

HEALING THE CHILDREN,
NATIONAL OFFICE AND
AFFILIATED CHAPTERS

COMBINED FINANCIAL REPORT

December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Executive Committee
Healing the Children, National Office and Affiliated Chapters
Spokane, Washington

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Healing the Children, National Office (a nonprofit organization) and Affiliated Chapters, which comprise the combined statements of financial position as of December 31, 2017 and 2016 and the related combined statements of activities, functional expenses, net assets, and cash flows for the years then ended, and the related notes to combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of Healing the Children, Florida, an affiliated chapter, which reflect total assets of \$375,512 and \$346,709 as of December 31, 2017 and 2016, respectively, and total support and revenues of \$1,210,452 and \$1,252,722, for the years then ended. We did not audit the financial statements of Healing the Children, Michigan/Ohio, an affiliated chapter, which reflect total assets of \$489,466 and \$473,045 as of December 31, 2017 and 2016, respectively, and total support and revenues of \$3,451,272 and \$4,121,689, for the years then ended. We did not audit the financial statements of Healing the Children, New Jersey, an affiliated chapter, which reflect total assets of \$465,464 and \$392,138 as of December 31, 2017 and 2016, respectively, and total support and revenues of \$1,713,908 and \$1,653,793, for the years then ended. We did not audit the financial statements of Healing the Children, Northeast, an affiliated chapter, which reflect total assets of \$421,978 and \$351,931 as of December 31, 2017 and 2016, respectively, and total support and revenues of \$4,864,203 and \$4,287,850, for the years then ended.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (continued)

The statements for each of the affiliated chapters named on page 1 were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these affiliated chapters, is based solely on the reports of the other auditors. 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Healing the Children, National Office and Affiliated Chapters as of December 31, 2017 and 2016, 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.

HMA CPA, PS

Spokane, Washington
November 6, 2018

HEALING THE CHILDREN,
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF FINANCIAL POSITION
 December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,523,545	\$ 1,433,451
Marketable securities	288,557	264,665
Accounts receivable	39,843	-
Prepaid expenses	131,202	66,970
	<u>1,983,147</u>	<u>1,765,086</u>
Total current assets		
PROPERTY AND EQUIPMENT		
Land	33,900	33,900
Building and improvements	214,791	214,791
Medical equipment	243,625	224,728
Office furniture and equipment	65,376	61,925
	<u>557,692</u>	<u>535,344</u>
Less accumulated depreciation	<u>(301,013)</u>	<u>(273,112)</u>
Net property and equipment	<u>256,679</u>	<u>262,232</u>
Total assets	<u>\$ 2,239,826</u>	<u>\$ 2,027,318</u>

The Notes to Combined Financial Statements are an integral part of these statements.

<u>LIABILITIES AND NET ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 173,505	\$ 120,758
Current portion of long-term debt	3,895	3,712
	<hr/>	<hr/>
Total current liabilities	177,400	124,470
LONG-TERM DEBT, net of current portion		
	77,422	81,302
	<hr/>	<hr/>
Total liabilities	254,822	205,772
	<hr/>	<hr/>
NET ASSETS		
Unrestricted	1,558,315	1,444,997
Temporarily restricted	404,189	354,049
Permanently restricted	22,500	22,500
	<hr/>	<hr/>
Total net assets	1,985,004	1,821,546
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 2,239,826</u>	<u>\$ 2,027,318</u>

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
COMBINED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions in-kind	\$ 12,652,580	\$ 14,444,768
Public contributions	863,602	747,643
Grant income	6,000	44,067
Fundraising activities	281,021	220,122
Special event income, less cost of direct benefit to donors of \$19,861 and \$23,600, respectively	66,103	69,762
Other income	3,633	5,978
Loss on disposal of equipment	-	(6,769)
Investment gain	23,892	10,585
	<u>13,896,831</u>	<u>15,536,156</u>
Net assets released from restrictions	<u>66,748</u>	<u>120,235</u>
Total unrestricted support and revenue	<u>13,963,579</u>	<u>15,656,391</u>
EXPENSES		
Program services	13,572,084	15,175,924
Management and general	158,757	164,909
Fundraising	115,406	97,721
Interest	4,014	4,199
	<u>13,850,261</u>	<u>15,442,753</u>
Total expenses	<u>13,850,261</u>	<u>15,442,753</u>
Increase in unrestricted net assets	<u>113,318</u>	<u>213,638</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions subject to restrictions	116,888	137,290
Net assets released from restrictions	<u>(66,748)</u>	<u>(120,235)</u>
Increase in temporarily restricted net assets	<u>50,140</u>	<u>17,055</u>
PERMANENTLY RESTRICTED NET ASSETS		
Investment gain	<u>-</u>	<u>675</u>
INCREASE IN NET ASSETS	<u>\$ 163,458</u>	<u>\$ 231,368</u>

The Notes to Combined Financial Statements are an integral part of these statements.

HEALING THE CHILDREN,
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended December 31, 2017 and 2016

	Year Ended December 31, 2017			
	Program Services	Management and General	Fund- raising	Total
Advertising	\$ 4,458	\$ 7,283	\$ -	\$ 11,741
Depreciation	21,990	2,676	3,235	27,901
Donated medical and travel	11,966,161	-	-	11,966,161
Donated supplies and other	686,419	-	-	686,419
Dues and subscriptions	1,000	147	-	1,147
Equipment maintenance	-	4,609	-	4,609
Fundraising	-	-	66,382	66,382
Insurance	8,195	13,108	75	21,378
Medical trips and travel	467,350	-	-	467,350
Office expense	12,976	32,922	885	46,783
Other	11,993	11,571	534	24,098
Payroll, taxes and benefits	232,600	47,884	40,567	321,051
Professional fees	10,457	18,146	2,504	31,107
Programs expense	120,462	-	-	120,462
Rent	18,350	4,374	348	23,072
Shipping and postage	1,206	4,430	153	5,789
Telephone	8,467	11,607	723	20,797
Total expenses	\$ 13,572,084	\$ 158,757	\$ 115,406	\$ 13,846,247

The Notes to Combined Financial Statements are an integral part of these statements.

	Year Ended December 31, 2016			
	Program	Management	Fund-	Total
	Services	and	raising	
		General		
Advertising	\$ 5,166	\$ 660	\$ -	\$ 5,826
Depreciation	17,636	5,404	3,580	26,620
Donated medical and travel	13,295,494	-	-	13,295,494
Donated supplies and other	1,149,274	-	-	1,149,274
Dues and subscriptions	1,099	784	-	1,883
Equipment maintenance	-	3,665	-	3,665
Fundraising	-	-	46,287	46,287
Insurance	7,942	8,791	78	16,811
Medical trips and travel	331,201	-	-	331,201
Office expense	13,674	28,643	1,793	44,110
Other	8,910	10,540	2,951	22,401
Payroll, taxes and benefits	189,471	54,055	34,543	278,069
Professional fees	11,442	28,941	3,349	43,732
Programs expense	119,218	-	-	119,218
Rent	16,332	7,259	4,009	27,600
Shipping and postage	1,482	5,450	187	7,119
Telephone	7,583	10,717	944	19,244
Total expenses	<u>\$ 15,175,924</u>	<u>\$ 164,909</u>	<u>\$ 97,721</u>	<u>\$ 15,438,554</u>

HEALING THE CHILDREN,
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF NET ASSETS
 December 31, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NET ASSETS, December 31, 2015	\$ 1,231,359	\$ 336,994	\$ 21,825	\$ 1,590,178
Increase in net assets	<u>213,638</u>	<u>17,055</u>	<u>675</u>	<u>231,368</u>
NET ASSETS, December 31, 2016	1,444,997	354,049	22,500	1,821,546
Increase in net assets	<u>113,318</u>	<u>50,140</u>	<u>-</u>	<u>163,458</u>
NET ASSETS, December 31, 2017	<u><u>\$ 1,558,315</u></u>	<u><u>\$ 404,189</u></u>	<u><u>\$ 22,500</u></u>	<u><u>\$ 1,985,004</u></u>

The Notes to Combined Financial Statements are an integral part of these statements.

HEALING THE CHILDREN,
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from support and revenue	\$ 1,297,404	\$ 1,218,093
Cash paid to suppliers and employees	(1,177,251)	(931,574)
Interest paid	(4,014)	(4,199)
	<u>116,139</u>	<u>282,320</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(22,348)	(35,402)
Purchase of marketable securities	-	(8,107)
Proceeds on sale of marketable securities	-	7,317
	<u>(22,348)</u>	<u>(36,192)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(3,697)	(3,512)
	<u>(3,697)</u>	<u>(3,512)</u>
NET INCREASE IN CASH	90,094	242,616
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,433,451</u>	<u>1,190,835</u>
End of year	<u>\$ 1,523,545</u>	<u>\$ 1,433,451</u>

The Notes to Combined Financial Statements are an integral part of these statements.

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net assets	\$ 163,458	\$ 231,368
Adjustments to reconcile-		
Depreciation	27,901	26,620
Loss on disposal of equipment	-	6,769
Unrealized gain on investments	(23,892)	(11,260)
Increase in assets-		
Accounts receivable	(39,843)	-
Prepaid expenses	(64,232)	(22,578)
Increase in liabilities-		
Accounts payable and accrued expenses	52,747	51,401
	<u>52,747</u>	<u>51,401</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 116,139</u>	<u>\$ 282,320</u>

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1. ORGANIZATION AND BASIS OF COMBINATION

Healing the Children, National Office (“National Office” or “Organization”) is a Washington nonprofit corporation that is a voluntary health and welfare entity, located in Spokane, Washington. The Organization’s mission is to provide free medical care to children, domestically and internationally through its five affiliated chapters and eleven branches located across the United States of America. The Organization’s primary sources of support and revenue are in-kind contributions of medical services and supplies as well as contributions from the public. Volunteer medical teams travel throughout the world providing donated surgeries and other medical care to children. The Organization also welcomes children from their native countries to the United States to receive donated medical care.

The combined financial statements present the combined financial information for Healing the Children, National Office and its Affiliated Chapters (collectively, the Organization). The statements are not those of a legal entity, but those of entities that have a common mandate and cooperate and coordinate their activities. The affiliated chapters are separately incorporated and governed by independent boards and provide free medical care to children. The National Office serves each chapter by coordinating care and international medical trips. The board of directors of the National Office and the affiliated chapters voted to report on combined financial information for the years ended December 31, 2017 and 2016. The combined financial statements are more meaningful than separate financial statements because of the common mandate and coordination of activities among all chapters and branches. All significant intercompany transactions and balances have been eliminated in the combination.

The affiliated chapters consist of the following:

- Healing the Children, Oregon/Western Washington
- Healing the Children, Florida
- Healing the Children, Michigan/Ohio
- Healing the Children, New Jersey
- Healing the Children, Northeast

The branches consist of the following:

- Healing the Children, Arizona
- Healing the Children, Austin
- Healing the Children, Greater Philadelphia
- Healing the Children, Illinois/Indiana
- Healing the Children, Inland Northwest
- Healing the Children, Kentucky
- Healing the Children, Northern California
- Healing the Children, Rocky Mountains
- Healing the Children, Southern California
- Healing the Children, Southwest
- Healing the Children, Wisconsin

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Contributions and Presentation:

All contributions are considered available for the general programs of the Organization unless specifically restricted by the donor. The Organization reports monetary gifts as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets or are subject to time restriction. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as released from restrictions.

Permanently restricted net assets are those assets for which donors require the principal of the gift to be maintained in perpetuity. An endowment fund has been established to fund an annual Nurses Honor Program at the Healing the Children, New Jersey chapter. The principal of \$22,500 as of December 31, 2017 and 2016, is invested and the interest is used to fund an annual nurse recognition award. During 2016, investment gains of \$675 increased the permanently restricted net assets. During 2017 and 2016, no permanently restricted net assets were released from restrictions.

Accounting Estimates:

The preparation of combined financial statements in conformity with generally accepted accounting principles 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 combined financial statements and the reported amounts of support and revenue and expenses during the reporting period. Significant estimates consist of the fair values of donated medical services, donated supplies and other donated items including airfare. Actual results could differ from those estimates.

Cash and Cash Equivalents:

For the purposes of the combined statements of cash flows, the Organization considers all unrestricted highly liquid investments with maturity dates of three months or less to be cash equivalents.

Certificates of deposit totaling approximately \$168,470 and \$209,127 at December 31, 2017 and 2016, respectively, are included as cash and cash equivalents in the accompanying combined statements of financial position. The certificates bear interest ranging from .995% to 1.391% and have maturities through 2019.

Property, Equipment and Depreciation:

Property and equipment are stated at cost for purchased items and fair value for donated items. Cost for purchased items is the amount paid and for donated items is the fair value at the time of acquisition. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method, over estimated useful lives of 5 to 39 years.

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses:

The expenses of providing for the organizations' activities have been summarized on a functional basis in the combined statements of activities and in detail on the combined statements of functional expenses. Direct expenses are charged directly to the program services, fundraising, or management and general categories based on specific identification. Indirect expenses have been allocated based on management's estimates of benefit to the related activity.

Advertising Expense:

Advertising expense is recorded in the period in which the advertising takes place. Advertising expense was \$11,741 and \$5,826 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes:

Healing the Children, National Office and Affiliated Chapters are nonprofit corporations, which are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Management has determined there are no material uncertain tax positions that require recognition in the combined financial statements. Additionally, no provision for income taxes is reflected in these combined financial statements. There is no interest or penalties recognized in the combined statements of activities or combined statements of financial position. The tax returns of the Organization for the years 2016, 2015, and 2014 are subject to examination by federal tax authorities, generally for three years after they were filed.

Donated Services and Supplies:

The Organization recognizes the fair value of donated services that require specialized skills and would have otherwise been purchased by the Organization. The Organization also receives donated supplies, airfare and other specialized services. These contributed services and supplies are reflected as expenses and contributions at their estimated fair value at date of the donation. The fair values were determined primarily using information obtained from the participating doctors, hospitals and suppliers based on rates they would have otherwise charged. During 2017 and 2016, respectively, the Organization received \$11,966,161 and \$13,295,494 of donated medical services and travel, and \$686,419 and \$1,149,274 of donated supplies and assistance.

Marketable Securities:

Investments in marketable debt and equity securities are classified as available for sale. Available for sale securities are recorded at fair value on the combined statements of financial position, investment income and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets absent any donor restrictions. Donor restricted marketable securities totaled \$150,000 at both December 31, 2017 and 2016. Unrestricted marketable securities totaled \$138,557 and \$114,665 at December 31, 2017 and 2016, respectively.

HEALING THE CHILDREN,
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 3. FAIR VALUE MEASUREMENTS

The Organization measures its marketable securities at fair value on a recurring basis in accordance with generally accepted accounting principles in the United States (GAAP). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a three-tier fair value hierarchy that prioritizes the inputs used in measuring 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). These tiers include:

Level 1: defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2: defined as inputs other than quoted prices in active markets that are directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3: defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant value drivers are observable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of the Organization's marketable securities are summarized as follows:

	As of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 288,557	\$ 288,557	\$ -	\$ -
	As of December 31, 2016			
	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 264,665	\$ 264,665	\$ -	\$ -

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 4. MARKETABLE SECURITIES

Marketable securities consist of debt and equity securities which have been classified as available for sale based on management's intent. The amortized cost of the securities and their approximate fair values are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Cost	\$ 265,316	\$ 250,737
Gross unrealized holding gains	23,241	14,310
Gross unrealized holding losses	-	(382)
	<u> </u>	<u> </u>
Fair value	<u>\$ 288,557</u>	<u>\$ 264,665</u>

The components of investment gain (loss) included in unrestricted net assets in the combined statements of activities are as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Change in unrealized gains (losses)	\$ 22,128	\$ 9,200
Realized losses	-	(988)
Dividends and interest	1,764	3,048
	<u> </u>	<u> </u>
Total	<u>\$ 23,892</u>	<u>\$ 11,260</u>

In evaluating unrealized losses for other than temporary impairment, management considers the severity of the unrealized loss for the individual securities. There are no investments that experienced declines in value that management believes are other than temporary in nature.

HEALING THE CHILDREN,
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 5. LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Healing the Children, New Jersey:		
Note payable to Columbia Bank, monthly payments of \$643, including interest at 4.75% through September 1, 2022, at which time a balloon payment is due, secured by a building.	\$ 81,317	\$ 85,014
Current portion of long-term debt	<u>(3,895)</u>	<u>(3,712)</u>
	<u>\$ 77,422</u>	<u>\$ 81,302</u>

The aggregate amount of required principal payments maturing after December 31, 2017 is as follows:

Year ending December 31,	
2018	\$ 3,895
2019	4,086
2020	4,287
2021	4,498
2022	<u>64,551</u>
	<u>\$ 81,317</u>

NOTE 6. SUBSEQUENT EVENTS

Effective February 2, 2018, Healing the Children, Austin was dissolved as a branch of the National Office.

Management has evaluated potential subsequent events through November 6, 2018, the date the combined financial statements were available to be issued, and concluded that no other events have arisen which require disclosure.