

THE ARC OF SOUTH CAROLINA, INC.
Cayce, South Carolina

ANNUAL FINANCIAL REPORT
For the Fiscal Years Ended
June 30, 2020 and 2019

Draft 01/21/21

THE ARC OF SOUTH CAROLINA, INC.
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Draft 01/21/21

January 19, 2021

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arc of South Carolina
Cayce, South Carolina

We have audited the accompanying financial statements of The Arc of South Carolina, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020, and 2019, and the related statements of activities, functional expenses 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of South Carolina, Inc. as of June 30, 2020, and 2019, 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.

Sheheen, Hancock and Godwin, LLP
Camden, South Carolina

Draft 01/21/21

THE ARC OF SOUTH CAROLINA, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 1,112,207 | \$ 778,272 |
| Restricted Cash | 10,946 | 5,818 |
| Accounts Receivable | 109,311 | 23,077 |
| Other Receivable | - | 2,098 |
| Grants Receivable | - | 7,500 |
| Prepaid Expenses | 12,140 | 10,407 |
| Security Deposits | 1,525 | 1,650 |
| Total Current Assets | 1,246,129 | 828,822 |
| Funds Held in Trust - IMPACT Program | 11,004 | 10,553 |
| Furniture and Equipment, Net | 15,020 | 13,218 |
| TOTAL ASSETS | \$ 1,272,153 | \$ 852,593 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts Payable | \$ 8,800 | \$ 4,108 |
| Payable to South Carolina - Department of Disabilities and Special Needs | 10,000 | 10,000 |
| Accrued Salaries and Employee Benefits | 25,448 | 19,302 |
| Deferred Revenue - Unearned Grant Revenue | 10,946 | 5,818 |
| Funds Held in Trust - IMPACT Program | 11,004 | 10,553 |
| Note Payable - SBA Paycheck Protection Program Loan | 107,775 | - |
| Total Current Liabilities | 173,973 | 49,781 |
| Net Assets | | |
| Without Donor Restrictions | 1,098,180 | 802,812 |
| Total Net Assets | 1,098,180 | 802,812 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,272,153 | \$ 852,593 |

The notes to the financial statements are an integral part of these statements.

THE ARC OF SOUTH CAROLINA, INC.
STATEMENTS OF ACTIVITIES
For The Fiscal Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|--------------|------------|
| Changes in Net Assets Without Donor Restrictions | | |
| Revenues and Other Support | | |
| Public Support | | |
| Service Coordination | \$ 1,063,322 | \$ 718,672 |
| Grant Awards | 35,698 | 85,406 |
| Voc Rehab Revenue | 180 | - |
| Contributions | 5,372 | 9,458 |
| Interest Income | 3,030 | 2,549 |
| Other Income | 402 | 466 |
| Donated Equipment | 5,350 | 1,140 |
| Total Revenues and Other Support Without Donor Restrictions | 1,113,354 | 817,691 |
| Expenses | | |
| Program Services | 791,952 | 644,962 |
| General and Administration | 26,034 | 33,845 |
| Total Expenses | 817,986 | 678,807 |
| Increase in Net Assets Without Donor Restrictions | 295,368 | 138,884 |
| Net Assets Without Donor Restrictions, Beginning of Year | 802,812 | 663,928 |
| Net Assets Without Donor Restrictions, End of Year | \$ 1,098,180 | \$ 802,812 |

The notes to the financial statements are an integral part of these statements.

THE ARC OF SOUTH CAROLINA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Fiscal Year Ended June 30, 2020

| | <u>Program Services</u> | <u>Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|--|-----------------------------|-----------------------|--------------------|-------------------|
| Personnel | \$ 588,837 | \$ 6,073 | \$ - | \$ 594,910 |
| Employee Benefits | 54,946 | 645 | - | 55,591 |
| Contractual Services | 1,096 | 15,676 | - | 16,772 |
| Depreciation | 3,549 | - | - | 3,549 |
| Events | 3,842 | - | - | 3,842 |
| Telephone and Internet | 7,396 | - | - | 7,396 |
| Travel and Training | 20,514 | 1,293 | - | 21,807 |
| Meals | 2,500 | 258 | - | 2,758 |
| Dues and Subscriptions | 9,737 | 562 | - | 10,299 |
| Miscellaneous | - | 133 | - | 133 |
| Office Expense and Postage | 1,476 | 83 | - | 1,559 |
| Rental | 15,600 | - | - | 15,600 |
| Supplies | 29,198 | 4 | - | 29,202 |
| Insurance | 27,913 | - | - | 27,913 |
| Summer Support Funds Expenses | 690 | - | - | 690 |
| Family Support Funds Expenses | 21,424 | - | - | 21,424 |
| Utilities | 3,234 | 1,307 | - | 4,541 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Expenses Included in the Expenses Section of the Statements of Activities | <u>\$ 791,952</u> | <u>\$ 26,034</u> | <u>\$ -</u> | <u>\$ 817,986</u> |

The notes to the financial statements are an integral part of these statements.

THE ARC OF SOUTH CAROLINA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Fiscal Year Ended June 30, 2019

| | <u>Program Services</u> | <u>Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|--|-----------------------------|-----------------------|--------------------|-------------------|
| Personnel | \$ 447,902 | \$ 7,899 | \$ - | \$ 455,801 |
| Employee Benefits | 42,718 | 919 | - | 43,637 |
| Contractual Services | 274 | 16,200 | - | 16,474 |
| Depreciation | 3,817 | - | - | 3,817 |
| Events | 4,656 | - | - | 4,656 |
| Telephone and Internet | 7,897 | - | - | 7,897 |
| Travel and Training | 23,404 | 464 | - | 23,868 |
| Meals | 2,867 | 421 | - | 3,288 |
| Dues and Subscriptions | 10,816 | - | - | 10,816 |
| Miscellaneous | 350 | 830 | - | 1,180 |
| Office Expense and Postage | 5,824 | 317 | - | 6,141 |
| Rental | 16,700 | 3,800 | - | 20,500 |
| SLED Checks | 192 | 8 | - | 200 |
| Supplies | 15,730 | 1,711 | - | 17,441 |
| Insurance | 24,049 | - | - | 24,049 |
| Printing and Copies | 1,204 | - | - | 1,204 |
| Summer Support Funds Expenses | 3,431 | - | - | 3,431 |
| Family Support Funds Expenses | 29,841 | - | - | 29,841 |
| Utilities | 3,290 | 1,276 | - | 4,566 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Expenses Included in the Expenses Section of the Statements of Activities | <u>\$ 644,962</u> | <u>\$ 33,845</u> | <u>\$ -</u> | <u>\$ 678,807</u> |

The notes to the financial statements are an integral part of these statements.

THE ARC OF SOUTH CAROLINA, INC.
STATEMENTS OF CASH FLOWS
For The Fiscal Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|--------------|------------|
| Cash Flows From Operating Activities | | |
| Changes in Net Assets | \$ 295,368 | \$ 138,884 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 3,549 | 3,817 |
| Donated Furniture, Equipment and Vehicles | (5,350) | - |
| Changes in Operating Assets and Liabilities | | |
| Accounts Receivable | (86,234) | (11,184) |
| Grants Receivable | 7,500 | (2,500) |
| Other Receivable | 2,098 | 643 |
| Prepaid Expenses | (1,733) | 3,079 |
| Security Deposits | 125 | - |
| Accounts Payable | 4,691 | (5,796) |
| Accrued Salaries and Employee Benefits | 6,146 | 9,862 |
| Deferred Revenue | 5,128 | (8,796) |
| Net Cash Provided by Operating Activities | 231,288 | 128,009 |
| Cash Flows From Investing Activities | | |
| Acquisition of Property and Equipment | - | (14,019) |
| Net Cash Provided (Used) by Investing Activities | - | (14,019) |
| Cash Flows From Financing Activities | | |
| Proceeds from SBA - Paycheck Protection Program | 107,775 | - |
| Net Cash Provided by Financing Activities | 107,775 | - |
| Net Increase in Cash | 339,063 | 113,990 |
| Cash, Beginning of Year | 784,090 | 670,100 |
| Cash, End of Year | \$ 1,123,153 | \$ 784,090 |
| Cash as Reported on Statements of Financial Position | | |
| Cash | \$ 1,112,207 | \$ 778,272 |
| Restricted Cash | 10,946 | 5,818 |
| Total Cash as Reported on Statements of Cash Flows | \$ 1,123,153 | \$ 784,090 |

The notes to the financial statements are an integral part of these statements.

THE ARC OF SOUTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Fiscal Years Ended June 30, 2020 and 2019

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

The Arc of South Carolina (the “Arc”) was incorporated on October 3, 1957, as a statewide organization. With offices in Rock Hill and Cayce, South Carolina, the organization acts as an advocate for the rights and full participation of persons with intellectual and developmental disabilities. The Arc accomplishes this mission by providing information and referral services, by acting as a liaison to service-providing agencies and related groups, and by maintaining community support groups for the families affected.

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) of Accounting Standards Codification (ASC). Accordingly, these reports reflect all significant receivables, payables, and other liabilities. The accrual basis of accounting recognizes revenues when they are earned. Expenses are recognized when incurred.

C. Financial Statement Presentation

Under professional standards, not-for-profit organizations are required to provide a statement of financial position, a statement of activities and a statement of functional expenses that reports expenses by both functional and natural classifications. Classification of an organization's net assets and its revenue, expenses, and gains and losses are based on the existence or absence of donor-imposed restrictions. The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. All net assets held by the Organization at June 30, 2020, and 2019, are classified as net assets without donor restrictions.

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Arc defines cash and cash equivalents to include demand deposits, restricted cash and short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.

THE ARC OF SOUTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Fiscal Years Ended June 30, 2020 and 2019
(Continued)

E. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Arc considers accounts receivables to be fully collectible; accordingly, no allowance for doubtful accounts is included in the financial statements. If any balances remain outstanding after management has used reasonable collection efforts, those balances would be written off with a charge to operations.

F. Furniture and Equipment

A fixed asset is a tangible asset purchased for use in the daily operations of The Arc of South Carolina from which an economic benefit will be derived over a period greater than one year. Fixed assets include equipment, furniture and technology related equipment. Fixed assets are capitalized on the date of acquisition if the invoice price is equal to or greater than \$1,000. Furniture and equipment acquired by purchase are stated at cost. Furniture and equipment acquired by donation are stated at fair market value at date of donation. Depreciation is computed principally using the straight-line method over estimated useful lives ranging from five to twenty years and charged to operations. Expenditures for maintenance and repairs are charged to operations as incurred and costs of major additions and improvements are capitalized. The cost of property assets retired or otherwise disposed of and the related allowances are eliminated from the respective accounts. Gains or losses resulting from such dispositions are reflected in current income.

G. Deferred Revenue

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Program grant revenues received before the eligibility requirements are met are recorded as deferred revenue. In subsequent periods, when both revenue recognition criteria are met, or when the Organization has a legal claim to the grant proceeds, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

H. Restricted and Unrestricted Revenue

Under professional standards, the Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

THE ARC OF SOUTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Fiscal Years Ended June 30, 2020 and 2019
(Continued)

The Organization reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

I. Donated Services

The Organization records donated services of individuals if the services create or enhance nonfinancial assets or if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased in not provided by donation. No donated services were recognized during the current audit period.

J. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are charged directly to program and supporting services as appropriate. Administration, general and fundraising expenses include those expenses that are not directly identifiable with a specific function but provide for the overall support and direction of the Organization.

K. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the reported amounts of revenues and expenses and disclosures. The most significant use of estimates is in recording depreciation and the allocation of functional expenses between program, administrative and fundraising categories.

L. Tax Exempt Status and Income Tax

The Organization is exempt from income tax under section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities which may be subject to income tax. Therefore, the Arc has made no provisions for federal or state income tax in the accompanying financial statements. The Arc's is subject to routine audits by taxing authorities; however, there are no audits for any tax periods currently in progress. Management believes it is no longer subject to income tax examinations for years prior to the 2017 tax year.

THE ARC OF SOUTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Fiscal Years Ended June 30, 2020 and 2019
(Continued)

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Management evaluated the Organization's tax position and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance.

Note 2. Service Coordination (Case Management) Services

The Organization has a contract agreement with the South Carolina Department of Disabilities and Special Needs (DDSN). This contract states that DDSN will provide payments to the Arc for service coordination services to individuals requiring services who are eligible consumers of the DDSN. The Service Coordination Services contract is renewed annually. The current contract was renewed on July 1, 2019, expires on June 30, 2020, and was renewed July 1, 2020, and shall continue in full force through June 30, 2021. The amount recognized as service coordination fees was \$1,063,322 and \$718,672 during the years ended June 30, 2020, and June 30, 2019, respectively.

Note 3. Deposits – Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, The Arc of South Carolina's deposits may not be returned to them. The Organization does not have a deposit policy for custodial credit risk. At June 30, 2020, the Organization had approximately \$175,900 cash in excess of the \$250,000 federally insured limit. During June 2020, the Organization opened a savings account at a different bank and during July 2020, transferred money to the new bank to remedy this situation.

Note 4. Furniture and Equipment

Furniture and equipment recorded a cost or fair value when donated and accumulated depreciation is as follows as of June 30:

| | 06/30/2020 | 06/30/2019 |
|--------------------------------|------------|------------|
| Furniture and Equipment | \$ 23,209 | \$ 23,209 |
| Leasehold Improvement | 5,000 | 5,000 |
| Vehicles | 5,350 | - |
| Less: Accumulated Depreciation | (18,539) | (14,991) |
| Furniture and Equipment, net | \$ 15,020 | \$ 13,218 |

Depreciation expense was \$3,549 and \$3,817 for the years ended June 30, 2020, and June 30, 2019, respectively.

THE ARC OF SOUTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Fiscal Years Ended June 30, 2020 and 2019
(Continued)

Note 5. Funds Held in Trust

In February 2014, the Arc agreed to accept and administer funds on behalf of IMPACT South Carolina. The agreement stipulates that the Arc will serve as the fiscal agent for a funding arrangement between Self Advocates Becoming Empowered (SABE) and IMPACT South Carolina. The funds are held with a financial institution in a bank account in the name of the Arc. Total funds held for the benefit of others under this program totaled \$11,004 and \$10,553 as of June 30, 2020, and June 30, 2019, respectively.

Note 6. Paycheck Protection Program (PPP) Note Payable

The Company applied for and received a Paycheck Protection Program ("PPP") loan under a new federal program designed to support small businesses during the pandemic. The PPP loan program was part of the CARES Act, which was signed into law on March 27, 2020, and is being implemented by the SBA with cooperation from private banks. PPP loans may be fully or partially forgiven by application to the SBA if proceeds are expended based on federal guidelines. Management applied for the PPP loan to fund payroll and other allowable costs while the Company responded to government restrictions on business operations and anticipated reduced revenues from the economic downturn associated with the pandemic. A loan in the amount of \$107,775 was received and deposited during April 2020. Management anticipates that all of this loan will qualify for loan forgiveness since it was spent in accordance with federal regulations relating to the use of funds during the 24 weeks following the deposit of the loan proceeds.

Note 7. Concentrations with Governmental Agencies

The Arc received approximately 98% of its support and revenue from local and state governments for the fiscal years ended June 30, 2020, and 2019. Any significant reduction in the level of governmental support could have a significant effect on the Arc's programs and activities.

THE ARC OF SOUTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Fiscal Years Ended June 30, 2020 and 2019
(Continued)

Note 8. Operating Leases

The Arc has one non-cancelable operating lease, which expires in June 2024.

The Arc leases office spaces that are currently on a month-to-month lease contract. Rental expense for those leases consisted of \$15,600 and \$20,500 for the years ended June 30, 2020, and 2019, respectively.

Future minimum lease payments under the operating lease that has remaining terms in excess of one year as of June 30, 2020, are as follows:

| Year Ending June 30, | |
|-----------------------------|-----------------|
| 2020 | \$ 1,075 |
| 2021 | 1,075 |
| 2022 | 1,075 |
| 2023 | 1,075 |
| 2024 | 1,073 |
| Total | <u>\$ 5,373</u> |

Note 9. Retirement Plans

Effective March 1, 2018, the Organization has a SIMPLE retirement plan for all eligible employees. The Organization matches 100% of the employees' contribution up to a maximum of 3% of employee compensation or the applicable federal limit.

Note 10. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Note 11. Change in Accounting Principle for New Pronouncement

Future Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. Early adoption of the amendment in this update is permitted. We are currently evaluating ASU 2016-02 to determine if this guidance will have a material impact on our financial statements.

THE ARC OF SOUTH CAROLINA, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Fiscal Years Ended June 30, 2020 and 2019
(Continued)

Note 12. Liquidity and Availability of Financial Assets

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of acting as an advocate for the rights and full participation of persons with intellectual and developmental disabilities to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures.

The following table reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date.

| | |
|---|----------------------------|
| Financial assets at year-end: | |
| Cash and Cash Equivalents | \$ 1,112,207 |
| Restricted Cash | 10,946 |
| Accounts Receivable | <u>109,311</u> |
| Total financial assets | <u>1,232,464</u> |
| Less those unavailable for general expenditures within one year, due to: | |
| Deferred Revenue - for restricted grants | <u>(10,946)</u> |
| Financial Assets not Available to be Used Within One Year | <u>(10,946)</u> |
| Financial assets available to meet cash need for general expenditures within one year | <u><u>\$ 1,221,518</u></u> |

Note 13. Date of Management Review

Management has evaluated events subsequent to the balance sheet date through January 19, 2021, which is the date the financial statements were available to be issued. The Arc is not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.