

ATTORNEY GRIEVANCE COMMISSION
OF MARYLAND
Crownsville, Maryland

AUDITED FINANCIAL STATEMENTS
June 30, 2014 and 2013

<u>TABLE OF CONTENTS</u>	<u>Page(s)</u>
Independent Auditor's Report	3-4
Balance Sheets	5
Statements of Budget, Receipts, Expenditures and Fund Balance	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-13

INDEPENDENT AUDITORS' REPORT

Commissioners
Attorney Grievance Commission of Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Attorney Grievance Commission of Maryland, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of budget, receipts, expenditures, fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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Basis for Qualified Opinion

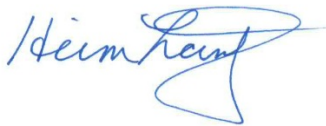
As more fully described in Note 1, the Commission has expensed property and equipment at the date of purchase, a practice that was established by the Court at the inception of the Commission. In our opinion, property and equipment should be recorded at cost, if purchased, or at fair value, if received by donation or contribution, to conform with accounting principles generally accepted in the United States of America, and those amounts should be depreciated over the estimated useful lives of the assets. The results of this departure cannot be reasonably determined.

Qualified Opinion

In our opinion, except for the effects on the financial statements of not capitalizing and depreciating property and equipment as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Attorney Grievance Commission of Maryland as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As part of our audit of the June 30, 2014 and 2013 financial statements, we also audited the adjustments described in Note 10 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

A handwritten signature in blue ink, appearing to read "Heimhaut", is written in a cursive style.

Annapolis, Maryland
October 3, 2014

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
BALANCE SHEETS
JUNE 30, 2014 and 2013**

ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 29,089	\$ 324,553
Investments	3,548,331	5,600,040
Attorney assessments receivable	19,394	8,330
Due from Client Protection Fund - salary and benefits	228,517	103,426
Prepaid expenses	<u>9,274</u>	<u>11,479</u>
TOTAL ASSETS	<u><u>\$ 3,834,605</u></u>	<u><u>\$ 6,047,828</u></u>
 LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 86,970	\$ 16,229
Pension payable	23,803	56,555
Accrued compensated absences	<u>305,063</u>	<u>344,092</u>
Total current liabilities	415,836	416,876
Retiree health insurance credit plan	<u>103,179</u>	<u>53,175</u>
TOTAL LIABILITIES	519,015	470,051
FUND BALANCE		
Unrestricted	3,208,448	5,577,778
Restricted	<u>107,142</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 3,834,605</u></u>	<u><u>\$ 6,047,828</u></u>

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF BUDGET, RECEIPTS, EXPENDITURES AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

	2014			2013		
	Actual	Budget	Variance Positive (Negative)	Actual	Budget	Variance Positive (Negative)
RECEIPTS						
Attorney assessments	\$ 4,069,133	\$ 3,916,500	\$ 152,633	\$ 4,163,412	\$ 4,018,960	\$ 144,452
Investment income	32,269	50,000	(17,731)	35,048	75,000	(39,952)
Recovered court costs	52,597	25,000	27,597	42,513	17,000	25,513
Fees from CPF - administrator	131,218	129,660	1,558	119,790	119,538	252
Fees from CPF - secretarial	79,446	59,347	20,099	55,594	55,304	290
Fees from CPF - administrative assistant	81,812	78,415	3,397	73,389	72,649	740
Fees from CPF - office clerk	64,380	50,074	14,306	42,948	32,423	10,525
Total receipts	4,510,855	4,308,996	201,859	4,532,694	4,390,874	141,820
EXPENDITURES						
Salary - bar counsel	135,196	135,196	-	133,198	133,198	-
- deputy bar counsel	104,619	104,619	-	106,893	106,893	-
- assistant bar counsel	622,614	668,469	45,855	659,469	603,433	(56,036)
- investigators	411,120	411,122	2	474,426	448,325	(26,101)
- office mgr. & admn. assistant	124,421	185,819	61,398	133,862	135,055	1,193
- paralegal	89,447	119,012	29,565	72,674	127,568	54,894
- secretaries	246,250	365,532	119,282	267,689	375,180	107,491
- CPF - secretarial	53,469	37,541	(15,928)	34,481	34,481	-
- CPF - administrator	94,474	94,474	-	86,547	86,547	-
- CPF - administrative assistant	51,360	51,360	-	47,080	47,080	-
- CPF - clerk	33,580	33,580	-	31,640	24,016	(7,624)
- Legal secretary	50,640	50,640	-	49,892	49,892	-
- Executive secretary	109,191	109,191	-	107,578	107,578	-
FICA	127,587	146,727	19,140	133,269	141,021	7,752
Medicare	29,896	34,315	4,419	31,048	32,981	1,933
Employee benefits	699,926	739,416	39,490	717,077	711,169	(5,908)
Telephone	16,111	20,000	3,889	12,441	29,340	16,899
Photocopy	23,515	15,000	(8,515)	12,143	12,400	257
Postage meter	5,018	5,500	482	4,160	5,500	1,340
Office supplies	40,401	35,000	(5,401)	32,989	35,000	2,011
Postage	27,512	28,000	488	27,532	28,000	468
Insurance and bonds	17,485	18,000	515	11,358	16,000	4,642
Travel and mileage	64,004	66,500	2,496	56,059	66,500	10,441
Equipment maintenance	15,377	15,000	(377)	3,618	4,500	882
Temporary Contractual Staffing	14,547	25,000	10,453	-	-	-
Dues/professional organizations	9,440	10,000	560	5,000	15,000	10,000

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF BUDGET, RECEIPTS, EXPENDITURES AND FUND BALANCE
YEARS ENDED JUNE 30, 2014 and 2013 (Continued)

	2014			2013		
	Actual	Budget	Variance Positive (Negative)	Actual	Budget	Variance Positive (Negative)
EXPENDITURES (Continued)						
Investigator/related costs	121,253	96,000	(25,253)	124,209	96,000	(28,209)
Contin. Education & related cost	17,900	25,000	7,100	18,198	15,000	(3,198)
Staff Functions	10,309	10,000	(309)	-	-	-
Depositions and transcripts	26,329	26,000	(329)	19,338	26,000	6,662
Commission expenses	10,554	15,000	4,446	8,174	15,000	6,826
Peer review committee	78,067	110,079	32,012	68,498	110,079	41,581
Audit and periodic support	17,500	20,000	2,500	17,500	18,000	500
Bank fees	948	600	(348)	631	400	(231)
Outside legal and software support	3,492	6,000	2,508	14,343	5,000	(9,343)
Conservatorship costs	22,881	12,500	(10,381)	9,691	12,500	2,809
Office furniture	3,437	15,000	11,563	954	25,000	24,046
Computer hardware and software	149,821	150,000	179	112,085	150,000	37,915
Peer review training seminars	-	10,000	10,000	-	10,000	10,000
Law library	22,034	17,000	(5,034)	20,340	13,000	(7,340)
Case Management System Development	442,220	300,000	(142,220)	357,940	300,000	(57,940)
Lawyer assistance program	101,984	102,784	801	102,784	97,128	(5,656)
Office supplies	1,623	2,500	878	2,453	2,500	47
Mailing costs	1,500	2,500	1,000	119	2,500	2,381
Equipment purchases	4,834	10,500	5,666	2,957	10,500	7,543
Equipment maintenance	3,924	4,800	876	3,175	4,800	1,625
Telephone	100	3,000	2,900	100	3,000	2,900
Miscellaneous	300	1,000	700	348	1,000	652
Retiree Health Insurance Credit Plan	61,446	5,000	(56,446)	56,620	20,000	(36,620)
Compensated absences	(41,725)	-	41,725	30,512	-	(30,512)
Total Expenditures	\$ 4,277,933	\$ 4,470,276	\$ 192,343	\$ 4,223,090	\$ 4,314,064	\$ 90,974
INCREASE IN UNRESTRICTED FUND BALANCE						
BEFORE COURT ORDERED TRANSFER	\$ 232,922	\$ (161,280)	(394,202)	\$ 309,604	\$ 76,810	(232,794)
Court Ordered Transfer	\$ 2,495,109	\$ 2,495,109	-	\$ 72,000	300,000	228,000
INCREASE (DECREASE) IN UNRESTRICTED FUND BALANCE	\$ (2,262,187)	\$ (2,656,389)	(394,202)	\$ 237,604	\$ (223,190)	(460,794)
UNRESTRICTED FUND BALANCE, BEGINNING OF YEAR	5,577,778			5,340,174		
RESTRICTED FUND BALANCE	107,142			-		
UNRESTRICTED FUND BALANCE, END OF YEAR	3,208,448			5,577,778		

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

THE ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2014	2013
Increase (decrease) in unrestricted fund balance:	\$(2,262,187)	\$ 237,604
Adjustments to reconcile increase in unrestricted fund balance to cash provided by operating activities		
(Increase) decrease in:		
Attorney assessments receivable	(11,064)	450
Due from Client Protection Fund	(125,091)	(7,679)
Prepaid expenses	2,206	47,239
Increase (decrease) in:		
Accounts payable	70,741	(18,903)
Pension payable	(32,752)	56,555
Accrued compensated absences	(39,029)	30,511
Payable - Professionalism Center	-	(283,046)
Retiree health insurance credit plan	50,004	53,175
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(84,985)	(121,698)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments - net	2,051,709	57,796
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,051,709	57,796
NET INCREASE (DECREASE) IN CASH	(295,463)	173,702
CASH AT BEGINNING OF YEAR	324,553	150,851
CASH AT END OF YEAR	\$ 29,089	\$ 324,553

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

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Nature of the Commission

The Attorney Grievance Commission of Maryland, (the Commission) was authorized and created by the Court of Appeals of Maryland on February 10, 1975 to supervise and administer the discipline and inactive status of attorneys under Maryland rules. The Commission oversees the conduct of both Maryland lawyers and nonmembers of the Maryland Bar who engage in the practice of law in the State. The Commission investigates and, where indicated, prosecutes attorneys whose conduct violates the Maryland Lawyers Rules of Professional Conduct as well as those engaged in the unauthorized practice of law.

Basis of Accounting

As an instrumentality of the Maryland Court of Appeals, the Commission maintains its accounting records on a basis consistent with a governmental special revenue fund. These funds are used to account for the proceeds of revenue sources that are restricted to expenditures for specific purposes. These financial statements reflect only the activity of an unrestricted fund. There are no permanently or temporarily restricted funds.

Revenue and Revenue Recognition

Attorney assessments are the Commission's primary source of revenue. Assessments are received through payments made by individual attorneys to the Client Protection Fund of the Bar of Maryland (the Fund) on a billing which includes assessments for the Fund, the Maryland Professionalism Center, and the Commission. These assessments are required by the Maryland court system on an annual basis by any individual who is admitted to practice before the Court of Appeals or is issued a certificate of special authorization under Rule 15 of the Rules Governing Admission to the Bar of Maryland, or any individual who holds himself or herself out as being admitted to practice in Maryland by any means.

Since there is no requirement that an individual remain admitted to practice law in the State of Maryland, assessments are deemed to be revenue only when collected, the only receivable on these financial statements are assessments collected by the Client Protection Fund but not yet remitted to the Commission. Based on prior experience, management feels that all amounts will be collected; therefore, there is no allowance for doubtful accounts included in these financial statements. The assessment for the Commission was \$105 and \$110 for the years ended June 30, 2014 and 2013, respectively, for each attorney in practice. The number of practicing attorneys assessed during the years ended June 30, 2014 and 2013 was 37,266 and 37,290, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Commission is an instrumentality of the Maryland Court of Appeals and as such is not subject to income taxes. Accordingly, no provision has been made. The Commission believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents represent cash held in checking, savings and money market accounts with original maturities of less than ninety days.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

Property and Equipment

The Commission customarily budgets for and expenses property and equipment in the year of purchase, and accordingly, there are no property, equipment, accumulated depreciation, or depreciation expense included in these financial statements.

Investments - other

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

Compensated Absences

The entity accrues a liability for certain sick leave, and all annual leave which has been earned but not taken by the employees. Employees can earn a maximum of 25 days for annual leave a year. Annual leave can be accumulated up to 35 days. There is no requirement that annual leave be taken in the year earned. Upon termination, employees are paid for any accumulated annual leave. Employees hired prior to January 1, 1989 are reimbursed one third of accumulated sick leave, up to sixty days upon termination. Employees hired after 1988 are not reimbursed for accumulated sick leave.

NOTE 2 – INVESTMENTS

For the years ending June 30, 2014 and 2013, investment income consisted of the following:

<u>Year ended</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Interest Income	\$ 34,113	\$ 36,900
Unrealized Gain/(Loss)	<u>(1,844)</u>	<u>(1,851)</u>
Total Investment Income	<u>\$ 32,269</u>	<u>\$ 35,048</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial instruments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

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

Level 2. These are financial instruments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the financial instruments.

Level 3. These are financial instruments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the financial

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

instruments. These financial instruments include non-readily marketable securities that do not have an active market.

All of the Commissions' investments are stated at fair value on a recurring basis, using level 1 inputs. Unrealized gains and losses are included as a component of investment income.

<u>Year ending</u>	<u>June 30 2014,</u>	<u>June 30, 2013</u>
Certificates of Deposit	\$ 3,347,115	\$ 5,598,868
US Government Securities	201,216	1,172
Total Investments	<u>\$ 3,548,331</u>	<u>\$ 5,600,040</u>

NOTE 4 - PENSION PLAN

The Commission sponsors a trustee defined contribution pension plan covering substantially all employees meeting minimum age and service requirements. Contributions to the plan during the years ended June 30, 2014 and 2013 were \$275,556 and \$300,273, respectively. This amount is equal to 15% of the participant's compensation.

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS

On September 1, 2012 the Commission adopted an Other Postemployment Benefit Plan (OPEB) in order to provide health insurance expense reimbursement benefits to eligible retirees and their surviving spouses. The official name of the plan is "The Attorney Grievance Commission of Maryland Retiree Health Insurance Credit Plan." The Eligible retirees will include employees with at least ten years of service and have attained age fifty-five, or persons who have become disabled and are receiving benefits under the terms of the Social Security Act. Surviving spouses must have been covered under this plan at the time of the retiree's death and enroll in the Plan on the first day of the month following the death of the covered retiree. Plan benefits will be paid directly by the Commission to the retiree at a rate of the lesser of \$1,980 annually or their actual health insurance premiums. The total contribution expense charged as an expenditure in the current year was \$57,000. The actual and estimated schedules of employer contributions and funding progress are as follows through June 30, 2015, assuming a discount rate of 3.5%:

Schedule of Employer Contributions

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$54,000	\$825	1.5%	\$53,175
2014	\$57,000	\$6,996	12.3%	\$103,179
2015	\$59,000	\$12,000	20.3%	\$149,175

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
7/1/2012	\$0	\$363,000	\$363,000	0.0%
7/1/2013	\$0	\$391,000	\$391,000	0.0%
7/1/2014	\$0	\$418,000	\$418,000	0.0%

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

NOTE 6 - RELATED PARTY TRANSACTIONS

The Commission has significant transactions with the Client Protection Fund of the Bar of Maryland, an instrumentality of the State of Maryland. All assessments of the Client Protection Fund of the Bar of Maryland and the Attorney Grievance Commission of Maryland are billed and collected by the Client Protection Fund of the Bar of Maryland and the Commission's portion is transferred monthly by check.

During the years ending June 30, 2014 and 2013 the Client Protection Fund of the Bar of Maryland incurred fees for salaries and benefits used in the billing and collection process in the amount of \$390,049 and \$291,721 respectively. At June 30, 2014 and 2013, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$228,517 and \$103,426, respectively. In addition, the Client Protection Fund of the Bar of Maryland owed to the Commission attorney assessments in the amount of \$19,394 and \$8,330 at June 30, 2014 and 2013, respectively.

In April 2014, the Court of Appeals of Maryland ordered the Commission to transfer \$1,995,109 of its investments to the Client Protection Fund of the Bar of Maryland.

In April 2014, the Court of Appeals of Maryland ordered the Commission to transfer \$500,000 of its investments to the David N. Bates and Richard B. Vincent Foundation, a non-profit organization located in Baltimore, Maryland.

NOTE 7 – DONATED FACILITIES

As an instrumentality of the Maryland Court of Appeals, the Commission is provided with facilities which comprise all of its office space. The Commission is not responsible for paying any rent, utilities, or operating expenses for the use of these facilities. No amounts have been recognized as revenue for the use of these facilities, and accordingly, no amounts have been recognized as expense for the use of these facilities because management feels that the amounts cannot reasonably be estimated.

NOTE 8 – BOND

The Commission has a \$6,000,000 blanket crime protection insurance policy in effect for employee dishonesty.

NOTE 9 – CONTINGENCIES

Prior to the 2014 fiscal year, the Maryland Court of Appeals, at its discretion, was permitted to order a transfer of funds from the Commission to court related agencies. On March 13, 2014 an Administrative Order was issued by the Maryland Court of Appeals, requiring the Commission to maintain a Fund Balance of 75% of the prior year's fiscal expenditures. Any excess Fund Balance amount would be due to the Client Protection Fund, as of 30 days following the issuance of annual audited financial statements. As this amount cannot be accurately be determined by the Commission as of the fiscal year end, and it has not been declared or approved by the Courts, it is not a current liability of the Commission, but rather a restricted portion of the fund balance. Per this Order, at June 30, 2014, the Commission owed \$107,142 to the Client Protection Fund. This amount is set aside as "Restricted Fund Balance" on the June 30, 2014 balance sheet.

ATTORNEY GRIEVANCE COMMISSION OF MARYLAND
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2014 and 2013

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The Commission has restated its previously issued financial statements as of June 30, 2013. The Commission reviewed its policy for accrued compensated absences, specifically for those employees hired prior to 1989. Employees hired prior to 1989 were permitted to carry forward 20 days of accrued sick leave, payable upon termination. The Commission decided to adjust its policy to allow those employees hired prior to 1989 to carry forward 60 days of accrued sick leave. This change was to be effective retroactively, affecting all years since the adoption of the policy in 1985. The effect of this change on the financial statements is detailed below:

	<u>Previously reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Fund balance at June 30, 2012	5,413,201	(73,023)	5,340,174
Accrued compensated absences at June 30, 2013	233,927	110,165	344,092
Compensated absences expense	23,870	6,641	30,511
Due from CPF at June 30, 2013	72,930	30,496	103,426
Fund balance at June 30, 2013	5,657,444	(79,666)	5,577,778

NOTE 11 – MANAGEMENT’S SUBSEQUENT REVIEW

The Commission has evaluated subsequent events through October 3, 2014, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.