STATE OF ILLINOIS

ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION

FINANCIAL AUDIT
For the Two Years Ended December 31, 2019

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

State of Illinois
Attorney Registration and Disciplinary Commission
Financial Audit
For the Two Years Ended December 31, 2019

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Attorney Registration and Disciplinary Commission
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Agency Officials

Administration

Administrator	Jerome Larkin
Deputy Administrator (until August 28, 2019)	James Grogan
Deputy Administrator, Appeals (June 1, 2019 to Present)	Scott Renfroe
Deputy Administrator, Litigation (June 1, 2019 to Present)	Peter L. Rotskoff
Deputy Administrator, Intake and Administration (June 1, 2019 to Present)	Althea K. Welsh
Director of Finance	Vick Paul
Director of Human Resources and Administrative Services	Eva Tramutolo

Commission Chair

Chairperson (January 1, 2019 to Present)	David F. Rolewick
Chairperson (until December 31, 2018)	James R. Mendillo
Vice-Chairperson (January 1, 2019 to Present)	Timothy Louis Bertschy
Vice-Chairperson (until December 31, 2018)	David F. Rolewick

Commission Members

Commissioner	Karen Hasara
Commissioner (December 4, 2019 to Present)	LaShana T. Jackson
Commissioner (until June 14, 2019)	Bernard Judge
Commissioner	John H. Simpson
Commissioner	Cedric D. Thurman
Commissioner (January 1, 2019 to Present)	John Nelson Wood

Commission Offices

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

State of Illinois
Attorney Registration and Disciplinary Commission
Financial Audit
For the Two Years Ended December 31, 2019

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the Attorney Registration and Disciplinary Commission (Commission) was performed by Roth & Co., LLP.

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

Exit Conference

The Commission waived an exit conference in a correspondence from Vick Paul, Director of Finance, on August 20, 2020.

Roth&Co
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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), which comprise the statements of financial position as of December 31, 2019 and 2018, 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 opinions 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the years ended December 31, 2019 and 2018, the Commission implemented new accounting guidance that updates the understandability of net assets classifications, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type of information provided about expenses and investments return. Our opinions are not modified with respect to this matter.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
August 20, 2020

State of Illinois
Attorney Registration and Disciplinary Commission
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,196,154	$ 2,649,227
Short-term investments	33,462,183	40,345,401
Interest receivable	175,810	115,295
Accounts receivable	26,399	3,293
Prepaid expenses and other assets	201,523	184,811
Total current assets	36,062,069	43,298,027
Noncurrent assets		
Property and equipment - net	1,783,670	1,657,175
Long-term investments	31,801,507	19,210,258
Total noncurrent assets	33,585,177	20,867,433
Total assets	69,647,246	64,165,460
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other accruals	351,599	788,424
Amounts held for others	3,964,527	4,156,323
Accrued vacation	468,230	474,956
Deferred registration and program fees	16,768,347	16,583,343
Net postretirement benefit obligation	33,531	37,342
Deposits	5,502	3,501
Total current liabilites	21,591,736	22,043,889
Long-term liabilities		
Net postretirement benefit obligation	1,768,932	1,938,728
Deferred rent expense	1,915,462	2,090,927
Total long-term liabilities	3,684,394	4,029,655
Total liabilities	25,276,130	26,073,544
Net assets		
Without donor restrictions	44,371,116	38,091,916
Total liabilities and net assets	$ 69,647,246	$ 64,165,460

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, 2019 and 2018

	2019	2018
REVENUES		
Investment income - net	$ 1,593,440	$ 777,891
Registration and program fees	21,945,876	21,954,971
Cost reimbursements collected	34,542	81,675
Client Protection Program reimbursements	37,157	216,158
Total revenues	23,611,015	23,030,695
EXPENSES		
Program services		
Registration and discipline	12,631,980	13,015,218
Client Protection Program	1,707,913	2,637,213
Total program services	14,339,893	15,652,431
Administration and support	2,991,922	2,870,772
Total expenses	17,331,815	18,523,203
Change in net assets	6,279,200	4,507,492
Net assets without donor restrictions, beginning of year	38,091,916	33,584,424
Net assets without donor restrictions, end of year	$ 44,371,116	$ 38,091,916

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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 6,279,200	$ 4,507,492
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net appreciation in fair value of investments	(479,953)	(25,789)
Depreciation and amortization expense	218,542	258,203
Change in assets and liabilities:		
Accounts receivable and interest receivable	(83,621)	(36,543)
Prepaid expenses and other assets	(16,712)	(15,530)
Accounts payable and other accruals	(436,825)	(63,230)
Amounts held for others	(191,796)	16,206
Accrued vacation	(6,726)	(2,013)
Deferred registration and program fees	185,004	68,701
Deposits	2,001	(499)
Net postretirement benefit obligation	(173,607)	59,307
Deferred rent expense	(175,465)	(157,217)
Net cash provided by operating activities	5,120,042	4,609,088
Cash flows from investing activities		
Purchases of investment securities	(32,324,232)	(37,546,403)
Maturities of investment securities	27,096,154	32,642,370
Purchases of property and equipment	(345,037)	(159,258)
Net cash used in investing activities	(5,573,115)	(5,063,291)
Net decrease in cash and cash equivalents	(453,073)	(454,203)
Cash and cash equivalents		
Beginning of year	2,649,227	3,103,430
End of year	$ 2,196,154	$ 2,649,227

See accompanying notes to the basic financial statements.

NOTE 1 - GENERAL PURPOSE DESCRIPTION

<u>Nature of Activities</u>

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.

<u>Organization Structure</u>

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 approximately 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 (full fee) 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 Commission, as part of the annual $385 fee, collect and remit the following amounts to 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u>

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

<u>Basis of Presentation</u>

In order to conform to provisions of generally accepted accounting principles, the Commission is required to report information regarding its financial position and activities in two classes of net assets:

Net Assets without Donor Restriction - Net assets that are not subject to donor-imposed restrictions and are available to finance the general operations of the Commission. The only limits on the use of net assets without donor restriction are the broad limits resulting from the nature of the Commission, the environment in which it operates, and the purposes specified in its governing rules.

Net Assets with Donor Restriction - Net assets subject to donor or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. At December 31, 2019 and 2018, there are no net assets with donor restrictions.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which was effective for the Commission's financial statements for the year ended December 31, 2018. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented and the presentation in these financial statements has been adjusted accordingly.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, which was effective for the Commission's financial statements for the year ended December 31, 2019. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange or contribution transactions and improve guidance to better distinguish between conditional and unconditional contributions. The implementation of this ASU has no impact on the Commission's financial statements.

In June 2018, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which was effective for the Commission's financial statements for the year ended December 31, 2019. This guidance provides the framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for profit and not-for-profit entities. Analysis of various provisions of this standard resulted in no significant changes in the way the Commission recognizes revenue, and therefore no changes to the previously audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The Commission also adopted ASU No. 2017-07, *Compensation–Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that the service component of net periodic benefit cost for pension and other postretirement benefits be presented as a component of employee benefit expense. The other components of net periodic benefit cost are required to be presented separately in net assets without donor restrictions. No adjustments to net assets were necessary as a result of conforming to the requirements of this standard.

Cash and Cash Equivalents

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

Purchases and sales of 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.

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

	Years
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:

	2019	2018
Illinois Lawyers Assistance Program	$ 304,104	$ 318,744
Lawyers Trust Fund of Illinois	2,888,243	3,028,254
Illinois Supreme Court Commission of Professionalism	760,105	796,900
Illinois Supreme Court Commission on Access to Justice	12,075	12,425
Total	$ 3,964,527	$ 4,156,323

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

Deferred Registration and Program Fees

The Commission is primarily 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.

The following table provides information about significant changes in the deferred registration and program fees for the year ended December 31:

	2019	2018
Registration and program fees paid in advance, beginning of year	$ 16,583,343	$ 16,514,642
Revenue recognized during the year	(16,583,343)	(16,514,642)
Increase in registration and program fees due to cash received during the year	16,768,347	16,583,343
Registration and program fees paid in advance, end of year	$ 16,768,347	$ 16,583,343

Deposits

Portion of these deposits 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 at December 31, 2019 and 2018 were $5,502 and $3,501, respectively.

Deferred Rent Expense

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

Revenue Recognition

The Commission receives a significant portion of their operating revenue from registration and program fees.

The registration and program fee revenue is considered an exchange transaction and is recognized on January 1 or the date of the payment (whichever is later) which is when the performance obligation of adding the attorney's name to the Master Roll of registered attorneys is satisfied. This enables the attorney to practice law for the respective year as defined by Rule 756.

Registration and program fees paid in advance are deferred to the calendar year to which they relate. Such amounts deferred are recognized on January 1 of the following year. Cost and Client Protection Program (Program) reimbursement revenues are recognized at the time of receipt, not when the discipline is imposed by the Court for the related investigative and disciplinary costs. The Commission fully reserves reimbursements owed by attorneys under its Cost Reimbursement Program and the Program until the payments are received.

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.

Functional Allocation of Expenses

The costs of providing the programs and administrative services have been summarized on a functional basis in Note 14. The Commission allocates its expenses among programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to the benefits provided. Overhead costs not directly attributable to a function such as depreciation and amortization, general expenses and office support, and other professional and case-related expenses are allocated based on the number of employees in each program or function. Salaries and related expenses are allocated based on management's reasonable estimate of time incurred by such employees on specific functions, in accordance with their job descriptions and/or weekly task schedule.

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.

Subsequent Events

Subsequent events have been evaluated through August 20, 2020, which is the date the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Commission's liquidity plan is to maintain sufficient cash and cash equivalents, money market funds, and other high quality short-term securities to fund its operations for a period of at least 1 year. The Commission utilizes a checking account, government money market funds, short-term treasury securities, and Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit for this purpose.

Excess cash is invested in longer dated treasury securities and certificates of deposit with varying maturities designed to fund the Commission's operations beyond the one-year interval and maximize its income over time.

Cash levels can increase significantly when the Commission is collecting attorney registration fees during the annual registration season. The Commission collects approximately 75% of its annual registration fee income during the fourth quarter of each calendar year, with the bulk of the remainder in the month of January. Cash collected during these months is invested as soon as practicable. The cash collected in the fourth quarter temporarily inflates the Commission's year-end holdings of short-term liquid securities.

Specific investment allocation decisions about the Commission's portfolio are made by a third party investment manager. None of the Commission's financial assets are subject to any donor or other restrictions.

The Commission also maintains sufficient liquidity in the Client Protection Program's (Program) financial accounts to fund award payments to the Program's beneficiaries. This liquidity provision is normally established at the end of each calendar year based on a projection of award payments for the next twelve months. The amount invested in cash and cash equivalents, government money market funds, and other high quality short-term securities is dependent on the projected timing and size of these award payments and may vary from year to year. Any excess funds that are not needed for disbursement are invested in longer dated treasury securities and FDIC insured certificates of deposit with varying maturities designed to meet the Program's future obligations and maximize its income over time.

Specific investment allocation decisions about the Program's portfolio are made by a third party investment manager. None of the Program's financial assets are subject to any donor or other restrictions.

The following is a breakdown of the Commission's and the Program's combined financial assets that are available for expenditure within one year, for the years ended December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents	$ 2,196,154	$ 2,649,227
Short-term investments	33,462,183	40,345,401
Interest receivable	175,810	115,295
Accounts receivable	26,399	3,293
Total	$ 35,860,546	$ 43,113,216

NOTE 4 - CONCENTRATIONS OF CASH

Cash consists of monies held in checking and highly liquid interest-bearing accounts without significant withdrawal restrictions. The Commission places its cash with financial institutions deemed to be creditworthy. Balances are insured by FDIC up to $250,000 per financial institution. The amount in excess of the FDIC limit totaled $0 and $316,944 as of December 31, 2019 and 2018, respectively. Although market values may at times modestly exceed federally insured limits, management believes this credit risk to be minimal.

NOTE 5 - INVESTMENTS

The fair value of investments as of December 31, 2019 and 2018 consist of the following:

	2019	2018
U.S. Treasury notes and bills	$ 26,225,120	$ 22,096,222
U.S. bank certificates	26,141,000	22,645,000
Money market funds	11,117,800	13,333,187
Mutual funds and exchange traded funds:		
Fixed income	1,017,325	922,650
Equity	762,445	558,600
Total	$ 65,263,690	$ 59,555,659

The following table lists the maturities of securities held for the years ended December 31, 2019 and 2018:

	2019		2018	
	0-1 Year	1-5 Years	0-1 Year	1-5 Years
U.S. Treasury notes and bills	$ 9,609,613	$ 16,615,507	$ 12,596,964	$ 9,499,258
U.S. bank certificates	10,955,000	15,186,000	12,934,000	9,711,000
Money market funds	11,117,800	–	13,333,187	–
Mutual funds and exchange traded funds:				
Fixed income	1,017,325	–	922,650	–
Equity	762,445	–	558,600	–
Total	$ 33,462,183	$ 31,801,507	$ 40,345,401	$ 19,210,258

NOTE 6 - 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:

<u>Basis of Fair Value Measurement</u>

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.

State of Illinois
Attorney Registration and Disciplinary Commission
Notes to the Financial Statements
December 31, 2019 and 2018

The following tables set forth, by level within the fair value hierarchy, the Commission's investment assets at fair value as of December 31, 2019 and 2018. 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, 2019 and 2018.

		Fair Value Measurements at 12/31/19 Using		
	Total	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	$ 26,225,120	$ 26,225,120	$ –	$ –
U.S. bank certificates	26,141,000	–	26,141,000	–
Money market funds	11,117,800	11,117,800	–	–
Mutual funds and exchange traded funds:				
Fixed income	1,017,325	1,017,325	–	–
Equity:				
Small cap	100,387	100,387	–	–
Mid cap	100,506	100,506	–	–
Large cap	409,376	409,376	–	–
Emerging market	50,530	50,530	–	–
International	101,646	101,646	–	–
Total	$ 65,263,690	$ 39,122,690	$ 26,141,000	$ –

		Fair Value Measurements at 12/31/18 Using		
	Total	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	$ 22,096,222	$ 22,096,222	$ –	$ –
U.S. bank certificates	22,645,000	–	22,645,000	–
Money market funds	13,333,187	13,333,187	–	–
Mutual funds and exchange traded funds:				
Fixed income	922,650	922,650	–	–
Equity:				
Small cap	69,122	69,122	–	–
Mid cap	72,872	72,872	–	–
Large cap	302,027	302,027	–	–
Emerging market	39,749	39,749		
International	74,830	74,830	–	–
Total	$ 59,555,659	$ 36,910,659	$ 22,645,000	$ –

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 and exchange traded 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.

Level 2 Measurements

U.S. bank certificates are valued at cost which approximates fair value due to their liquid or short-term nature. At December 31, 2019, the U.S. bank certificates had interest rates ranging from 1.25% to 3.05% with maturity dates between January 2020 and September 2022. At December 31, 2018, the U.S. bank certificates had interest rates ranging from 0.85% to 3.05%with maturity dates between January 2019 and June 2021.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 and 2018 consist of the following:

	2019	2018
Computer and related equipment	$ 3,367,432	$ 3,057,418
Office furniture and equipment	1,093,041	1,093,454
Library	2,691	13,965
Leasehold improvements	2,504,712	2,471,949
Property and equipment, total	6,967,876	6,636,786
Less accumulated depreciation and amortization	(5,184,206)	(4,979,611)
Property and equipment, net	$ 1,783,670	$ 1,657,175

NOTE 8 - LEASE COMMITMENTS

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

In February 2011, the Chicago office lease was extended through May 2027. This lease calls for monthly payments for pro-rata operating expenses and real estate taxes in addition to the scheduled rent payments. In addition, the original lease provided 32 months of "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. 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% per annum 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 $1,484,772 in 2019 and $1,456,716 in 2018.

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

	Springfield	Chicago	Total
Year ending December 31,			
2020	$ 111,971	$ 766,660	$ 878,631
2021	114,211	785,835	900,046
2022	116,495	805,457	921,952
2023	118,825	825,622	944,447
2024	121,202	846,171	967,373
Thereafter	356,551	2,130,575	2,487,126
Total	$ 939,255	$ 6,160,320	$ 7,099,575

NOTE 9 - 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.

The following sets forth information with respect to this benefit obligation as of and for the years ended December 31, 2019 and 2018. The benefit obligation at December 31, 2019 was actuarially determined by Towers Watson and was estimated by Commission management for 2018.

	2019	2018
Change in accumulated benefit obligation		
Benefit obligation at beginning of year	$ 1,976,070	$ 1,875,145
Service cost	52,998	57,907
Interest cost	70,657	71,932
Benefits paid	(17,478)	(13,884)
Actuarial (gain)/loss	(279,784)	(15,030)
Benefit obligation at end of year	$ 1,802,463	$ 1,976,070

Net periodic benefit costs for 2019 and 2018 are comprised of the following:

	2019	2018
Service cost	$ 52,998	$ 57,907
Interest cost	70,657	71,932
Amortization	(279,784)	(15,030)
Net periodic benefit cost	$ (156,129)	$ 114,809

The key assumptions are as follows:

	2019	2018
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	4.20%	4.10%
Retirement age	Between ages 55 and 65	Between ages 55 and 65
Medical trend rate ultimate	5%	5%

Assumed health care cost trend rates can have a significant effect on the amounts reported for health care benefits. The actuary noted in its 2019 valuation that the effect of a 1% increase in health care cost trend rates (medical trend ultimate) would be an increase of $5,124 on total service cost and interest cost components and an increase of $73,938 on the postretirement benefit obligation as of December 31, 2019.

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:

2020	$ 33,531
2021	38,259
2022	46,271
2023	60,131
2024	71,536
2025 - 2029	500,196
Total	$ 749,924

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 totaled $2,453,363 and $2,098,205 at December 31, 2019 and 2018, respectively.

NOTE 10 - 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 $1,500 (or $1,000 for anything filed prior to July 1, 2019) in cost reimbursements for each discipline case, absent exceptional circumstances. During the years ended December 31, 2019 and 2018, 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.

NOTE 11 - 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 the 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

$1,473,135 in 2019 and $1,510,749 in 2018. The Commission also pays the plan's administrative expenses, which totaled $225,311 in 2019 and $209,740 in 2018.

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 $5,756 in 2019 and $3,200 in 2018. 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 $36,631 in 2019 and $36,660 in 2018.

NOTE 12 - LITIGATION

Various complaints and actions are periodically filed against the Commission. At December 31, 2019 and 2018, the Commission believes that pending matters do not present any serious prospect for negative financial consequences.

NOTE 13 - 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 current economic environment has increased the degree of uncertainty.

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.

NOTE 14 - FUNCTIONAL EXPENSES

An analysis of the Commission's functional expenses, by natural classification, for the years ended December 31, 2019 and 2018 follows:

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	2019			
	Program			
	Registration and Discipline	Client Protection	Administration and Support	Total
Salaries and related expenses	$ 9,004,053	$ 241,221	$ 2,195,020	$ 11,440,294
Travel expense	103,633	1,570	47,098	152,301
Library and continuing education	187,179	4,302	44,490	235,971
General expenses and office support	2,150,109	47,711	489,496	2,687,316
Computer expense	522,117	11,999	124,101	658,217
Other professional and case-related expenses	489,630	4,884	50,513	545,027
Client Protection Program direct expenses:				
Awards	–	1,392,322	–	1,392,322
Administrative	–	1,825	–	1,825
Depreciation and amortization expense	175,259	2,079	41,204	218,542
Total	$12,631,980	$1,707,913	$ 2,991,922	$ 17,331,815

	2018			
	Program			
	Registration and Discipline	Client Protection	Administration and Support	Total
Salaries and related expenses	$ 9,592,456	$ 243,008	$ 2,162,019	$11,997,483
Travel expense	110,519	1,355	35,778	147,652
Library and continuing education	126,659	2,851	29,485	158,995
General expenses and office support	2,039,911	43,895	454,011	2,537,817
Computer expense	401,921	9,046	93,565	504,532
Other professional and case-related expenses	538,082	4,644	48,030	590,756
Client Protection Program direct expenses:				
Awards	–	2,324,786	–	2,324,786
Administrative	–	2,979	–	2,979
Depreciation and amortization expense	205,670	4,649	47,884	258,203
Total	$13,015,218	$2,637,213	$ 2,870,772	$18,523,203

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NOTE 15 - SUBSEQUENT EVENTS

As a result of the spread of the COVID-19 coronavirus pandemic, economic uncertainties have arisen, which may negatively impact the Commission's operations and financial condition. The potential impact and duration of the pandemic is unknown as of the date the financial statements were available to be issued.

The Commission has taken aggressive steps to ensure that it can continue to function efficiently while most of its staff shelter at home to mitigate the effects of the pandemic. This includes the establishment of remote connectivity and teleworking capability for numerous Commission staff, including receptionists, secretaries and other essential administrative staff. The Commission completed most of this build-out in less than a month.

The Commission is also migrating its information technology network and systems to the Cloud, which will place it in a much stronger position in the future. This project has been underway since 2019.

The Commission's investment portfolio is primarily composed of short-term U.S. government treasury securities and FDIC insured certificates of deposit. As such, the current economic decline has not had a negative impact on the Commission's financial position.

It is possible that the Commission's registration revenue stream for the year 2021 could be negatively impacted. However, the Commission's management has no such expectation at this time.