



INNER-CITY SCHOLARSHIP FUND, INC.

Financial Statements

August 31, 2017

(with summarized comparative financial information
as of and for the year ended August 31, 2016)

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Inner-City Scholarship Fund, Inc.:

We have audited the accompanying financial statements of Inner-City Scholarship Fund, Inc., which comprise the balance sheet as of August 31, 2017, and the related statements of activities and cash flows for the year 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 organization'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 organization'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 Inner-City Scholarship Fund, Inc. as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited Inner-City Scholarship Fund, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

April 27, 2018

INNER-CITY SCHOLARSHIP FUND, INC.

Balance Sheet

August 31, 2017

(with comparative financial information as of August 31, 2016)

Assets	2017	2016
Cash and cash equivalents	\$ 1,364,766	5,882,215
Loans to Parish Assistance Corporation (note 3)	1,656,505	2,156,505
Contributions receivable, net (note 5)	17,914,449	4,427,674
Investments (note 4)	36,738,759	18,056,965
Other assets (note 6)	1,589,282	1,326,268
Fixed assets, net of accumulated depreciation of \$52,973 and \$17,658 in 2017 and 2016, respectively	216,634	251,949
Total assets	\$ 59,480,395	32,101,576
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 268,137	252,565
Grants payable	56,190	34,123
Payable to the Archdiocese of New York (note 6)	131,410	514,904
Deferred grant income (note 5)	8,693,829	—
Due to the Global Regional School System	74,758	—
Total liabilities	9,224,324	801,592
Net assets (notes 8 and 9):		
Unrestricted	6,393,053	7,345,939
Temporarily restricted	10,348,551	9,625,640
Permanently restricted	33,514,467	14,328,405
Total net assets	50,256,071	31,299,984
Total liabilities and net assets	\$ 59,480,395	32,101,576

See accompanying notes to financial statements.

INNER-CITY SCHOLARSHIP FUND, INC.

Statement of Activities

Year ended August 31, 2017

(with summarized financial information for the year ended August 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Operating revenues:					
Contributions and bequests (notes 5 and 6)	\$ 5,286,581	5,772,860	—	11,059,441	11,946,781
Special events, net of direct donor benefits of \$482,611 and \$575,669 in 2017 and 2016, respectively	2,744,787	—	—	2,744,787	4,432,451
Investment return, net (notes 3 and 4)	661,226	2,196,423	—	2,857,649	850,110
Change in value of gift annuity	—	364,318	—	364,318	61,511
Net assets released from restrictions	7,610,690	(7,610,690)	—	—	—
Total operating revenues	<u>16,303,284</u>	<u>722,911</u>	<u>—</u>	<u>17,026,195</u>	<u>17,290,853</u>
Expenses (note 6):					
Program services:					
Grants:					
Externally managed scholarships (primarily administered by Inner-City Scholarship Fund, Inc.)	6,221,769	—	—	6,221,769	5,855,622
Internally managed scholarships	6,886,783	—	—	6,886,783	7,567,043
Financial aid grants	79,667	—	—	79,667	304,607
Young Executive Supporting Schools (YESS) grants	254,651	—	—	254,651	363,713
Grants to related parties	445,000	—	—	445,000	75,536
Other grants	71,251	—	—	71,251	122,576
Program administration:					
Scholarship programs	304,994	—	—	304,994	357,617
Other programs	87,155	—	—	87,155	63,679
Total program services	<u>14,351,270</u>	<u>—</u>	<u>—</u>	<u>14,351,270</u>	<u>14,710,393</u>
Supporting services:					
General and administrative	728,220	—	—	728,220	744,699
Development:					
Donor relations	966,585	—	—	966,585	877,095
Advertising and communications	1,026,470	—	—	1,026,470	747,111
Special events supporting services	183,625	—	—	183,625	175,604
Total development	<u>2,176,680</u>	<u>—</u>	<u>—</u>	<u>2,176,680</u>	<u>1,799,810</u>
Total supporting services	<u>2,904,900</u>	<u>—</u>	<u>—</u>	<u>2,904,900</u>	<u>2,544,509</u>
Total expenses	<u>17,256,170</u>	<u>—</u>	<u>—</u>	<u>17,256,170</u>	<u>17,254,902</u>
(Decrease) increase in net assets before nonoperating activities	(952,886)	722,911	—	(229,975)	35,951
Nonoperating activities:					
Capital campaign contributions	—	—	—	—	921,000
Capital campaign endowment contributions (note 9)	—	—	19,186,062	19,186,062	6,865,147
(Decrease) increase in net assets	(952,886)	722,911	19,186,062	18,956,087	7,822,098
Net assets at beginning of year	7,345,939	9,625,640	14,328,405	31,299,984	23,477,886
Net assets at end of year	<u>\$ 6,393,053</u>	<u>10,348,551</u>	<u>33,514,467</u>	<u>50,256,071</u>	<u>31,299,984</u>

See accompanying notes to financial statements.

INNER-CITY SCHOLARSHIP FUND, INC.

Statement of Cash Flows

Year ended August 31, 2017

(with comparative financial information for the year ended August 31, 2016)

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 18,956,087	7,822,098
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Net gain on investments	(3,611,925)	(805,002)
Depreciation	35,315	35,715
Contributions for endowment	(19,186,062)	(6,865,147)
Contributed property from the Archdiocese of New York	—	(269,607)
Write-off of property transferred to the Archdiocese of New York	—	114,364
Changes in operating assets and liabilities:		
Contributions receivable	(711,183)	1,555,079
Other assets	(263,014)	(122,704)
Accounts payable and accrued expenses	15,572	47,720
Grants payable	22,067	(139,436)
Payable to the Archdiocese of New York	(383,494)	314,373
Due to the Global Regional School System	74,758	—
Net cash (used in) provided by operating activities	(5,051,879)	1,687,453
Cash flows from investing activities:		
Decrease in loans to Parish Assistance Corporation	500,000	—
Purchase of investments	(16,306,915)	(6,618,374)
Proceeds from sale of investments	1,237,046	373,865
Net cash used in by investing activities	(14,569,869)	(6,244,509)
Cash flows from financing activities:		
Contributions for endowment	6,410,470	4,685,633
Deferred grant income	8,693,829	—
Net cash provided by financing activities	15,104,299	4,685,633
Net (decrease) increase in cash and cash equivalents	(4,517,449)	128,577
Cash and cash equivalents at beginning of year	5,882,215	5,753,638
Cash and cash equivalents at end of year	\$ 1,364,766	5,882,215

See accompanying notes to financial statements.

INNER-CITY SCHOLARSHIP FUND, INC.

Notes to Financial Statements

August 31, 2017

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as of and for the year ended August 31, 2016)

(1) Organization

Inner-City Scholarship Fund, Inc. (ICSF) is a not for profit organization exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. ICSF provides families with demonstrable financial need the opportunity to give their children a values based K–12 Catholic education within the Archdiocese of New York. ICSF exists to ensure that the gift of a Catholic school education continues to be a viable option for current and future generations of students of all faiths. ICSF is currently conducting a capital campaign called Kids Are Our Capital to raise funds towards its endowment.

ICSF's scholarship programs are all need based. The Be A Student's Friend (BASF) program matches a willing sponsor with a low income student. BASF supporters can opt to be anonymous and receive periodic reports on a student's progress or they can choose to get to know the student personally.

In addition, ICSF uses a portion of the funds raised to help underwrite a scholarship program administered by the Children's Scholarship Fund (CSF), an unaffiliated not-for-profit organization that was established to address the decline in enrollment at Catholic schools by providing scholarships to students who transfer into an Archdiocese of New York inner city school from a public school.

As each family awarded a scholarship must qualify for continued support annually, no liability has been reflected in the financial statements for ICSF's commitment to share in the ongoing cost associated with children who continue to qualify for the scholarship in the future. ICSF has conditionally committed approximately \$3.7 million for the 2017–2018 academic year.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables and payables. Other significant accounting policies are set forth below.

(b) Basis of Presentation

ICSF's net assets and revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of ICSF and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor imposed stipulations that will be met either by actions of ICSF or by the passage of time. ICSF classifies the portion of a donor- restricted endowment fund that is not classified as permanently restricted as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by New York Prudent Management of Institutional Funds Act (NYPMIFA).
- *Permanently restricted net assets* – Net assets subject to donor imposed stipulations that they be maintained permanently by ICSF. Generally, the donors of these assets permit ICSF to use all or part of the income earned on related investments to support financial aid grants.

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Revenues are reported as increases in unrestricted net assets unless their use is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

(c) Cash and Cash Equivalents

ICSF considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents except for those short term instruments, if any, maintained in the investment portfolio (note 4). Cash consists of amounts held in operating bank accounts at a financial institution which, at times exceed the federally insured limits.

(d) Contributions

Contributions, including unconditional promises to give, are recognized when received. Unconditional promises are recorded net of an allowance for amounts deemed uncollectible, if needed, and a present value discount.

(e) Fair Value Measurements

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. Inputs to the valuation techniques used to measure fair value are prioritized by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- *Level 1* – valuation inputs are unadjusted quoted or published prices in active markets for identical assets or liabilities that ICSF has the ability to access at measurement date.
- *Level 2* – valuation inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- *Level 3* – valuation inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(f) Fixed Assets

Fixed asset acquisitions are capitalized at cost, when purchased, or at fair value at date of gift, when donated. Fixed assets are depreciated using the straight-line method over estimated remaining useful lives ranging from 3 to 10 years (or life of lease, if shorter) for equipment and leasehold improvements.

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(g) Operating Activities

Operating activities in the statement of activities include all revenue and all expenses incurred by ICSF, except for capital campaign contributions, and amounts designated by the board for the endowment fund.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Comparative Financial Information

The accompanying statement of activities is presented with 2016 comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with ICSF's 2016 financial statements, from which the summarized information was derived.

(3) Loans to Parish Assistance Corporation

Amounts loaned to Parish Assistance Corporation earned interest at a rate of 1.5% during fiscal years 2017 and 2016 and are payable on demand. Interest income was \$30,306 and \$32,348 in 2017 and 2016, respectively, and is included in investment return on the accompanying statement of activities.

(4) Investments

Investments are reported at fair value. As a practical expedient, the investment in Ascension Alpha Fund (Ascension) is reflected at the Net Asset Value (NAV) provided by the fund manager. The net asset value is reviewed and evaluated by management for reasonableness. The reported value may differ significantly from the value that would have been used had a ready market for these investments existed.

Investments at August 31, 2017 and 2016 consist of the following:

	2017	2016
Ascension Alpha Fund	\$ 36,738,759	18,056,965

INNER-CITY SCHOLARSHIP FUND, INC.

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ICSF has the right to redeem all or a portion of its shares in Ascension on a daily basis with one trading day prior written notice. Ascension's goal is to allow its investors to achieve risk adjusted returns while attempting to preserve capital in adverse market conditions through the implementation of diversified investment strategies. Ascension offers its investors the ability to invest only in those strategies/asset classes selected. In addition, the investments selected within each strategy conform to socially responsible investment guidelines that promote Catholic Values. The investment strategies are classified into three categories: growth, inflation, and deflation/recession achieved through investments in equity and fixed income securities and alternative investment vehicles. ICSF has the following allocation within Ascension as of August 31, 2017 and 2016, respectively:

	<u>2017</u>	<u>2016</u>
Ascension Alpha Fund asset allocation:		
U.S. equity	30 %	29 %
International equity	18	17
Emerging markets equity	6	6
Directional hedge funds	10	10
High yield	8	8
Core fixed income	15	18
Opportunistic credit	12	12
Cash Plus	1	—
	<u>100 %</u>	<u>100 %</u>

(5) Contributions Receivable

Contributions receivable consist of the following at August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Amounts expected to be collected in:		
Less than one year	\$ 2,308,690	325,850
One to five years	16,329,286	4,258,693
	18,637,976	4,584,543
Less discount at 3.20% - 2.69%	<u>(723,527)</u>	<u>(156,869)</u>
	<u>\$ 17,914,449</u>	<u>4,427,674</u>

At August 31, 2017 contributions from two donors and in 2016 contributions from one donor, represent 32% and 41%, respectively, of the gross receivable balance.

INNER-CITY SCHOLARSHIP FUND, INC.

Notes to Financial Statements

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During 2007, ICSF received a grant not to exceed \$22.5 million through August 31, 2013, to provide funding for scholarships to students demonstrating financial need in accordance with the guidelines of the Cardinal's Scholarship Program. ICSF recognized all of this revenue in previous periods as the conditions were met. In fiscal 2013, ICSF received an additional commitment from this funder to provide another \$11.7 million through fiscal 2019 as follows: \$2.5 million in fiscal 2013, \$2.6 million in fiscal 2014, \$2.3 million in fiscal 2015, \$1.9 million in fiscal 2016, \$1.3 million in fiscal 2017, \$800,000 in fiscal 2018, and \$300,000 in fiscal 2019. As the receipt of future amounts is conditional, revenue is recognized as conditions are met. ICSF recognized approximately \$1.3 million and \$1.9 million in fiscal 2017 and 2016, respectively, under these grant agreements.

During 2016, ICSF received a \$40 million conditional pledge to establish an endowment fund. The pledge is contingent upon ICSF having a legally binding pledge in the amount of \$40 million from the Archdiocese of New York and upon ICSF raising an additional \$40 million of qualifying funds. As the conditions have not been met, amounts received under the agreement are recorded as deferred grant income in the accompanying balance sheets, as of August 31, 2017.

(6) Related Parties

During 2015, ICSF recognized a grant of \$3.5 million from the Alfred E. Smith Memorial Foundation payable through August 31, 2019, to provide funding for scholarships to allow 405 students to remain in Catholic school from Universal Pre-K to Kindergarten. In fiscal 2017 and 2016, ICSF received \$625,000 and \$815,000, respectively. The remaining receivable of \$1.25 million is scheduled to be paid in equal installments in fiscal years 2018 and 2019. ICSF will administer the scholarship and provide annual reporting on the progress of the program.

The payable to the Archdiocese of New York represents amounts due for items such as salaries, benefits, rent, data services, and other allocated services. The amounts charged for such services were \$1,703,368 and \$1,632,625 in 2017 and 2016, respectively. The payable outstanding at August 31, 2017 and 2016 is \$131,410 and \$514,904, respectively.

The Archdiocese of New York holds split interest agreements for the benefit of ICSF. The value of ICSF's interest in such agreements at August 31, 2017 and 2016 is \$1,492,030 and \$1,127,712, respectively, and are included in other assets in the accompanying balance sheets.

During 2017, contribution revenue received from three related parties was approximately \$1.5 million. During 2016, the Archdiocese of New York contributed property of \$269,607, as well as \$2,250,000 for the capital campaign.

(7) Pension Plan

ICSF employees who satisfy age and service requirements participate in the noncontributory defined benefit Archdiocesan Pension Plan and the Archdiocesan Supplemental Qualified Pension Plan. Total pension expense was \$44,819 and \$53,838 in 2017 and 2016, respectively. Because these operate as multiemployer plans, information as to vested and nonvested earned benefits, as well as plan assets, as they relate to ICSF employees, is not readily available.

INNER-CITY SCHOLARSHIP FUND, INC.

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The following table discloses the name and funded status of the plans as of December 31, 2016 and 2015 (the dates of the last actuarial valuation):

Legal name and plan number	EIN	2016		2015	
		Accumulated benefit obligation	Fair value plan assets	Accumulated benefit obligation	Fair value plan assets
The Archdiocesan Pension Plan for the Archdiocese of New York	25-1926855	\$ 1,505,687,168	1,161,627,605	1,485,190,650	1,175,257,479
The Archdiocesan Supplemental Qualified Pension Plan for the Archdiocese of New York	25-1926855	\$ 4,697,334	3,620,346	4,132,669	2,940,168

(8) Net Assets

Temporarily restricted net assets at August 31, 2017 and 2016 are available for the following purposes:

	2017	2016
Cardinal's Scholarship Program	\$ 1,930,020	2,670,418
Internally managed scholarships	5,722,715	4,095,195
Financial aid for schools	1,203,786	1,732,315
Gift annuities held by Archdiocese of New York for the benefit of ICSF	1,492,030	1,127,712
	<u>\$ 10,348,551</u>	<u>9,625,640</u>

Income on permanently restricted net assets at August 31, 2017 and 2016 is restricted for the following purposes:

	2017	2016
Internally managed scholarships	\$ 33,143,467	13,957,405
Financial aid for schools	371,000	371,000
	<u>\$ 33,514,467</u>	<u>14,328,405</u>

INNER-CITY SCHOLARSHIP FUND, INC.

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(9) Endowment

ICSF's endowment by net asset category as of August 31, 2017 and 2016 is as follows:

		2017			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted	\$	—	2,510,657	33,514,467	36,025,124
Board designated		5,998,058	509,090	—	6,507,148
	\$	<u>5,998,058</u>	<u>3,019,747</u>	<u>33,514,467</u>	<u>42,532,272</u>

		2016			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted	\$	—	739,883	14,328,405	15,068,288
Board designated		5,583,887	502,351	—	6,086,238
	\$	<u>5,583,887</u>	<u>1,242,234</u>	<u>14,328,405</u>	<u>21,154,526</u>

Changes in endowment net assets for the years ended August 31, 2017 and 2016 are as follows:

		2017			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, August 31, 2016	\$	5,583,887	1,242,234	14,328,405	21,154,526
Contributions		197	—	19,186,062	19,186,259
Investment return		630,567	2,196,423	—	2,826,990
Appropriation for expenditure		(216,593)	(418,910)	—	(635,503)
Endowment net assets, August 31, 2017	\$	<u>5,998,058</u>	<u>3,019,747</u>	<u>33,514,467</u>	<u>42,532,272</u>

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		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets,					
August 31, 2015	\$	4,000,820	1,009,298	7,463,258	12,473,376
Contributions		1,583,939	—	6,865,147	8,449,086
Investment return		229,233	575,769	—	805,002
Appropriation for expenditure		(230,105)	(342,833)	—	(572,938)
Endowment net assets,					
August 31, 2016	\$	5,583,887	1,242,234	14,328,405	21,154,526

From time to time, the fair value of assets associated with an individual donor restricted endowment fund may fall below the fund's historic dollar value. There were no deficiencies of this nature as of August 31, 2017 or 2016.

The endowment portfolio seeks maximum real return, consistent with preservation of real capital.

Annually, the Board of Trustees approves a spending rate on its donor restricted endowment funds, which is applied to each fund's average value and is consistent with ICSF's priority of growing the endowment (preserve of purchasing power). For 2017 and 2016, the Board of Trustees approved spending a rate of 5% and 4%, respectively.

(10) Subsequent Events

In connection with the preparation of the financial statements, ICSF evaluated subsequent events after the balance sheet date of August 31, 2017 through April 27, 2018, which was the date the financial statements were available to be issued, and has concluded that there are no subsequent events for disclosure.