest these funds.

Accounts Receivable—Cost Reimbursements and Client Protection Program Reimbursements

The Commission fully reserves reimbursements owed by attorneys under the Cost Reimbursement Program and 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

Investments are stated at fair value, which generally represents quoted market value as of the last business day of the year. Investments in money market accounts and certificates of deposit are carried at cost, which approximates market value. For U.S. Treasury bills, the difference between the cost and fair value is recorded as interest income.

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

2. Summary of Significant Accounting Policies (Continued):

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, principally 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.

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

Computer and related equipment	3 years
Office furniture and equipment	5 years
Library	7 years
Leasehold improvements	7 to 15 years

Amounts Held for Others

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

	<u>2007</u>	<u>2006</u>
Lawyers Assistance Program	\$ 165,647	\$ 155,415
Lawyers Trust Fund	994,180	933,257
Supreme Court Commission on Professionalism	<u>236,711</u>	<u>222,180</u>
	<u>\$ 1,396,538</u>	<u>\$ 1,310,852</u>

These amounts collected for others were remitted subsequent to the year-end.

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

2. **Summary of Significant Accounting Policies (Continued):**

Deferred Registration and Program Fees

The Commission is funded by an annual registration fee assessed on Illinois attorneys which includes a \$25 fee for the Client Protection Program. The annual fee for the subsequent year is billed before November 1 and is 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 reinstatements under Rule 767. The amount the attorney actually owes will be assessed at the conclusion of the proceedings. Reinstatement deposits held at December 31, 2007 and 2006 are \$8,500 and \$5,000, respectively. The remaining deposits consist of funds owed by any attorney, who has been the subject of a disciplinary proceeding or who is in receivership, to the attorney's former clients who have not been located. At December 31, 2007 and 2006, the amounts held are \$3,151 and \$3,113, respectively.

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.

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

2. **Summary of Significant Accounting Policies (Continued):**

Concentrations of Risk

The Commission maintains most of its cash and money market funds at a bank. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Cash exceeding the FDIC insured limit at December 31, 2007 and 2006 is \$1,142,430 and \$508,761, respectively. All investment transactions are handled by the bank's trust department. All investment securities are held in safekeeping at the bank's trust department.

Functional Expense Allocations

The costs of providing the programs and administrative services have been summarized on a functional basis in the supplemental statements of functional expenses. The Commission allocates certain common expenses based on management's estimate of time incurred on these programs or other reasonable and consistent methodology. Indirect expenses allocated to the Client Protection Program are paid out of the unrestricted net assets of the Commission.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

3. **Costs Reimbursements:**

The Commission receives cost reimbursements for investigative and disciplinary costs from disciplined attorneys. Cost reimbursement is billed at the time that discipline is imposed by the Illinois Supreme Court, but may not be a total reimbursement of the investigative and disciplinary costs or match the time period in which they were incurred. The Commission is limited to \$1,000 in cost reimbursement for each disciplined attorney, absent exceptional circumstances. During the years ended December 31, 2007 and 2006, the Commission regularly sought entry of judgments by the Illinois Supreme Court with interest at the rate charged by the State of Illinois for all invoices not paid within 30 days of the initial billing. This interest rate was 9% for both 2007 and 2006. The Commission has also established payment plans for disciplined attorneys.

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

3. **Costs Reimbursements (Continued):**

Whether the Commission can fully collect all cost reimbursements is dependent upon, among other things, the Commission's on-going experience in collecting these reimbursements, information about the ability of the disciplined attorney to pay, and appraisal of the reimbursements considering the current economic environment. Therefore, the Commission records cost reimbursements as revenue under the cost recovery method when the reimbursement are received. The Commission collected \$94,244 and \$80,237 in such cost reimbursements in fiscal years 2007 and 2006, respectively.

4. **Investments:**

Investments at December 31, 2007 and 2006 consist of the following:

<u>2007</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
U.S. Treasury notes and bills	\$ 14,832,636	\$ 14,980,982	\$ 148,346
U.S. bank certificates	2,769,000	2,769,000	-
Money market account	<u>5,541,628</u>	<u>5,541,628</u>	<u>-</u>
Total	<u>\$ 23,143,264</u>	<u>\$ 23,291,610</u>	<u>\$ 148,346</u>
<u>2006</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
U.S. Treasury notes and bills	\$ 18,075,432	\$ 18,065,765	\$ (9,667)
Money market account	<u>2,110,904</u>	<u>2,110,904</u>	<u>-</u>
Total	<u>\$ 20,186,336</u>	<u>\$ 20,176,669</u>	<u>\$ (9,667)</u>

Short-term investments are readily liquid investments that mature within one year. Long-term investments are holdings with maturities in excess of one year.

STATE OF ILLINOIS

ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

4. **Investments:**

The following table lists the maturities of securities held at December 31, 2007 and 2006:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Due on demand or in one year or less	\$ 19,344,061	\$ 19,386,788	\$ 16,207,515	\$ 16,206,249
Due after one year to five years	<u>3,799,203</u>	<u>3,904,822</u>	<u>3,978,821</u>	<u>3,970,420</u>
Total	<u>\$ 23,143,264</u>	<u>\$ 23,291,610</u>	<u>\$ 20,186,336</u>	<u>\$ 20,176,669</u>

5. **Lease Commitments:**

The Commission leases its Chicago and Springfield offices under operating lease agreements. The Chicago office lease expires in May 2015. This lease provides for a minimum annual base rent plus related taxes and operating expenses. In addition, the 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 will provide certain rent concessions that will be available during the period from June 2008 to May 2009.

The Springfield office lease, which began in November 2002, has a term of 10 years and provides for a minimum annual rent. The lease gives the Commission the option to renew the lease for an additional five-year period. Under the terms of an amendment effective November 2007, additional storage space was leased with increased payments for the remaining life on the original lease.

Rent expense under all lease agreements was \$1,134,545 in 2007 and \$1,218,634 in 2006.

Future minimum lease payments, including estimated liability for taxes and operating expenses, relating to lease agreements in excess of one year are as follows:

STATE OF ILLINOIS

ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

5. **Lease Commitments (Continued):**

	<u>Springfield</u>	<u>Chicago</u>	<u>Total</u>
Year ending December 31,			
2008	\$ 91,035	\$ 1,138,709	\$ 1,229,744
2009	91,324	1,200,739	1,292,063
2010	92,767	1,376,221	1,468,988
2011	93,055	1,418,822	1,511,877
2012	78,748	1,463,062	1,541,810
Remaining	<u>-</u>	<u>3,730,526</u>	<u>3,730,526</u>
	<u>\$ 446,929</u>	<u>\$ 10,328,079</u>	<u>\$ 10,775,008</u>

6. **Postretirement Benefit Obligation:**

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.

Previously, the Commission had committed to pay the future cost of Medicare premiums for former employees who were employed by the Commission and met certain criteria 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.

The following sets forth information with respect to this benefit obligation as of and for the years ended December 31, 2007 and 2006 as estimated by a consulting actuary:

	<u>2007</u>	<u>2006</u>
Accumulated benefit obligation at end of year	\$ 2,142,923	\$ 1,549,000
Fair value of Plan assets	<u>1,581,594</u>	<u>1,430,584</u>
Net postretirement benefit obligation	<u>\$ (561,329)</u>	<u>\$ (118,416)</u>

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

6. **Postretirement Benefit Obligation (Continued):**

Net periodic benefit costs for 2007 and 2006 are comprised of the following:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 73,132	\$ 70,415
Interest cost	121,994	83,673
Actual return on plan assets	(80,061)	(61,118)
Amortization	<u>12,689</u>	<u>7,965</u>
Net periodic benefit costs	<u>\$ 127,754</u>	<u>\$ 100,935</u>
Employer contribution	<u>\$ 8,198</u>	<u>\$ 7,736</u>
Benefits paid	<u>\$ 8,198</u>	<u>\$ 7,736</u>

A summary of actuarial assumptions and methods as of the last measurement date is as follows:

Measurement date	January 1, 2007
Actuarial cost method	Projected unit credit method
Actuarial assumptions	Mortality – 1994 GAR Discount rate – 6.25% for 2007, 5.5% for 2006 Expected return on assets – 6.25% for 2007, 5.5% for 2006 Retirement will occur between ages 55 and 65 Medical trend ultimate – 4.5%

Assumed health care cost trend rates have a significant effect on the amounts reported for health care benefits. The effect of a 1% increase in health care cost trend rates would be an increase of \$37,000 on total service cost and interest cost components and an increase of \$361,025 on the postretirement benefit obligation.



STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

**6. Postretirement Benefit Obligation (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.

The Commission maintains investments in a separate account for the Medicare replacement reserve. The assets at fair value at December 31, 2007 and 2006 are as follows:

	2007	2006
U.S. Treasury notes and bills	\$ 926,202	\$ 1,409,846
U.S. bank certificates	95,000	-
Money market account	550,679	2,081
Accrued interest receivable	9,713	18,657
	<b><u>\$ 1,581,594</u></b>	<b><u>\$ 1,430,584</u></b>

The Commission expects to contribute \$84,168 to the Medicare replacement reserve in 2008.

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

2008	\$ 26,902
2009	29,110
2010	30,349
2011	33,323
2012	34,618
2013-2017	322,142
	<b><u>\$ 476,444</u></b>

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
(Continued)

TWO YEARS ENDED DECEMBER 31, 2007

**7. Adoption of FASB Statement No. 158:**

The Commission adopted Statement of Financial Accounting Standards Board No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires the Commission to recognize, beginning with its 2007 financial statements, the underfunded position of its plan (the difference between the fair value of plan assets and the accumulated benefit obligation). The following illustrates the incremental effect on individual line items in the statement of financial position as of December 31, 2007.

	Before Application of <u>Statement 158</u>	Statement 158 <u>Adjustment</u>	After Application of <u>Statement 158</u>
Postretirement benefit obligation	\$ 1,748,617	\$ 394,306	\$ 2,142,923
Unrestricted net assets	\$ 8,103,675	\$ (394,306)	\$ 7,709,369

**8. Employee Benefit Plans:**

The Commission maintains a defined contribution retirement plan and trust for the benefit of all eligible employees. Based on the decision of the Social Security Administration as discussed in Note 6, the Commission enhanced employees' retirement benefits. Employee contributions are not permitted under the plan's provisions. The Commission contributes 18% of compensation for eligible employees, which totaled \$1,171,232 in 2007 and \$1,151,567 in 2006. The Commission also pays the plan's administrative expenses, which totaled \$101,921 in 2007 and \$93,973 in 2006.

The Commission also maintains a Section 457 savings plan which is entirely funded by voluntary pre-tax employee contributions. The Commission paid the savings plan's administrative expenses, which totaled \$3,326 in 2007 and \$3,760 in 2006.

**9. Litigation:**

Various complaints and actions have been filed against the Commission. However, the Commission believes that pending matters do not present any serious prospect of negative financial consequences at December 31, 2007 and 2006.

SUPPLEMENTAL INFORMATION

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
SUPPLEMENTAL STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			
	Registration and Discipline	Client Protection Program	Administration and Support	Total Expenses
Salaries and related costs	\$ 7,251,564	\$ 185,762	\$ 1,439,915	\$ 8,877,241
Travel	88,925	1,121	38,453	128,499
Library and continuing education	187,703	4,343	37,996	230,042
General office and occupancy	1,518,293	33,060	289,295	1,840,648
Computer	248,681	5,755	50,339	304,775
Other professional and case related expenses	907,592	2,270	29,406	939,268
Client Protection Program direct expenses:				
Awards	-	697,358	-	697,358
Bank fees	-	1,471	-	1,471
Depreciation	128,873	2,982	26,087	157,942
Total Expenses	<u>\$ 10,331,631</u>	<u>\$ 934,122</u>	<u>\$ 1,911,491</u>	<u>\$13,177,244</u>

	2006			
	Registration and Discipline	Client Protection Program	Administration and Support	Total Expenses
Salaries and related costs	\$ 7,073,856	\$ 181,370	\$ 1,415,775	\$ 8,671,001
Travel	73,821	901	18,721	93,443
Library and continuing education	142,684	3,302	28,884	174,870
General office and office support	1,592,579	34,779	304,264	1,931,622
Computer	192,753	4,460	39,018	236,231
Other professional and case related expenses	905,235	2,386	37,112	944,733
Client Protection Program payments	-	843,305	-	843,305
Depreciation	126,149	2,919	25,537	154,605
Total Expenses	<u>\$ 10,107,077</u>	<u>\$ 1,073,422</u>	<u>\$ 1,869,311</u>	<u>\$13,049,810</u>

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Two Years Ended December 31, 2007

**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
- Comparative Schedule of Expenses
- Analysis of Significant Variations in Receipts and Expenses

Analysis of Operations

- Agency Functions and Planning Program
- Average Number of Employees
- Service Efforts and Accomplishments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION  
SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2007 AND 2006

Schedule of Changes in Property and Equipment - At Cost

	Balance January 1, 2007	Acquisitions	Dispositions	Balance December 31, 2007
Office furniture and equipment	\$ 1,320,533	\$ 41,160	\$ 63,767	\$ 1,297,926
Computer and related equipment	737,958	343,575	61,310	1,020,223
Library	69,784	15,766	5,877	79,673
Leasehold improvements	355,840	24,366	-	380,206
	<u>2,484,115</u>	<u>\$ 424,867</u>	<u>\$ 130,954</u>	<u>2,778,028</u>
Accumulated depreciation	(1,980,743)			(2,007,800)
Property and equipment, net	<u>\$ 503,372</u>			<u>\$ 770,228</u>
	Balance January 1, 2006	Acquisitions	Dispositions	Balance December 31, 2006
Office furniture and equipment	\$ 1,316,309	\$ 53,837	\$ 49,613	\$ 1,320,533
Computer and related equipment	745,297	46,409	53,748	737,958
Library	63,494	13,033	6,743	69,784
Leasehold improvements	349,980	5,860	-	355,840
	<u>2,475,080</u>	<u>\$ 119,139</u>	<u>\$ 110,104</u>	<u>2,484,115</u>
Accumulated depreciation	(1,936,241)			(1,980,743)
Property and equipment, net	<u>\$ 538,839</u>			<u>\$ 503,372</u>

## STATE OF ILLINOIS

## ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

## SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
COMPARATIVE SCHEDULE OF CASH RECEIPTS - EXCLUDING INVESTMENT PROCEEDS			
Accrual Basis:			
Registration and program fees and delinquent charges	\$ 15,926,372	\$ 12,367,335	\$ 12,158,815
Investment income			
Interest	817,805	694,296	461,504
Net appreciation (depreciation) of investments	197,389	(9,666)	(10,906)
Costs reimbursements collected	94,244	80,237	128,036
Client protection reimbursements	25,058	43,543	34,785
Miscellaneous	-	-	2,240
Total revenue (accrual basis)	<u>17,060,868</u>	<u>13,175,745</u>	<u>12,774,474</u>
Plus: Deferred fees - end of year	12,325,359	11,961,320	8,980,628
Interest receivable - beginning of year	215,747	83,821	152,345
Accounts receivable - beginning of year	35,772	20,765	-
Deposits - end of year	11,651	8,113	11,382
Less: Deferred fees - beginning of year	(11,961,320)	(8,980,628)	(9,550,170)
Interest receivable - end of year	(145,879)	(215,747)	(83,821)
Accounts receivable - end of year	(31,871)	(35,772)	(20,765)
Deposits - beginning of year	(8,113)	(11,382)	(7,728)
Total receipts (cash basis)	<u>\$ 17,502,214</u>	<u>\$ 16,006,235</u>	<u>\$ 12,256,345</u>

## STATE OF ILLINOIS

## ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

## SUPPLEMENTARY INFORMATION

(Continued)

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>COMPARATIVE SCHEDULE OF EXPENSES</b>			
Salaries and related expenses:			
Full-time staff	\$ 6,528,537	\$ 6,410,342	\$ 6,390,548
Temporary help	77,265	83,232	84,830
Employment taxes	96,976	92,836	97,059
Employee group insurance	875,477	832,089	812,421
Postretirement benefits	127,754	100,935	155,018
Retirement plan	<u>1,171,232</u>	<u>1,151,567</u>	<u>1,148,472</u>
Total salaries and related expenses	<u>8,877,241</u>	<u>8,671,001</u>	<u>8,688,348</u>
Travel expenses:			
Staff	42,330	15,193	14,252
Vehicles	34,735	32,506	34,769
Commissioners	10,948	10,844	17,382
Review board	11,283	7,832	12,879
Hearing board	26,636	24,745	24,480
Inquiry and oversight boards	<u>2,567</u>	<u>2,323</u>	<u>1,591</u>
Total travel expenses	<u>128,499</u>	<u>93,443</u>	<u>105,353</u>
Library and continuing education	230,042	174,870	152,474
General expenses and office support:			
Office rent	1,134,545	1,218,634	1,217,924
Utilities and maintenance	71,039	54,246	55,940
Telephone	89,867	96,091	95,158
Insurance general	75,530	87,331	92,982
Postage	162,918	171,762	162,990
Equipment rental and maintenance	65,302	61,864	58,907
Office supplies and expense	144,493	161,034	195,821
Stationery and forms	72,020	62,160	53,752
Publications	24,865	18,500	20,240
Loss on disposal of property and equipment	<u>69</u>	<u>-</u>	<u>-</u>
Total general expenses and office support	<u>1,840,648</u>	<u>1,931,622</u>	<u>1,953,714</u>
Computer expense	<u>304,775</u>	<u>236,231</u>	<u>212,009</u>



STATE OF ILLINOIS  
ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

SUPPLEMENTARY INFORMATION  
(Continued)

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>COMPARATIVE SCHEDULE OF EXPENSES</b>			
<b>(CONTINUED)</b>			
Other professional and case-related expenses			
Auditing	\$ 15,000	\$ 28,618	\$ 13,000
Retirement plan and trust expense	105,247	97,733	82,360
Consultants and fees	7,255	14,162	19,371
Court reporting	298,236	305,012	277,967
Other independent contractors	279,704	278,680	307,062
Witness fees - professional	204,454	176,907	229,083
Witness fees - other	9,113	20,698	17,604
Duplication of records	<u>20,259</u>	<u>22,923</u>	<u>36,705</u>
Total other professional and case-related expenses	<u>939,268</u>	<u>944,733</u>	<u>983,152</u>
Client Protection Program payments	<u>698,829</u>	<u>843,305</u>	<u>951,173</u>
Depreciation and amortization expense	<u>157,942</u>	<u>154,605</u>	<u>171,091</u>
Total expenses	<u>\$ 13,177,244</u>	<u>\$ 13,049,810</u>	<u>\$ 13,217,314</u>

STATE OF ILLINOIS

ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS AND EXPENSES

FOR THE TWO YEARS ENDED DECEMBER 31, 2007

A comparative schedule of significant variations in receipts and expenses +/- 20% and +/- \$30,000 for the year ended December 31, 2007 is shown below:

	2007	2006	Variance	
			\$	%
<u>Receipts</u>				
Registration and program fees and delinquent charges	\$ 15,926,372	\$ 12,367,335	\$ 3,559,037	29%
Net appreciation (depreciation) of investments	197,389	(9,666)	207,055	-2142%
<u>Expenses</u>				
Computer expense	304,775	236,231	68,544	29%
Library and continuing education	230,042	174,870	55,172	32%

The Commission's management provided the following explanations for the significant variations identified above.

**Registration and program fees and delinquent charges**

In 2007, the fees increased from 90-180-90 to 105-205-105. The number of attorneys also increased in 2007 compared to 2006.

**Net appreciation (depreciation) of investments**

The net appreciation (depreciation) of mostly fixed income securities increased in 2007 compared to 2006 due to market conditions.

**Computer expenses**

The increase in computer expenses for 2007 compared to 2006 was due to the use of a software consultant who helped install and configure new software for the Commission.

**Library and continuing education**

In 2007, the Commission presented two ethics seminars free to attorneys for new continuing education credits.

STATE OF ILLINOIS

ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS AND EXPENSES  
(Continued)

FOR THE TWO YEARS ENDED DECEMBER 31, 2007

A comparative schedule of significant variations in receipts and expenses +/- 20% and +/- \$30,000 for the year ended December 31, 2006 is shown below:

	2006	2005	Variance	
			\$	%
<u>Receipts</u>				
Cost reimbursements collected	\$ 80,237	\$ 128,036	\$ (47,799)	-37%
Interest	694,296	463,744	230,552	50%
<u>Expenses</u>				
Postretirement benefits	100,935	155,018	(54,083)	-35%
Witness fees - professional	176,907	229,083	(52,176)	-23%

The Commission's management provided the following explanations for the significant variations identified above.

**Cost reimbursements collected**

The decrease in cost reimbursements for 2006 was due to a negative recovery as compared to 2005. Cost reimbursement collections are random.

**Interest**

The increase in interest for 2006 compared to 2005 was due to an increase in interest rates from 3.46% in 2005 to 5.069% in 2006.

**Postretirement benefits**

Components of net periodic benefit costs are based on actuary calculations.

**Witness fees - professional**

In 2005, 17 different professional witnesses were used for a total of \$229,083. In 2006, the number of cases filed were down compared to 2005, and 22 different professional witnesses were used for a total of \$176,907. Each year case related expense fluctuates with the number of cases filed and the type of cases that are prevalent at the time.

# ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

## Analysis of Operations

For the Two Years Ended December 31, 2007

### Agency Functions and Planning Program

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 reimbursement 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 \$25,000, 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 Commissioners and the Administrator of the Commission as of December 31, 2007 were:

#### Commissioners

Benedict Schwarz, II, Chairman  
Derrick K. Baker  
Joan Myers Eagle  
John R. Carroll  
R. Michael Henderson  
John P. Kujawski  
Brian McFadden

#### Administrator

Jerome Larkin

## ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

### Analysis of Operations (Continued)

For the Two Years Ended December 31, 2007

The Commission's primary office is located at One Prudential Plaza, Suite 1500, 130 East Randolph Drive, Chicago, Illinois. The Commission also has an office located at One North Old Capitol Plaza, Springfield, Illinois.

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 five-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 with monthly reports comparing budgeted operations to actual basis.

#### Average Number of Employees by Function

	<u>2007</u>	<u>2006</u>
Registration and Discipline	94	94
Client Protection	2	2
Administrative and Support	<u>19</u>	<u>18</u>
Total average number of employees by function	<u>115</u>	<u>114</u>

#### Service Efforts and Accomplishments (Unaudited)

<u>Attorneys Initially Admitted to the Bar</u>	<u>2007</u>	<u>2006</u>
Attorneys admitted during current fiscal year	3,435	3,163
Attorneys admitted longer than one year, but less than three years	4,890	4,745
Attorneys admitted for three years or longer	60,947	60,620

# ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

## Analysis of Operations (Continued)

For the Two Years Ended December 31, 2007

### Service Efforts and Accomplishments (Unaudited) - Continued

	<u>2007</u>	<u>2006</u>
Serving:		
Active military duty	232	216
Judges or judicial clerk	2,090	1,892
Birthday before 12/31/1931, 12/31/1930	1,767	1,874
Neither practice, reside, nor are employed in Illinois	<u>9,019</u>	<u>8,636</u>
Total active and registered attorneys	<u>82,380</u>	<u>81,146</u>
Removed from master roll (arrears, deceased, inactive and disciplined attorneys)	<u>1,984</u>	<u>2,222</u>
<u>Annual Attorney Registration Fees</u>		
Attorneys admitted longer than one year but less than three years	\$ 105	\$ 90
Attorneys admitted for three years or longer	\$ 289	\$ 239
Attorneys on inactive status	\$ 105	\$ 90