

4 Paws for Ability, Inc.

Financial Statements

As of December 31, 2023 and 2022 and for the
Years then Ended with Independent Auditor's Report



YOUR SUCCESS IS OUR PASSION

4 Paws for Ability, Inc.

Financial Statements

*As of December 31, 2023 and 2022 and for the
Years then Ended with Independent Auditor's Report*

Table of Contents

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Audited Financial Statements	7



Independent Auditor's Report

To the Board of Directors
4 Paws for Ability, Inc.
Xenia, Ohio

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of 4 Paws for Ability, Inc., which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 4 Paws for Ability, Inc. as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 4 Paws for Ability, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 4 Paws for Ability, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a



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material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 4 Paws for Ability, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 4 Paws for Ability, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in cursive script that reads "Brixey & Meyer".

Brixey & Meyer, Inc.
Miamisburg, Ohio
June 26, 2024

4 Paws for Ability, Inc.
Statements of Financial Position

	December 31,	
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,678,450	\$ 2,556,471
Inventories	59,920	71,431
Investments	1,354,312	1,135,259
Other current assets	19,464	12,667
Total current assets	4,112,146	3,775,828
Property and equipment, net	4,753,098	4,881,143
Total assets	\$ 8,865,244	\$ 8,656,971
 Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 90,747	\$ 144,890
Current portion of mortgage note payable	162,605	157,854
Total current liabilities	253,352	302,744
Long-term liabilities:		
Mortgage payable, net of current portion	1,057,490	1,219,894
Other accrued expenses	-	58,131
Total long-term liabilities	1,057,490	1,278,025
Total liabilities	1,310,842	1,580,769
Net assets without donor restrictions	7,554,402	7,076,202
Total liabilities and net assets	\$ 8,865,244	\$ 8,656,971

See accompanying independent auditor's report and notes to the financial statements.

4 Paws for Ability, Inc.
Statements of Activities

	Years Ended December 31,	
	2023	2022
Operating revenues and support:		
Donations	\$ 2,177,772	\$ 3,155,086
Program service fees	1,844,893	1,890,413
Sales and fees	237,800	246,520
In-kind donations	110,006	68,058
Unrealized gains (losses) on investments, net	146,810	(75,071)
Interest income	88,974	35,917
Other	27,162	48,698
Total operating revenues and support	4,633,417	5,369,621
Operating expenses:		
Program services	3,621,442	4,048,343
Supporting services	533,775	594,253
Total expenses	4,155,217	4,642,596
Increase in net assets	478,200	727,025
Net assets, beginning of year	7,076,202	6,349,177
Net assets, end of year	\$ 7,554,402	\$ 7,076,202

See accompanying independent auditor's report and notes to the financial statements.

4 Paws for Ability, Inc.
Statements of Functional Expenses

For the Year Ended December 31, 2023

	Program Services				Supporting Services			Total
	Dog Care	Dog Training	Health	Total Program Services	Administrative	Fundraising and Program Development	Total Supporting Services	
Salaries and benefits	\$ 1,069,020	\$ 945,352	\$ 299,336	\$ 2,313,708	\$ 280,011	\$ 146,062	\$ 426,073	\$ 2,739,781
Education and awareness	-	917	353	1,270	87	58,424	58,511	59,781
Occupancy	105,029	43,762	17,505	166,296	8,751	-	8,751	175,047
Program support	252,393	128,429	557,780	938,602	3,645	1,891	5,536	944,138
Professional services	2,554	2,554	2,554	7,662	26,724	19,556	46,280	53,942
Information technologies	8,199	4,972	1,922	15,093	3,182	942	4,124	19,217
Travel	-	3,039	380	3,419	190	190	380	3,799
Depreciation	96,333	40,139	16,055	152,527	8,027	-	8,027	160,554
Other	6,910	14,520	1,435	22,865	(25,342)	1,435	(23,907)	(1,042)
Total	\$ 1,540,438	\$ 1,183,684	\$ 897,320	\$ 3,621,442	\$ 305,275	\$ 228,500	\$ 533,775	\$ 4,155,217

For the Year Ended December 31, 2022

	Program Services				Supporting Services			Total
	Dog Care	Dog Training	Health	Total Program Services	Administrative	Fundraising and Program Development	Total Supporting Services	
Salaries and benefits	\$ 1,297,580	\$ 936,420	\$ 289,497	\$ 2,523,497	\$ 168,828	\$ 201,991	\$ 370,819	\$ 2,894,316
Education and awareness	-	-	-	-	-	58,106	58,106	58,106
Occupancy	133,434	75,833	18,226	227,493	12,643	12,643	25,286	252,779
Program support	247,444	123,451	691,701	1,062,596	36,124	13	36,137	1,098,733
Professional services	3,405	2,818	1,585	7,808	25,892	20,652	46,544	54,352
Information technologies	12,262	6,758	1,204	20,224	21,624	1,204	22,828	43,052
Travel	-	4,539	-	4,539	-	4,539	4,539	9,078
Depreciation	97,308	53,077	8,846	159,231	8,846	8,846	17,692	176,923
Other	5,565	35,513	1,877	42,955	7,598	4,704	12,302	55,257
Total	\$ 1,796,998	\$ 1,238,409	\$ 1,012,936	\$ 4,048,343	\$ 281,555	\$ 312,698	\$ 594,253	\$ 4,642,596

See accompanying independent auditor's report and notes to the financial statements.

4 Paws for Ability, Inc.
Statements of Cash Flows

	Years Ended December 31,	
	2023	2022
Operating activities		
Increase in net assets	\$ 478,200	\$ 727,025
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	156,554	176,923
Unrealized (gains) losses on investments, net	(146,810)	75,071
Contributed investments	(35,245)	(13,638)
Changes in assets and liabilities:		
Inventories	11,511	51,924
Other current assets	(6,797)	13,104
Accounts payable and accrued expenses	(112,274)	(132,449)
Net cash provided by operating activities	345,139	897,960
Investing activities		
Purchases of property and equipment, net	(28,509)	(34,550)
Purchases of investments, net	(36,998)	(6,362)
Net cash used in investing activities	(65,507)	(40,912)
Financing activities		
Net cash used in financing activities - Payments on long-term debt	(157,653)	(153,076)
Net increase in cash and cash equivalents	121,979	703,972
Cash and cash equivalents, beginning of year	2,556,471	1,852,499
Cash and cash equivalents, end of year	\$ 2,678,450	\$ 2,556,471
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 39,678	\$ 44,289
Supplemental disclosure of non-cash investing activities		
Contributed investments	\$ 35,245	\$ 13,638

See accompanying independent auditor's report and notes to the financial statements.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 1 – Nature of Operations

4 Paws for Ability, Inc. (the “Organization”) is a nonprofit 501(c)(3) organization, which is governed by an independent, uncompensated Board of Directors. The Organization provides specially trained service dogs for companionship and assistance with independent living to individuals with physical and hidden disabilities. All training is recipient-specific for Autism Assistance, Mobility Assistance, Signal/Hearing Ear, Seizure Assistance and Multi-purpose Service Dogs.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include deposits on demand with financial institutions and money market funds. Cash equivalents include investments with a maturity of three months or less when acquired or purchased. Cash and cash equivalent balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor at each financial institution.

Inventories

Inventories are carried at the lower of cost or net realizable value and consist of dog food and miscellaneous dog care supplies. The Organization makes provisions for estimated excess and obsolete inventories based on regular reviews of inventory reports. There was no reserve for obsolescence at December 31, 2023 or 2022.

Investments

Investments in fixed income securities, common stocks, mutual funds, and exchange traded funds are reported at fair value. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using straight-line methods over an estimated useful life of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

The useful lives used in computing depreciation are based on the Organization's estimate of the service life of the classes of property, as follows:

Land improvements	20 years
Buildings	5 - 39 years
Automobiles	5 - 20 years
Furniture and fixtures	5 years

The Organization evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair value. If such assets are not impaired, but their useful lives have decreased, the remaining net book value is depreciated over the revised useful life. No impairment charge was recognized for the years ended December 31, 2023 or 2022.

Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets without donor restrictions are available for use at the discretion of the Organization for general operating purposes and not subject to donor or certain grantor restrictions. From time to time, the Organization may designate a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. There were no board designated net assets at December 31, 2023 and 2022.
- Net assets with donor restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time or purpose 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 those resources be maintained in perpetuity. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restriction. There were no net assets with donor restrictions as of December 31, 2023 and 2022.

Revenue Recognition

Donations

Donations are recorded when received as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Donations that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the donation is recognized. All other donor restricted donations are reported as an increase in net assets with donor restrictions, depending on the nature of restriction.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Program Service Fees

The Organization provides service dogs to families in exchange for a predetermined, non-refundable fee. The fee charged to families is significantly less than the expenses incurred to identify, shelter, care for, train, and supply the service dog. Due to the non-refundable nature of the transaction, program service fees are recorded when received from recipients on the Organization's statements of activities.

Sales and Fees

Sales and fees are recorded when received and recognized at a point-in-time. Sales reflect sales of companion dogs that do not graduate from the Organization's rigorous training programs. Fees reflect nominal amounts charged to applicants for service dogs. Fees may be waived at the Organization's discretion in certain circumstances.

In-kind Donations

Donated materials are recorded as donations at their estimated fair values at the date of donation. Donations of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as donated services. The Organization received donated dog care items of \$110,006 and \$68,058 for the years ended December 31, 2023 and 2022, respectively.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among dog care, dog training and supporting services benefited. Salaries and benefits, education and awareness, program support, professional services, travel, and other expenses are allocated based on time and effort; occupancy, information technologies, and depreciation expenses are allocated based on square footage. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

The statements of functional expenses includes the following program and supporting services:

Dog Care

Dog care expenses reflect all costs directly related to caring for dogs, including food, cleaning supplies and salaries and benefits for the Organization's dog care staff.

Dog Training

Dog training expenses reflect all costs directly related to training service dogs, including salaries and benefits for the Organization's expert dog trainers, training supplies and expenses incurred training clients to use their new service dogs.

Health

Health expenses reflect all costs directly related to veterinary care.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Functional Expenses (continued)

Administrative

Administrative expenses reflect all costs directly related to managing the Organization.

Fundraising and Program Development

Fundraising expenses include all costs expended on fundraising events and initiatives. Program development expenses include all costs directly related to reaching potential applicants and making them aware of the benefits service dogs can provide to individuals with certain disabilities.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law; however, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization's Internal Revenue Service Form 990 is subject to review and examination by federal and state authorities. The Organization has analyzed the tax positions taken and has concluded that as of December 31, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Organization's federal tax returns for the year ended prior to December 31, 2020 and prior years are no longer subject to examination as the statute of limitations has expired for those years.

Fair Value Measurements

The Organization follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, which defines fair value as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 3 – Availability and Liquidity

The Organization is substantially supported by donations and program service fees. As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, excess cash is swept into money market accounts.

The following reflects the Organization’s financial assets available to meet cash needs for general expenditures within one year reduced by the amounts not available for general expenditures within one year of December 31:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 2,678,450	\$ 2,556,471
Investments	<u>1,354,312</u>	<u>1,135,259</u>
Total financial assets	4,032,762	3,691,730
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,032,762</u>	<u>\$ 3,691,730</u>

Note 4 – Investments

Investments are comprised of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 17,017	\$ 30,660
Fixed income securities	1,007,460	941,499
Common stocks	216,719	72,927
Mutual funds	87,496	69,524
Exchange traded funds	<u>25,620</u>	<u>20,649</u>
Total investments	<u>\$ 1,354,312</u>	<u>\$ 1,135,259</u>

Unrealized gains (losses) on investments were \$146,810 and (\$75,071) for the years ended December 31, 2023 and 2022, respectively.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 5 – Property and Equipment, Net

Property and equipment, net consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Land	\$ 545,385	\$ 545,385
Land improvements	28,509	-
Buildings	5,144,261	5,144,261
Automobiles	194,858	194,858
Furniture and fixtures	563,831	563,831
Total cost	<u>6,476,844</u>	<u>6,448,335</u>
Less accumulated depreciation	<u>(1,723,746)</u>	<u>(1,567,192)</u>
Property and equipment, net	<u>\$ 4,753,098</u>	<u>\$ 4,881,143</u>

Depreciation expense was \$156,554 and \$176,923 for the years ended December 31, 2023 and 2022, respectively.

Note 6 – Mortgage Note Payable

The Organization entered into a mortgage note payable with Huntington National Bank in August 2014 that was subsequently amended in October 2020. Under the mortgage note payable, the Organization is required to make monthly principal and interest payments of \$16,444 at a fixed interest rate of 2.99% per annum through maturity. The mortgage note payable matures on October 10, 2030, and is secured by the Organization’s buildings and land.

Scheduled future maturities of the mortgage note payable as of December 31, 2023 for each of the next 5 years, and in aggregate, thereafter, are as follows for the years ending December 31:

2024	\$ 162,605
2025	167,705
2026	172,860
2027	178,174
2028	183,608
Thereafter	355,143
Total	<u>\$ 1,220,095</u>

Interest expense for the years ended December 31, 2023 and 2022 was \$39,608 and \$44,255, respectively, and is allocated among program and supporting services as an occupancy expense on the statements of functional expenses.

The mortgage note payable contains certain non-financial and financial covenants that require, among other things, maintenance of a debt service coverage ratio, certain liquidity requirements, and submission of the Organization’s audited financial statements within 120 days of the fiscal year-end. As of December 31, 2023 and 2022, the Organization was not compliant with the administrative covenant that requires the Organization to submit audited financial statements to the bank within 120 days of year end. The administrative covenant violation was waived by the bank in June 2024.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 7 – Fair Value Measurements

The following tables summarize the Organization’s assets measured at fair value on a recurring basis as of December 31, 2023 and 2022, aggregated by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	December 31, 2023
Investments:				
Fixed income securities	\$ -	\$ 1,007,460	\$ -	\$ 1,007,460
Common stocks	216,719	-	-	216,719
Mutual funds	87,496	-	-	87,496
Exchange traded funds	25,620	-	-	25,620
Total assets at fair value	<u>\$ 329,835</u>	<u>\$ 1,007,460</u>	<u>\$ -</u>	<u>\$ 1,337,295</u>

	Level 1	Level 2	Level 3	December 31, 2022
Investments:				
Fixed income securities	\$ -	\$ 941,499	\$ -	\$ 941,499
Common stocks	72,927	-	-	72,927
Mutual funds	69,524	-	-	69,524
Exchange traded funds	20,649	-	-	20,649
Total assets at fair value	<u>\$ 163,100</u>	<u>\$ 941,499</u>	<u>\$ -</u>	<u>\$ 1,104,599</u>

The cash and cash equivalents recorded within investments on the statements of financial position of \$17,070 and \$30,600 at December 31, 2023 and 2022, respectively, are not measured at fair value on a recurring basis and, therefore, are not included in the table above.

The fair value of the common stocks, mutual funds, and exchange traded funds were determined by quoted prices in active markets. The fair value of fixed income securities was determined primarily based on Level 2 inputs and the Organization estimates the fair value of these investments using quoted prices for similar assets in active markets.

Note 8 – Contingencies

From time to time, the Organization may be involved in legal actions arising in the ordinary course of business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably. The Organization establishes accruals for losses that management deems to be probable and subject to reasonable estimate. The Organization is not currently involved in any such matters as of December 31, 2023 or 2022.

Note 9 – Defined Contribution Plan

In 2023, the Organization created a Savings Incentive Match Plan for Employees Individual Retirement Account (the Plan) that covers substantially all of its employees. The Plan allows employees to contribute a portion of their base pay in accordance with specific guidelines. The Organization matches employee contributions up to a maximum of 3.00% of the employee’s annual salary. The Organization contributed \$21,354 to the Plan for the year ended December 31, 2023, and is allocated among program and supporting services as salaries and benefits expense on the statements of functional expenses.

4 Paws for Ability, Inc.
Notes to the Financial Statements
December 31, 2023 and 2022

Note 10 – Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 26, 2024, which is the date the financial statements were available to be issued. Except as disclosed in Note 6, no other subsequent events requiring financial statement adjustment and/or disclosure have been identified.