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**March 30, 2012**

**Form ADV Part 2A****Brochure**

This brochure provides information about the qualifications and business practices of TFC Financial Management, Inc. If you have any questions about the contents of this brochure, please contact James L. Joslin, the firm's Chief Compliance Officer, by phone at 617-210-6700 or by email at [jjoslin@tfcfinancial.com](mailto:jjoslin@tfcfinancial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about TFC Financial Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm CRD number is 105062.

## **Item 2    Material Changes**

This version of our Form ADV Part 2A Brochure reflects material changes to the version dated March 31, 2011, the date of our last annual update. These changes relate to our hiring in 2011 of Scott A. Swartz, CFP, as a Vice President. Mr. Swartz is actively involved in our asset management and financial planning activities. He has been added to our Investment Committee (see “Investment Strategies in Item 8) and participates in client account reviews (see “Investment Management and Investment Supervisory Clients” in Item 13). For more information about Mr. Swartz, see his Brochure Supplement included in our Form ADV Part 2B.

We have also made a number of editorial revisions to our Brochure that we do not consider material either singly or in the aggregate.

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## Item 4 Advisory Business

TFC Financial Management, Inc. (“we,” “us” or “the firm”) is an SEC-registered investment adviser with its principal place of business at 30 Federal Street, Boston, Massachusetts. We also have a branch office at Harvard Square in Cambridge, Massachusetts, and a convenience office in Wellesley, Massachusetts that we use for meetings with clients. We began conducting business in 1981. We provide investment management, investment supervisory and financial planning services, as described in more detail below. The fact that we are registered with the SEC does not imply that we have a certain level of skill or training.

The principal owners of the firm, which is a Massachusetts corporation, are:

- James L. Joslin, Chairman, CEO and CCO
- Renée Kwok, President and Director
- Stephen J. O'Neill, Director

Mr. Joslin and Ms. Kwok are full-time employees of the firm actively engaged in the business, operations and management of the firm; Mr. O'Neill is not an employee of the firm.

We offer the following services to our clients:

### **INVESTMENT MANAGEMENT and SUPERVISORY SERVICES**

We provide investment management services on a discretionary basis. This is our principal business activity. For client accounts that we manage on a discretionary basis, guided by a mutually agreed to Investment Policy Statement (IPS), we direct the investment and reinvestment of the assets in the client's account(s), the proceeds thereof, and any additions thereto, in our discretion and without prior notice to, or approval of the client within the agreed upon Investment Policy Statement guidelines signed by the Client and TFC.

We also provide investment supervisory services to a limited number of special situation clients. For these clients, we monitor the investment accounts they have designated to us and make investment recommendations to the client, but the recommendations are only implemented with the client's specific approval. We do not have discretion over the accounts of our investment supervisory clients.

Our investment management and supervisory clients are invested primarily in no-load, open-end mutual funds, but may also be invested in individual equity and fixed income securities. The mutual funds we invest in, or recommend to clients, are global in scope and diversified among various asset classes and investment styles.

As of February 29, 2012, we managed client assets of approximately \$677.3 million on a discretionary basis and provided investment supervisory services on a non-discretionary basis for client assets of approximately \$48 million.

For all clients, we provide continuous supervision of the client's account based on the individual goals and objectives of each client. Through discussions with each client in which investment goals and objectives, risk tolerance, time horizons, and liquidity requirements are established, we develop with the client a written Statement of Investment Objectives and Policies (Investment Policy Statement, or IPS) that becomes part of the client's contract with the firm. We then create and manage the client's portfolio (or make investment recommendations to the client), in accordance with, and with a view to achieving the client's goals and objectives as set forth in the client's Investment Policy Statement.

We believe that a globally diversified portfolio of no-load mutual funds provides our clients with a broader foundation (in terms of the underlying investments of the mutual funds) and, therefore, moderation of potential risk and volatility than investment in individual securities. However, it is possible that a portfolio of individual securities could outperform a portfolio invested in mutual funds.

Employing what has become defined as an "open architecture" approach, our clients are primarily invested in no-load, open-end mutual funds. Those funds may invest in, and we may provide advice to clients from time to time regarding the following types of investments:

- Exchange-traded funds (ETFs)
- Closed-end mutual funds
- Exchange-listed and over-the counter equity and fixed income securities
- Securities of foreign issuers, both corporate and sovereign
- Warrants and other rights
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance products
- Variable and fixed annuities
- Federal and state governmental securities
- Real estate, through publicly traded REITS
- Natural resources
- Interests in partnerships and other alternative investment vehicles

Because some of these investments involve additional levels and types of risk, we will only buy them or recommend them if it is consistent with the client's Investment Policy Statement.

We have a consulting agreement with Reynders, McVeigh Capital Management, LLC, a Boston-based, SEC-registered investment advisor, pursuant to which Reynders, McVeigh provides advice to us with respect to individual equity securities held in our clients' accounts. While we take such advice into consideration in managing our clients' accounts (or making recommendations to our non-discretionary clients), we make all final investment decisions and recommendations. Under this same contract, Reynders,

McVeigh is required to provide the services of one of its principals to serve on our Investment Committee. Currently, that role is filled by Charlton Reynders III, Chairman and CEO of Reynders, McVeigh. We pay Reynders, McVeigh a monthly fee; the fees paid to Reynders, McVeigh are an expense of TFC and do not affect the fees we charge our clients.

We have an arrangement with Breckinridge Capital Advisors, Inc., a Boston-based, SEC-registered investment advisor, pursuant to which we recommend Breckinridge as a manager to clients with large portfolios of tax-exempt fixed income securities, in which Breckinridge specializes. With the client's prior consent, we will open a separate account for the client to be managed by Breckinridge. The client signs a separate investment management agreement with Breckinridge. Breckinridge has full discretion over such accounts and makes all the investment decisions for such accounts in accordance with the Breckinridge Statement of Portfolio Investment Policy and Objectives for the account that is developed by Breckinridge and the client. Breckinridge is compensated by deducting from the client's account a management fee, paid quarterly, in arrears, based on the value of assets under management in the account at the end of each calendar quarter. We are responsible for overseeing Breckinridge, and we include any Breckinridge-managed account information in our reports to the client. We are not paid any compensation by Breckinridge for referring clients to them.

We have an arrangement with Appleton Partners, Inc., a Boston-based firm specializing in the management of taxable fixed income securities, that is identical to the arrangement with Breckinridge described above.

## **FINANCIAL PLANNING**

We provide comprehensive, as well as targeted (i.e., goal-specific), financial planning services. Financial planning involves a comprehensive evaluation of a client's current and future financial situation using currently known information and variables to project future cash flows, asset values and withdrawal plans. We gather relevant client information through in-depth interviews and financial data collection. Information gathered includes the client's current financial status, tax status, future goals, return objectives, and attitudes towards risk. We carefully review documents supplied by the client (such as wills and trusts, income tax returns, insurance policies, and retirement plans), including a detailed questionnaire completed by the client. In the financial planning process, we attempt to consider all relevant factors as they impact, and are impacted by, the entire financial and life situation of the client. Clients engaging us for financial planning generally receive a list of recommendations designed to assist the client in achieving his or her financial goals and objectives.

Although a financial planning engagement may be targeted at one client objective, such as retirement, usually a financial plan will address any or all of the following areas:

- **Personal finances:** We review family records, cash flows, personal liability exposure, estate information and financial goals.
- **Tax and cash flows:** We input and analyze the client's past and current income tax and spending levels then illustrate the impact of various types of investments on the client's current and future cash flow and tax liability.
- **Investments:** We analyze the client's current investments and possible alternatives, recommend changes, and discuss their potential effect (risk vs. return) on the client's portfolio.
- **Insurance:** We review existing life, health, disability, long-term care, liability, home and automobile policies and make generic recommendations if we think coverage should be changed. We do not make recommendations for specific replacement tied to any carrier, broker or agent, but sometimes suggest an agent to assist with implementation.
- **Retirement:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **Death and disability:** We review the client's potential cash needs in the event of death or disability, including income and liquidity needs of surviving dependents and disability income.
- **Estate planning:** In consultation with the client's estate planning attorney, we assist the client in assessing and developing long-term dispositive strategies, including as appropriate, living trusts, wills, protecting estate taxes under current tax laws, powers of attorney, asset protection plans, nursing homes, Medicaid, and elder care law. Any new estate planning documents are prepared by the client's estate planning attorney, which we are prepared to review for completeness.

Typically, the financial planning recommendations are presented to the client within six months of the contract date, usually during a series of meetings, each covering specific segments of the planning process. Should the client choose to implement the firm's recommendations, we suggest the client work with his/her attorney, accountant, insurance agent, and/or securities broker. We are prepared to assist in the implementation of financial plan recommendations, but how this is carried out is entirely at the client's discretion.

## **FINANCIAL CONSULTING SERVICES**

Through our Harvard Square office, we provide financial planning, retirement plan analysis and other career-related services primarily to senior and tenured faculty members of academic institutions. For these clients, we advise on, and help rationalize, the many components of a client's net worth and personal investment portfolio. Based on the client's personal circumstances, the aggregation of her or his financial holdings,

cash flow profile, and dispositive goals, we can test to see if the client's resources are sufficient to provide the equivalent of an inflation-adjusted annuity to sustain the client's present life-style throughout retirement.

## **Item 5 Fees and Compensation**

We are a fee-only investment adviser, which means that all of our revenues are derived from the fees paid by our clients. We are not paid, and do not accept any compensation from any third parties, for the purchase or sale of securities or other investment products by or for the accounts of our clients. Regardless of the services we provide to a client, the relevant fee schedule or fees are set forth in our contract with the client.

### **INVESTMENT MANAGEMENT and SUPERVISORY FEES**

Our fees for discretionary investment management services are a percentage of the market value of the assets under management, valued on the last day of each calendar quarter. These fees are paid quarterly, in arrears, by deducting them directly from the client's custodial account, as permitted by each client's contract with us. The quarterly fees are calculated by applying one-fourth of the annual fee rate (see table below) to the value of the managed assets at the end of each calendar quarter. If a client has more than one account under management or if several members of the same family are clients, the accounts may be aggregated for purposes of calculating our fees. Fees for any period less than a quarter of a year are pro-rated on a per diem basis. We reserve the right to charge an administrative start-up fee, at a minimum of \$150 per hour, for above average time spent by our staff in setting up a new client account.

Effective for all discretionary investment management clients who have engaged us on or after April 1, 2007, our fee schedule is as follows:

<u>Assets in client account(s)</u>	<u>Annual fee rate</u>
First \$1 million	1.25%
Next \$1 million	1.00%
Next \$3 million	0.75%
Amount above \$5 million	0.50%

Effective April 1, 2007 (except as described in the next paragraph), we also implemented a minimum account size of \$2 million in assets under management for new clients. Also effective for new clients on and after April 1, 2007, our minimum annual fee is \$22,500, payable in quarterly installments in arrears of \$5,625. This is equivalent to the fee on a \$2 million account at the fee rates set forth above.

For discretionary investment management clients that are invested exclusively in fixed income securities, including fixed income mutual funds, our minimum initial account size is \$1 million. The annual fee rates for these clients are 50% of the rates set forth in the table above, payable quarterly in arrears.

Our fees for our non-discretionary investment supervisory services are negotiated

separately with each client, are generally asset-based, and depend on the complexity of the client's situation and the services required.

Investment management fees for clients with assets under management in excess of \$5 million are negotiable. In addition, while substantially all of our clients are charged fees as described above, we retain the discretion to negotiate alternative fees on a client-by-client basis. In these cases, which are not common, client facts, circumstances and needs will be considered in determining the alternative fee schedule. These factors include the complexity of the client circumstances, assets under management, anticipated future additional assets, related accounts, portfolio style, account composition, and reporting requirements. Alternative fee schedules may be higher or lower than those described above.

In addition, we may offer discounted fees to family members of long-time clients and to friends of associated persons of the firm.

In addition to our fees, our investment management clients will pay brokerage commissions and other transaction costs; see Item 12, Brokerage Practices. Clients may also pay custodial charges, depending on which custodian they select. Clients who choose to use Charles Schwab & Co., Inc., our recommended custodian, pay discounted transaction charges, but do not pay custodial fees.

Our investment management and supervisory clients are primarily invested in institutional class, no-load mutual funds, which are mutual funds that do not carry a sales charge. Clients invested in mutual funds do bear a share of other mutual fund expenses, such as a management fee payable to the fund manager, transaction costs, accounting and audit, and administration expenses. We take these expenses (as a percentage of fund net asset value) into account when we evaluate and select mutual funds for client portfolios.

Within five days after signing an advisory agreement with us, a client may terminate the agreement without penalty. After five days, either party may terminate the agreement with 30 days notice; fees will be charged at the applicable fee rate or minimum (whichever may be higher) on a prorated basis through the date of termination.

## **FINANCIAL PLANNING FEES**

Our fees for financial planning services are quoted as a range agreed with the client and are payable in two installments, the first at the beginning of an engagement and the second six months later. A typical engagement is for 12 months. A client who engages us for follow-up planning after the initial 12 months pays an agreed annual fee. Our financial planning fees are based on hourly rates ranging from \$200 per hour up to \$400 per hour depending on the person providing the services, the nature of services, and the complexity of the issues and problems presented by the client's situation. Our financial planning fees are generally in the range of \$2,500 to \$10,000 per engagement.

Within five days after signing a financial planning agreement, a financial planning client

may terminate the agreement and receive a full refund of all fees paid. After five days, either party may terminate the agreement with 30 days' notice. In that event, we and the client will agree upon an equitable fee for the services performed through the date of termination, and we will refund any prepaid amount above the agreed upon fee.

## **FINANCIAL CONSULTING FEES**

The services offered by our Harvard Square office are provided under a contract with the academic institution that is the employer of our clients, and the fees for these services are charged at a fixed hourly rate negotiated with, and paid by, the academic institution. The services provided by our Harvard Square office do not include any active or ongoing investment management or investment supervisory services.

Investment management, supervisory, financial planning and consulting services similar to those we provide may be available from other investment advisers for similar or lower fees.

### **Item 6 Performance-Based Fees and Side-By-Side Management**

We do not charge performance-based fees.

### **Item 7 Types of Clients**

We provide Investment management and supervisory services to the following types of clients:

- High net worth individuals
- Non-profit and charitable organizations
- Individuals in the academic community

As disclosed in Item 4 above, we have established certain initial minimum account requirements.

### **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

The discussion in this Item relates to our investment management and supervisory services.

**Investment Philosophy and Portfolio Management Strategy.** We believe dynamic asset class structure drives portfolio volatility, risk profile, and return results. Utilizing primarily no-load mutual funds, our portfolios are global in scope, value-oriented, and have a small company tilt. We further believe that a broadly diversified (by region, market, company size, investment style, and industry) selection of funds can control and contain risk exposure. With disciplined, periodic rebalancing amongst asset classes, our “open-architecture” approach provides the flexibility to take advantage of asset class sector valuation anomalies.

We manage a combination of fund managers, not portfolios of individually-selected common stocks. Utilizing institutional class, no-load mutual funds provides immediate access to the “best-of-breed” managers in each asset class. Our “core-passive” approach (i.e., strategic use of passive, or index, as well as active managers) in both the fixed income and equity segments of balanced portfolios provides the best chance of capturing the overall asset class exposure. Optimizing internal fund costs and portfolio fees is a primary objective as well.

**General.** We have developed a set of model portfolios intended to address different investment objectives (for example, growth, income or a combination) and levels of risk tolerance (primarily addressed by the relative allocation of assets between equities and fixed income investments). Each model portfolio “holds” a mix of mutual funds, generally 9 to 12 funds, diversified among asset classes and investment styles, as well as geographically. As stated earlier, we believe that a carefully researched and constructed portfolio of mutual funds provides our clients with more diversification (in terms of the underlying investments of the mutual funds) and, therefore, moderation of potential risk and volatility, in both the short and longer term, than investment in individual securities. However, it is possible that a portfolio of individual securities could outperform a portfolio invested in mutual funds.

We use these model portfolios as templates for the management of the accounts of our discretionary investment management clients and as the basis for recommendations to our supervisory management clients. For each client, although utilizing across each portfolio a limited number of Investment Committee-approved funds, we customize the appropriate portfolio based on the client’s Investment Policy Statement, which may limit or prohibit certain types of investments. Therefore, while our clients with substantially similar investment goals and objectives will likely own many of the same mutual funds, they may not own all of the same funds or the same amounts (as a portion of their portfolios) of a fund. There will also likely be differences in holdings and weightings of holdings in taxable and tax-deferred/non-taxable (e.g., retirement plan) client accounts even if they have substantially similar investment goals and objectives. In other words, for tax purposes, the location (i.e., in which account of a client) of each investment is often as important as which fund is selected.

Investment in securities, including investment in a diversified portfolio of mutual funds, involves risk of loss no matter how well investments may be managed. We do not guarantee investment results, and our clients must be prepared to bear this risk of loss.

**Methods of Analysis.** We use the following methods of analysis in structuring our model portfolios, formulating our investment advice and/or managing client assets:

**Macro-economic outlook.** The firm retains Decision Economics, Inc., a macro-economic consulting firm, and investment research firms BCA Research and Ned Davis Research Group, to guide our assessment of the global economic outlook and portfolio asset class strategy. Each firm is an independent consultant providing proprietary

research for a fee, which TFC pays.

**Fundamental analysis.** We attempt to assess the intrinsic value of a security, or fund by looking at economic valuation metrics and financial factors. Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security or mutual fund can move up or down along with the overall markets regardless of the economic and financial factors considered.

**Fund Selection Process.** With the firm's strategic asset class sector allocation policy and the client's IPS guiding overall portfolio structure, we research managers and select funds using the following criteria:

- Manager's demonstrated focus on desired asset class sector. Since we develop portfolio asset class structure, a close adherence to a fund's stated investment policy within each asset class is essential;
- If an *actively* managed fund is under consideration, a careful assessment of the fund manager's credentials, risk profile, and performance record are analyzed using sophisticated information processing quantitative tools and techniques;
- A detailed Request For Proposal (RFP) is required from each fund manager we are evaluating; if we are satisfied with review of the RFP, our next step is a manager interview either in our Boston office, at the manager's office, or via conference call;
- The fund's cash flow characteristics (i.e., size, performance of separately-managed accounts following similar investment approach, redemption pressures) are considered, as are the fund manager's age, other responsibilities, and compensation incentives;
- If an asset class sector in the portfolio mix is to be filled by a *passive* fund, the fund's asset class replication theoretical construction is studied to assure an appropriate fit within the firm's intended portfolio combination of asset classes;
- Once selected, a direct communication loop is established with each fund manager and a mutually agreed to monitoring process is followed to assure periodic feedback continues, and
- All current client portfolio funds, as well as those under consideration, are tracked against suitable similar strategy benchmarks to assure compliance with expected relative performance.

**Risks for all forms of analysis.** Our mutual fund and securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our

analysis may be compromised by inaccurate or misleading information.

**Investment Strategies.** Our client portfolio investment strategies are developed and guided by our Investment Committee (“IC”), which has the following members (all but Messrs. Reynders and Henderson are employees of the firm):

James L. Joslin, CFP®, Chairman, CEO and CCO  
Renée Kwok, CFP®, President  
Jane Taubner Barney, JD, CFP, Senior Client Advisor  
Kathleen A. Chianca, CFP®, Vice President  
Scott A. Swartz, CFP®, Vice President  
Charles E. Hipp, CFA, Director of Investment Research  
Leann N. Sullivan, CFP®, Vice President  
Charlton Reynders III, Chairman and CEO of Reynders, McVeigh  
Warner Henderson, founding principal of Aequis Investment Advisors

Our IC meets monthly to review our model portfolios, representative account performance, asset class sector strategy, macro-economic information, global investment market behavior, mutual fund return results relative to benchmarks, mutual fund manager research, conference calls and presentations, conference attendee feedback, investor behavior patterns, and world-wide investment market cash flow patterns. The agenda for each IC meeting is developed during the intervening period based on longer-term research projects underway, input from IC members, questions raised by clients, and changes in the investment market environment. At these monthly meetings, decisions are made on model portfolio asset class allocations and specific mutual fund selections. We implement client account portfolio realignment in accordance with these IC decisions shortly thereafter (e.g., in the case of a dramatic change in a particular mutual fund’s profile), or over time depending on each account tax profile and/or client communication requirements.

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) is(are) appropriate to the needs of the client and consistent with the client's Investment Policy Statement.

**Long-term purchases.** We purchase (or recommend) mutual funds and other securities with the idea of holding them for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current consensus or “expert” opinion. A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be more profitable to a client. Moreover, if our

assessments are incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-term purchases.** Occasionally in the fixed income segment of a balanced account, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We might do this in an attempt to take advantage of an anomalous interest rate spread opportunity or conditions that we think will soon result in a positive or negative price swing in the fixed income securities we purchase.

## **Item 9 Disciplinary Information**

Neither the firm nor any of our personnel has ever been involved in any legal or disciplinary events material to a client's or prospective client's evaluation of our advisory business or the integrity of our management and personnel.

We have not reported, and are not required to report, any legal, disciplinary or other events in our Form ADV Part 1.

## **Item 10 Other Financial Industry Activities and Affiliations**

We are engaged exclusively in the activities described in Item 4 above and not in any other business activities.

With respect to our investment management services, we have arrangements with Reynders, McVeigh Capital Management, LLC, Breckinridge Capital Advisors, Inc., and Appleton Partners, Inc. which are described in Item 4 above. In addition, we have an immaterial ownership interest (one-quarter of one share or less than 1%) in National Advisors Trust Company, a custodian we recommend to irrevocable trust clients because of the reporting NATCO can provide; see Item 12, Brokerage Practices. Other than these relationships, neither we nor any of our related persons has any relationships with, or interests in, any other entities or persons in the financial industry.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

We have a Code of Ethics, which sets forth the high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics applies to all of our employees, regardless of position in the firm. A copy of our Code of Ethics is available to all of our clients and prospective clients through our website ([www.tfcfinancial.com](http://www.tfcfinancial.com)) or by e-mail request sent to [mvolpe@tfcfinancial.com](mailto:mvolpe@tfcfinancial.com), or by calling our main office number at 617-210-6700.

We take our fiduciary responsibilities as an investment adviser very seriously, and our personnel owe a duty of loyalty, fairness and good faith towards our clients. We have an obligation to adhere not only to the specific provisions of the Code of Ethics, but to

the general principles that are defined in the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly employee securities transactions reports as well as initial and annual securities holdings and brokerage accounts reports that must be submitted by our access persons. In addition, our Code of Ethics also requires the prior approval of any acquisition by any of our employees of securities in a limited offering (that is, a private placement) or an initial public offering (IPO). Our code also provides for oversight, enforcement and recordkeeping provisions.

Our Code of Ethics further includes a policy prohibiting the use of material, non-public (“inside”) information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

We have established the following additional policies and procedures for implementing our Code of Ethics:

1. No employee may put his or her own interest above the interest of any client.
2. We have established procedures for the maintenance of all required books and records.
3. All of our employees must act in compliance with all applicable federal and state securities laws and regulations.
4. We require annual delivery of our Code of Ethics to, and acknowledgement of receipt by, all employees of the firm.
5. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
6. Any individual who violates any of the above restrictions may be subject to sanction, including possible termination of employment.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interests of clients and (ii) implementing such decisions. Our employees are permitted to invest for their own accounts and may invest in the same securities in which our clients are invested and may buy or sell such securities at about the same time as they are bought or sold, or we recommend to clients to buy or sell, such securities. Our clients and our employees are generally primarily invested in no-load, open-end mutual funds. Our employees may also invest in securities that are not owned by our clients. In our view, such investments and investment practices present no material conflicts of interests with our clients.

Other than short-term cash reserves in checking accounts or money-market funds for business operating purposes, the firm does not own securities for its own account.

## **Item 12 Brokerage Practices**

We make broker recommendations based on the needs of the client and the services provided by the broker, such as ability to execute trades, on-line access to client account information, transaction charges, reporting capabilities, duplicate monthly statements, and access to mutual funds, including lower sales charges, if any, and lower minimum purchase amounts. We place trades for our clients' discretionary accounts subject to our duty of best execution and other fiduciary responsibilities.

Clients may utilize any brokerage or custodial firm(s) they wish; however, absent client direction, we recommend the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab") or Fidelity Investments for custody and brokerage services for our clients which are not irrevocable trusts. Substantially all of our clients have their accounts with Schwab. For client relationships that involve irrevocable trusts, we recommend National Advisors Trust Firm ("NATCO") because of its capabilities in tracking income and principal, which is required for such trusts. We own one-quarter of one share of NATCO, representing an ownership interest of less than one percent (1%). We have not received any financial benefits, such as dividends, from this investment and we believe that this ownership interest does not create any material conflict of interest with clients.

We regularly review the fees and commissions charged by Schwab and Fidelity. We have negotiated commission schedules with Schwab and Fidelity that are lower than the commission schedules offered by Schwab and Fidelity to their retail clients. However, these fee schedules may be higher, but not significantly so, than those available from other brokers for similar services. We think that such other brokers do not provide the quality and level of overall services provided to our clients by Schwab and Fidelity.

While we recommend Schwab and Fidelity to our clients for custody and brokerage, we do not require that clients use them. Clients may direct us to use another custodian or broker. In such situations, because we would not have the volume of business with the custodian or broker, we may not be able to negotiate as favorable fees and charges as we have been able to negotiate with Schwab and Fidelity. Therefore, clients who direct us to other firms may pay higher fees and charges and may not get the most favorable execution of their transactions.

Schwab makes available to us other products and services that benefit us and many, but not necessarily all, of our clients. Some of these other products and services assist us in managing and administering client's accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from clients' accounts, and assist with back-office support, recordkeeping and client reporting. Many of these services generally

may be used to service all or a substantial number of our clients' accounts, including client accounts not maintained at Schwab.

Schwab also makes available to us other products, services and benefits intended to help us manage and further develop our business; these may not specifically benefit our clients or their accounts. These services may include consulting, publications, conferences, information technology, business succession planning, regulatory compliance, and marketing. Schwab may discount or waive fees it would otherwise charge for some of these services or may make available, arrange and/or pay all or part of the fees of a third-party providing these types of services to TFC. For example, a few years ago Schwab agreed to pay for a client satisfaction survey which was conducted by a third party for TFC.

Recently, Schwab subsidized the cost of a data conversion, which would have cost TFC an estimated \$13,500. The availability of services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as we keep a total of at least \$10 million of client assets in accounts at Schwab. The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab based on our interest in receiving Schwab's services, rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. We have \$677.3 million in client assets under management, and do not believe that maintaining at least \$10 million of those assets at Schwab in order to avoid paying Schwab service fees presents a material conflict of interest.

As a fiduciary, we endeavor at all times to act in our clients' best interests. However, our recommendation that clients custody their assets at Schwab may be based in part on the benefits and availability of some of the products and services described above and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest. Some or all of these services may also be provided by Fidelity or other firms; however, we believe that the execution services, commissions and other transaction charges, and investment products that Schwab offers are very competitive in the brokerage industry and advantageous to the our clients, offsetting any potential conflict of interest.

## **Item 13    Review of Accounts**

### **INVESTMENT MANAGEMENT and INVESTMENT SUPERVISORY CLIENTS**

We review client accounts (i) in response to changes in our model portfolios made by our Investment Committee, (ii) in response to unusual market, political or economic conditions or changes in a client's circumstances or Investment Policy Statement, and (iii) regularly, but at least quarterly.

As described above in Item 8, our Investment Committee ("IC") reviews our model portfolios monthly. If the IC makes changes in a model portfolio, we review any client

accounts based on the model portfolio in question. For discretionary investment management clients, we will implement reallocation or realignment of account assets to be consistent with the model portfolio, but always subject to the client's Investment Policy Statement. For our investment supervisory clients, we will make recommendations for the client to implement the changes, again subject to the client's Investment Policy Statement.

The client account reviews described above are conducted by one or more of:

James L. Joslin, CFP<sup>®</sup>, Chairman, CEO & CCO  
Renée Kwok, CFP<sup>®</sup>, President  
Jane Taubner Barney, JD, CFP<sup>®</sup>, Senior Client Advisor  
Kathy A. Chianca, CFP<sup>®</sup>, Vice President  
Scott A. Swartz, CFP<sup>®</sup>, Vice President  
Charles E. Hipp, CFA, Director of Investment Research  
Leann N. Sullivan, CFP<sup>®</sup>, Vice President

Our investment management and investment supervisory clients receive directly from their custodian or broker monthly account statements and copies of confirmations of all transactions effected in the client's account. Additionally, generated by our internal portfolio accounting system Advent Axys, we also provide clients with quarterly written reports summarizing account performance, balances and holdings. These reports are also available through a password-protected client portal on our website. We also provide interim reports describing material changes in portfolio strategies.

### **FINANCIAL PLANNING CLIENTS**

Once a financial plan is completed, we do not conduct formal reviews unless otherwise contracted for by the client. If a financial planning client wishes to engage us for regular and periodic reviews of the client's financial plan, we will do so, typically on an agreed annual retainer basis.

Financial planning clients receive a completed financial plan or other reports as agreed at the outset of an engagement. We do not typically provide additional reports unless otherwise contracted and paid for.

### **Item 14 Client Referrals and Other Compensation**

Our employees may refer or solicit prospective clients. If a referred prospect becomes a client, we may compensate the employee for a period of time on the basis of a share of the fees paid by the client.

We have an arrangement with Frederick M. Pryor, a retired employee, who may refer or solicit prospective clients for the firm. If a prospect referred or solicited by Mr. Pryor becomes a client, we will compensate him for a period certain on the basis of a share of

the advisory fees paid by the referred client.

The compensation we pay to employees or Mr. Pryor for referring clients does not increase the fees paid to the firm by the referred clients.

Other than as described above, it is our policy not to engage solicitors or to pay non-related persons for referring potential clients to the firm.

It is our policy not to accept, or to allow our related persons to accept, any form of outside compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **Item 15 Custody**

As we are permitted by substantially all of our investment management clients to deduct our fees from their accounts, we are deemed to have constructive custody of the funds and securities in those client accounts. Actual custody of clients' funds and securities is maintained in separate accounts in our clients' respective names at qualified custodians, as defined by SEC rules. We have reason to believe that all of the custodians used by our clients are qualified custodians and that all of them provide account statements at least monthly directly to the clients.

Substantially all of our investment management clients maintain their accounts with Schwab, which is a qualified custodian. We are one of Schwab's largest institutional clients in the New England area. As such, Schwab provides us, for the benefit of our clients, access to institutional trading and custody services that typically are not available to Schwab retail customers. These services are made available to us at no charge, so long as at least \$10 million in assets of TFC clients is maintained in accounts at Schwab. These services are not otherwise contingent upon us committing to Schwab any specific amount of business (assets in custody or commission volume). In addition to custody, the services provided by Schwab include brokerage, research and access to mutual funds and other investments which would generally be made available only to institutional investors or would require a significantly higher investment. In other words, they would not be available directly to most of the Firm's clients acting independently.

Schwab does not charge separately for custody of a client's account, but Schwab is compensated through commissions or other transaction-related fees for securities transactions that are executed or settled in the client's account. Schwab may also waive some or all of such commissions and fees, usually in the initial stages of a new client account relationship.

As disclosed above in Item 5, "Fees and Compensation", we deduct our management fees directly from the accounts of our investment management clients without billing the clients in advance. We calculate the fees at the end of each calendar quarter, in arrears, and instruct the custodian to deduct the amount of the fees from clients' accounts and pay them to us. The custodian does not

independently calculate the fees. Clients receive with their quarterly reports from us a summary of this fee calculation, and clients should review it to determine its accuracy.

We provide quarterly written reports to our clients. Although we reconcile daily with each custodian using electronic downloads, we urge our clients to compare the reports they receive from us with reports they receive directly from the custodian of their accounts with a view to detecting any differences or errors, including errors in the calculation of our fees, which will be reflected in the custodian's reports.

## **Item 16 Investment Discretion**

The most significant part of our business is providing discretionary investment management services within the parameters set forth in the IPS. Our discretionary authority includes the ability to do the following without contacting the client in advance or obtaining the client's permission:

- Determine what securities to buy or sell for the client's account;
- Determine the amount (number of shares or other units and price) of any security to buy or sell for the client's account;
- Select the broker or brokers to execute transactions for the client's account; and/or
- Negotiate the brokerage commissions and other transaction fees to be paid out of the client's account.

Clients give us discretionary authority when they sign a contract, including the Investment Policy Statement, with us that gives us discretionary authority over identified assets or accounts. In addition, the client must provide us with a limited trading power of attorney over the accounts we are to manage on a discretionary basis. Clients may limit our authority (for example, by prohibiting us from buying certain types of securities) by giving us written instructions or by limitations set forth in the client's Investment Policy Statement. Clients may also change/amend such limitations by once again providing us with written instructions or amending their Investment Policy Statement. Our discretion in determining the amount of securities to be bought and sold for a client is limited by the asset allocation and any other restrictions in the client's Investment Policy Statement.

## **Item 17 Voting Client Securities**

Under the terms of our investment management agreements with our clients, we are not authorized to vote proxies or sign written consents with respect to any securities owned by our clients, including securities held in client accounts over which we have been granted discretionary authority. In addition, we will not take any action with respect to shareholder class action lawsuits related to any investment held at any time in client accounts ("class actions"). It is the responsibility of our clients to

vote proxies for the securities held in their accounts and to protect their interests in any class action proceeding. We will take reasonable steps to forward any proxy voting or class action materials directly to our clients. While we will discuss such proxy voting or class action materials with the client, the obligation to vote client proxies and exercise class action rights at all time rests with the client.

## **Item 18 Financial Information**

Following are our balance sheets as of December 31, 2011 and 2010, together with the report of Wolf & Co., P.C. independent public accountants, with respect thereto.



## TFC Financial Management, Inc.

### Balance Sheets

As of December 31, 2011 and 2010



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## Independent Auditors' Report

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To the Board of Directors and Shareholders of TFC Financial Management, Inc.:

We have audited the accompanying balance sheets of TFC Financial Management, Inc. as of December 31, 2011 and 2010. These balance sheets are the responsibility of the Company's management. Our responsibility is to express an opinion on these balance sheets based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheets are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the balance sheets referred to above present fairly, in all material respects, the financial position of TFC Financial Management, Inc. as of December 31, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

*Wolf & Company, P.C.*

Boston, Massachusetts  
March 20, 2012

# TFC Financial Management, Inc.

## Balance Sheets

December 31, 2011 and 2010

Assets			
		2011	2010
Current assets:			
Cash and cash equivalents		\$ 196,949	\$ 114,985
Accounts receivable		1,211,231	1,181,576
Prepaid expenses and other current assets		351,750	177,966
Total current assets		<u>1,759,930</u>	<u>1,474,527</u>
Property and equipment, net		79,892	131,366
Deposits		<u>20,494</u>	<u>20,332</u>
		<u>\$ 1,860,316</u>	<u>\$ 1,626,225</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Note payable, bank, current portion		\$ -	\$ 14,905
Accounts payable and accrued expenses		34,528	53,496
Accrued compensation		27,045	12,585
Deferred compensation payable		142,279	136,052
Deferred revenue		21,146	25,760
Deferred rent		29,709	29,709
Total current liabilities		<u>254,707</u>	<u>272,507</u>
Long-term liabilities:			
Deferred compensation payable, net of current portion		405,499	540,458
Deferred rent, net of current portion		44,565	74,274
Total long-term liabilities		<u>450,064</u>	<u>614,732</u>
Total liabilities		<u>704,771</u>	<u>887,239</u>
Stockholders' equity:			
Common stock, no par value; 10,000 shares authorized; 2,560 shares issued and outstanding		67,830	67,830
Retained earnings		1,087,715	671,156
Total stockholders' equity		<u>1,155,545</u>	<u>738,986</u>
		<u>\$ 1,860,316</u>	<u>\$ 1,626,225</u>

See accompanying notes to the balance sheets.

# TFC Financial Management, Inc.

## Notes to Balance Sheets

As of December 31, 2011 and 2010

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Operations*

TFC Financial Management, Inc. (the “Company”) was incorporated on December 1, 1980. The Company provides individuals, institutions and trusts, primarily located in the New England area, with a broad range of investment management and financial planning services.

#### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and investments in money market funds. Total cash in money market accounts was \$195,470 and \$112,497 at December 31, 2011 and 2010, respectively.

#### *Accounts Receivable*

The Company carries its accounts receivable at the amount invoiced less, if necessary, an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on the history of past write-offs and collections and current credit conditions. At December 31, 2011 and 2010, based on the Company’s evaluation, no allowance for doubtful accounts was considered necessary.

#### *Property and Equipment, Net*

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation has been computed using straight-line and accelerated methods over the estimated useful lives of the assets. Amortization of leased assets has been computed over the shorter of the estimated useful life of the assets or the lease term. When assets are retired or disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts.

#### *Investment*

The Company holds less than a 1% interest in National Advisors Trust Company, FSB (“NATCO”), founded by financial advisory firms nationwide to provide trust and custodial services. As a result of NATCO’s operating performance and other indicators of impairment, since 2005 this investment has been carried at zero in the Company’s balance sheets.

# TFC Financial Management, Inc.

## Notes to Balance Sheets (Continued)

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Income Taxes***

The shareholders of the Company elected S corporation status effective January 1, 2005. Earnings and losses since that date are included in the personal returns of the shareholders, and taxes thereon are the responsibility of the individual shareholders.

The Company follows accounting guidance regarding the recognition, measurement, presentation and disclosure of uncertain tax positions in the financial statements. Tax positions taken or expected to be taken in the course of preparing the Company's tax returns are required to be evaluated to determine whether the tax positions are "more-likely-than-not" to be upheld under regulatory review. Tax positions not deemed to meet a more-likely-than-not threshold would be disclosed in the financial statements. There were no uncertain tax positions at December 31, 2011 and 2010.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2008 through 2011.

#### ***Revenue Recognition***

The Company bills investment management fees on a quarterly basis in arrears, and recognizes the related revenue each month as services are rendered. Management fees are generally computed as a percentage of the assets managed. Financial planning revenue is recognized as earned over the period of the services rendered. Consulting income consists mainly of revenue related to investment planning services provided to specific customers and is recognized over the service period.

Deferred revenue consists of revenues not yet earned from financial planning services.

#### ***Use of Estimates***

The preparation of balance sheets 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 and disclosure of contingent assets and liabilities at the date of the balance sheets. Actual results could differ from those estimates.

# TFC Financial Management, Inc.

## Notes to Balance Sheets (Continued)

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

#### *Financial Instruments and Concentrations of Credit Risk*

The Company maintains its cash at a financial institution in accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is subject to any significant credit risks.

The Company has agreed to provide financial planning services for designated faculty members of Harvard University (the "Harvard University Agreement"). The original contract with Harvard University for these services was entered into on September 4, 1997 and was renewed three times, most recently in July 2005. The July 2005 renewal expired in June 2007. Since then, the Company has a verbal contract with Harvard University and has continued consulting services under the same terms as the contract that expired.

### 2. PROPERTY AND EQUIPMENT, NET

At December 31, 2011 and 2010, property and equipment, net consisted of the following:

	2011	2010
Furniture and fixtures	\$ 288,091	\$ 288,091
Office equipment	417,489	426,452
Leasehold improvements	13,019	13,019
	<u>718,599</u>	<u>727,562</u>
Accumulated depreciation and amortization	(638,707)	(596,196)
	<u>\$ 79,892</u>	<u>\$ 131,366</u>

### 3. LINE OF CREDIT

The Company has a line of credit with a bank. Advances on the line of credit are limited to \$250,000, bear interest at the bank's prime rate, with a 4% interest rate floor, are collateralized by all the assets of the Company and are personally guaranteed by certain shareholders. There were no borrowings under the line of credit at December 31, 2011 and 2010. The line of credit expires on October 31, 2012.

### 4. NOTE PAYABLE, BANK

The Company had a term note payable to a bank that was due in monthly installments of \$5,000 plus interest at 7.55%. The note was fully paid off on March 7, 2011.

# TFC Financial Management, Inc.

## Notes to Balance Sheets (Continued)

### 5. RETIREMENT PLAN

The Company established a qualified 401(k) profit sharing plan effective January 1, 2005 which covers all employees. The employees may voluntarily contribute a portion of their salaries to the plan on a tax-deferred basis. The plan provides for the Company to contribute annually 3% of the compensation of employees who have completed at least one year of service and are at least 21 years of age.

### 6. DEFERRED COMPENSATION PAYABLE

#### *Employment Agreement*

On December 29, 2004, the Company entered into an employment agreement with the former shareholder. Under the terms of the agreement, the individual was employed on a part-time basis from January 1, 2005 through December 31, 2009. On December 31, 2009, the original employment agreement was amended. Under the terms of the amendment, the individual entered into an independent contractor agreement for 2010 subject to annual renewals for four additional one year terms, which was renewed for 2011 and 2012. During 2011, the Company paid this individual compensation of \$11,600 in four equal quarterly installments that included a percentage of fees earned on certain client accounts. The Company will pay \$11,843 in four equal quarterly installments, during 2012.

Under the terms of the original agreement, the Company is required to pay or reimburse the individual through December 14, 2014 for the cost of medical and long-term health care insurance in amounts up to \$7,500 and \$4,776 per year, respectively. No payment is required while the individual is paid under the independent contractor agreement.

The Company remains obligated under the original agreement to pay the individual or his heirs deferred compensation, in 20 quarterly installments of \$40,000, which began January 1, 2010. Deferred compensation payable under this employment agreement of \$446,668 and \$582,720 at December 31, 2011 and 2010, respectively, represents the present value of this obligation discounted at a rate of 4.5%.

#### *Incentive Agreement*

In addition, the Company agreed to pay deferred incentive compensation to the individual, or his heirs, based on a percentage of the investment management fees collected by the Company, as defined in the original agreement, for any new investment management client relationships brought in by the individual, and for additions to certain client assets under his management. This incentive compensation is accruing interest currently at 5% and is payable in quarterly installments of \$40,000, including interest commencing January 1, 2015, and continuing until the entire balance due has been paid in full. Deferred compensation payable at December 31, 2011 and 2010 includes \$101,110 and \$93,790, respectively, related to this incentive agreement.

# TFC Financial Management, Inc.

## Notes to Balance Sheets (Continued)

### DEFERRED COMPENSATION PAYABLE (concluded)

#### *Incentive Agreement (concluded)*

Annual maturities of the deferred compensation payable at December 31, 2011 are as follows:

<u>Year Ending December 31,</u>	<u>Employment Agreement</u>	<u>Incentive Agreement</u>	<u>Total</u>
2012	\$ 142,279	\$ -	\$ 142,279
2013	148,790	-	148,790
2014	155,599	-	155,599
2015	-	101,110	101,110
	<u>\$ 446,668</u>	<u>\$ 101,110</u>	<u>\$ 547,778</u>

The original agreement provides for acceleration of the deferred compensation, including the incentive portion, in the event of the sale of a controlling interest in the Company.

## 7. COMMITMENTS

The Company leases office facilities under a noncancelable operating lease expiring June 2014. In addition to minimum rent payments, the Company is required to pay its proportionate share of operating expenses, utilities and real estate taxes. In connection with this lease, the Company established a letter of credit in the amount of \$20,000 in favor of the landlord, secured by a certificate of deposit. The certificate of deposit is included in deposits at December 31, 2011 and 2010.

The minimum rental payments required over the life of the lease are expensed on a straight-line basis over the lease term in the amount of \$18,298 per month. The difference between the amount expensed and the actual rental payment are recorded as a deferred lease incentive liability (deferred rent) on the balance sheet.

At December 31, 2011, approximate future minimum lease payments under this lease is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 249,280
2013	249,280
2014	124,640
	<u>\$ 623,200</u>

# TFC Financial Management, Inc.

## Notes to Balance Sheets (Concluded)

### **8. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 20, 2012, which is the date the financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the financial statements.