

AS “TALSU MEŽRŪPNIECĪBA”

(REGISTRATION NUMBER 40003113243)

**FINANCIAL REPORT OF 12 MONTH OF THE YEAR 2015
(NON-AUDITED)**

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General information

Company name	JSC “TALSU MEZRUPNIECIBA”
Legal Status	Joint stock company
Registration number, time and place	40003113243, Riga January 29, 1993
Legal address	Eksporta Street 26, Tukums, LV- 3104
Address of the executive bodies	Dumpīšu Street 3, Stende, LV – 3257
NACE code 2 red.	16.29
Shareholders	All Company shares are book-entry shares. Public placement at LCD – 230,000 shares are bearer shares Closed issue - 265,699 shares are registered shares
Board	Gatis Štāks , chairman of the Board Pēteris Klava , member of the Board Andis Gribusts , member of the Board
Supervisory Board	Oskars Derings , Chairman of the Supervisory Board, Eva Emerberga , member of the Supervisory Board Alda Kiore , member of the Supervisory Board Asmeralda Kļava , member of the Supervisory Board Gita Emerberga , member of the Supervisory Board
Period	01.01.2015.-31.12.2015.
Audithor	Daiga Baraua , sworn audithor, No. Sertificate 89, Talsi district, Parish Valdgale, “Lejaskalēji”, LV-3253, Latvia

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT FOR 12 MONTH OF THE YEAR 2015 (NON - AUDITED)

JSC “Talsu mežrupniecība”
Financials statement for 12 month
of the year 2015

JSC “TALSU MEŽRŪPNIECĪBA”

DECLARATION

on the responsibility of Management

JSC “Talsu mežrupniecība” is responsible for the preparation of the financial report of the company.

The Financial report for 12 month of the year of 2015 of JSC “Talsu mežrupniecība” is prepared, basing on the source documents and provides clear and true view on the financial standing of the Company as of December 31, 2015, its financial results in 12 moth of the year 2015 and the cash flow.

The Financial Report has been prepared in accordance with the Laws being in force and with the book-keeping standarts of the Republic of Latvia, basing upon the principle of continuation of entrepreneurship. During the reporting year the appropriate accounting methods have been consequently applied.

JSC “Talsu mežrupniecība” is responsible for the provision of appropriate accounting, preservation of company’s assets, as well as for detection and averting of violations.

Chairman of Board

G.Štāks

February 16th, 2016.

MANAGEMENT REPORT

The main activities of the Company in 2015 were logging and production of timber products: peeled and turn poles production in timber processing unit.

Total revenues for the Company during 12 month of year 2015 were EUR 3 692 753.-. This compared to 2014 is about 31.01% higher, but profit decreased by 29.8%. It mainly affects the purchase price of wood from Belarus.

Company's turnover in 2015 increased significantly. England buyer's demand compared to 2014 increased by 50.6%

During 12 month of the year 21 865 m3 poles were produced in the timber processing unit and woodchips of 66 178 m3 were sold.

The company's profit at the 12 month, year 2015 are EUR 106 714.-, which corresponds to EUR 0.2153 profit per share.

In the future the Company plans to continue the production of peeled and turn poles, increasing the proportion of timber purchased from small logging companies and private loggers, whose price offering is lower than that of VAS Latvijas valsts meži. It is also planned to sell the produced goods to a wider network of clients, achieving the most beneficial sales price.

Suggestions for distribution of profit and covering of losses

Profits will be used for new production equipment and machine purchase.

Board:

Gatis Štāks
Chairman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

16th February, 2016.

Profit and Loss Statement

	Note	2015 EUR	2014 EUR
Revenues	2	3 692 753	2 547 679
Cost of goods sold	3	(3 463 930)	(2 305 059)
Gross result		228 823	242 620
Administration expenses	4	(84 384)	(65 859)
Other operating income	5	4	18 546
Other operating expenses	6	(13 684)	(11 537)
Financial income	7	1 594	1 019
Financial expenses	8	(3 471)	(4 500)
Profit (loss) before taxes		128 882	180 289
Deferred corporate income tax	9; 18	(20 925)	(27 198)
Other taxes	17	(1 243)	(1 243)
Net profit (loss)		106 714	151 848

Notes on pages 11 to 20 are integral part of the financial statements

Board:

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Chairman of the Board

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Member of the Board

Andis Gribusts
Member of the Board

16th February, 2016

Balance Sheet

ASSETS			
		31.12.2015.	31.12.2014.
LONG TERM ASSETS	Note	EUR	EUR
Fixed assets			
Land, buildings and constructions		116 588	121 535
Machinery and equipments		279 203	285 297
Other fixed assets		51 043	64 146
Assets		136 640	
Lizings		155 075	175 479
Total	10	738 549	646 457
TOTAL LONG TERM ASSETS		738 549	646 457
CURRENT ASSETS			
Inventories			
Materials		12 413	12 944
Production in progress		112 285	14 385
Goods for sale		211 239	66 713
Advances for goods		7 215	6 403
TOTAL		343 152	100 445
Debtors			
Trade receivables, net	11	120 932	86 159
Other debtors	12	1 168	1 249
Prepaid expenses		3 643	3 124
TOTAL		125 743	90 532
Cash and cash equivalenets		30 237	183 695
TOTAL CURRENT ASSETS		499 132	374 672
TOTAL ASSETS		1 237 681	1 021 129

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Board:

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Pēteris Kļava

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16th February, 2016

AS „TALSU MEŽRŪPNIECĪBA”
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EQUITY AND LIABILITIES				
			31.12.2015.	31.12.2014.
EQUITY		Piezīme	EUR	EUR
	Share capital	14	693 979	705 316
	Reserve		11 337	
	Profit		-	-
	Prior year loss		(13 584)	(165 432)
	Current year profit (loss)		106 714	151 848
	Total equity		798 446	691 732
PROVISIONS				
	Other provisions	15	28 418	28 187
	TOTAL PROVISIONS		28 418	28 187
LIABILITIES				
Long term liabilities				
	Loans several	17	43 506	67 681
	Loans from credit institutions	17	71 245	11 739
	Deferred tax liabilities	19	42 653	38 024
	TOTAL		157 404	117 444
Short term liabilities				
	Other loans	17	24 175	28 214
	Loans from credit institutions	17	35 739	12 806
	Trade creditors		119 338	64 347
	Taxes payable	18	36 529	38 444
	Other liabilities		30 619	33 921
	Acured liabilities	16	7 013	6 034
	TOTAL		253 413	183 766
	TOTAL LIABILITIES		410 817	301 210

Notes on pages 11 to 20 are integral part of the financial statements

Board:

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Member of the Board

16th February, 2016

Equity Statement

EUR		Share capital	Other reserv	Prior period loss	Current period profit (loss)	Total
January 1, 2014		705 316	-	(197 950)	32 518	539 884
	Transferred to prio	-	-	32 518	(32 518)	-
	Current period loss	-	-	-	151 848	151 848
December 31, 2014		705 316		(165 432)	151 848	691 732
		(11 337)	11 337			(11 337)
	Transferred to prio	-		151 848	(151 848)	-
	Current period pro	-		-	106 714	106 714
						11 337
December 31, 2015		693 979	11 337	(13 584)	106 714	798 446

Notes on pages 11 to 20 are integral part of the financial statements.

Board:

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Pēteris Kļava

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Member of the Board

Member of the Board

16th February, 2016

Cash Flow Statement 2015.
(based on indirect method)

	2015	2014
	EUR	EUR
Operating cash flow		
Profit (loss) before taxes	128 882	180 289
Adjustments:		
Depreciation	87 387	69 424
Interest (income)/expenses	3 471	4 500
Increas/(decrease) in provisions	231	9 395
Asset writte offs	-	-
(Profit)/loss from sale of fixed assets	212	(17 923)
Revaluation of biological assets	-	-
(profit)/loss from currency fluctuations	-	-
Operating cash flow before changes in current assets	220 183	245 685
Decrease/(increase) of inventories	(242 707)	81 836
Decrease/(increase) of debtors	(35 211)	22 152
Increas/(decrease) in creditors	60 122	50 261
Operating cash flow	2 387	399 934
Interest paid	(3 471)	(4 500)
Corporate income tax paid	(25 665)	6 784
Real estate tax paid	(1 243)	(1 243)
Net operating cash flow	(27 992)	400 975
Cash flow from investing activities		
Acquisition of long term assets	(179 691)	212 994
Income from sale of fixed assets		18 000
Net cash flow from investing activities	(179 691)	(194 994)
Cash flow from financing activities		
Loand received/(paid), net	(43 020)	(33 505)
Received loan	97 245	
Net financing cash flow	54 225	(33 505)
Cash increase/(decrease)	153 458	172 476
Cash at the beginning of the year	183 695	11 219
Cash at the end of the year	30 237	183 695

Notes on pages 11 to 20 are integral part of the financial statements.

Board:

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Chairman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

16th February, 2016.

Notes

1. Significant accounting policies

Annual report preparation principles

The annual report is prepared in accordance with the Law on Accounting, Law of Annual Accounts and Latvian accounting standards applicable as of December 31, 2015.

Profit and loss statement was prepared based on turnover method.

Cash flow statement is prepared by indirect method.

The same accounting policies and valuation methods were applied in current and prior reporting year.

Annual report is prepared based on the going concern principle.

Taking into account requirements of the stock exchange, the amounts in the financial statements are disclosed also in EUR. All amounts are translated to EUR based on official Bank of Latvia fixed EUR rate.

Foreign currency translation

The accounting records are prepared in EUR. All transaction in foreign currencies translated to EUR in according the European Central Bank rate as at date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are stated at the official currency exchange rate set by the European Central Bank at the year end. Any gain or loss resulting from a change in the currency rates of exchange is included in the profit and loss statement at net value.

	31.12.2015. EUR	31.12.2014. LVL
1 GBP	0.73395	0.77890
Fixed assets		

All fixed assets are initially recorded at purchase price. Land is regularly revaluated and accounted for at market value. Increase of the value resulting from revaluation is accounted as long term revaluation reserve and included in the equity of the Company. The decrease of the value is first deducted from previously recognised revaluation reserve for the same asset and any uncovered loss recognised as expense in profit and loss account.

Fixed assets are stated at historical value less accumulated depreciation.

The assets are depreciated over their estimated useful lives using the straight-line method. Following depreciation rates are applied for fixed assets:

	%
Buildings and constructions	4% - 5%
Machinery and equipment	10% - 20%
Other fixed assets	20% - 35%

1. Significant accounting policies (continued)

Inventories

Inventories are accounted in lower of cost and net realisable value. For raw materials the cost is calculated based on purchase cost accounting to FIFO method, but for work in progress and goods for sale the cost is calculated based their purchase price or production costs according to weighted average principle.

Net realisable value is selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Net value is disclosed as cast of production, less provision established.

Advances for inventories include also cash paid for cutting rights on those cutting that were not yet processed at the end of the reporting period.

Receivables

Trade receivables are recorded and disclosed in the balance sheet in accordance with initial amount of the invoices, less provision established for doubtful accounts. Provisions for doubtful accounts are estimated when full recoverability of the amount is not likely. Provisions for doubtful accounts are estimated by individual assessment of each debtor.

Corporate income tax

Corporate income tax is calculated for the reporting year is calculated in accordance with regulatory requirements of the Republic of Latvia.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred taxation liability is determined based on the current tax rates. The principal temporary timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets, provision for vacation and accumulated tax losses.

Provisions

Provisions are recognised, when the Company has commitments (legal or supported) due to past events where the likelihood of outflow of economical benefits for Company is estimated and the amount of the liabilities can be reasonably estimated.

2. Revenues

	2015	2014
	EUR	EUR
Timber product related revenues	3 360 884	2 317 340
Other revenues	331 869	230 339
Total:	<u>3 692 753</u>	<u>2 547 679</u>

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Revenues according to geographical markets:

	2015	2014
	EUR	EUR
Latvia	1 548 164	1 461 765
Estonia		
United Kingdom	2 144 589	1 085 914
Total:	3 692 753	2 547 769

3. Cost of goods sold

	2015	2014
	EUR	EUR
Cost of materials	2 285 332	1 469 691
Cost of external services	290 715	152 947
Depreciation	81 332	63 370
Salaries	392 847	292 559
Social contributions	107 751	80 594
Other costs of goods sold	305 953	245 898
Total:	3 463 930	2 305 059

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4. Administration expenses

	2015	2014
	EUR	EUR
Personnel costs	74 700	56 758
Other administration expenses	9 684	9 101
Total:	84 384	65 859

The Board does not receive remuneration

5. Other operating incomes

	2015	2014
	EUR	EUR
Income from assets		18 000
Losses from assets		(76)
Result from closing assets		17924
other incomes	4	622
Summa kopā:	4	18 546

6. Other operating expenses

	2015	2014
	EUR	EUR
Stock exchange related expenses	9 463	8 958
Other asset write offs		
Provisions for doubtful accounts		
Other expenses	4 221	2 579
Total:	13 684	11 537

7. Financial income

	2015	2014
	EUR	EUR
Income from currency fluctuations	2 059	1 195
Other income	(465)	(176)
Total:	1 594	1 019

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8. Financial expenses

	2015	2014
	EUR	EUR
Interest expenses percent	3 471	4 500
Loss from currency		
Loss from currency exchange		
Netto result from losses		
Total:	3 471	4 500

9. Corporate income tax

	2015	2014
	EUR	EUR
Deferred corporate income tax income/ (expenses)	16 342	14 513
Corporate income tax income	4 630	12 685
Total:	20 972	27 198

10. Fixed assets

EUR	Land, buildings and constructions	Machinery and equipment	Other fixed assets	Advances for fixed assets	Costs of capital assets	TOTAL
Historical cost 31.12.2014	224 796	845 192	112 991	204 033	-	1 387 012
2015 Acquisitions	1 574	34 995	6 482		136 640	179 691
2015 Write offs			(1 276)	-	-	(1 276)
Historical cost 31.12.2015	226 370	880 187	118 197	204 033	136 640	1 565 427
Accumulated depreciation 31.12.2014	103 261	559 895	48 845	28 554	-	740 555
2015 Depreciation	6 521	41 089	19 373	20 404	-	87 387
2015 Depreciation of assets written off			(1 064)	-	-	(1 064)
Accumulated depreciation 31.12.2015	109 782	600 984	67 154	48 958	-	826 878
Net book value 31.12.2014	121 535	285 297	64 146	175 479	-	646 457
Net book value 31.12.2015	116 588	279 203	51 043	155 075	136 640	738 549

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Cadastral value of assets of the Company:

	2015	2014
	EUR	EUR
Land	29 127	29 127
Buildings and constructions	85 812	85 812
Total:	114 939	114 939

Fixed assets of the Company are pledged as security for credit line issued by SC „SEB bank” (see Note 20).

11. Trade receivables, net

	2015	2014
	EUR	EUR
Gross trade receivables	120 932	86 159
Provisions for doubtful accounts		
Total:	120 932	86 159

12. Other debtors

	2015	2014
	EUR	EUR
VAT receivable	1 168	1 249
Other debtors		-
Payment		43
Total:	1 168	1 249

13. Money

	2015	2014
	EUR	EUR
GBP 4 723	6 436	25 145
EUR 23 801	23 801	158 550
Total:	30 237	183 695

14. Share capital (capital stock)

Share capital of the Company consists of 495,699 shares with nominal value Ls 1 per share.

	Shares Number	Value of shares(EUR)	Total value (EUR)	Reserve EUR
Close issue shares	265 699	1,40	371 979	6 079
Public placement	230 000	1,40	322 000	5 258
Total:	495 699		693 979	11 337

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Changes in share capital and share distribution to shareholders

	31.12.2015 Number of securities	%	31.12.2014 Number of securities	%
Gatis Štāks	433 911	87.54	241 905	48.80
Oskars Derings	-	-	146 377	29.53
Eva Deringa	-	-	40 361	8.14
Others	61 788	12.46	67 056	13.53
Summa kopā:	<u>495 699</u>		<u>495 699</u>	<u>100</u>

15. Other provisions

	2015 EUR	2014 EUR
Provisions for vacations	28 187	18 792
Other provisions	231	9 395
Total:	<u>28 418</u>	<u>28 187</u>

16. Accrued liability

	2015 EUR	2014 EUR
Accruals for prospective payment	7 013	6 034
Total:	<u>7 013</u>	<u>6 034</u>

17. Loans from credit institutions

	2015 EUR	2014 EUR
<i>Long term</i>		
Loan from SC SEB bank (point 1.,5.)	71 245	11 739
Leasing SEB bank (point 3., 4.)	43 506	67 681
<i>Short term</i>		
Loan from SC SEB bank (point 1.,5.)	35 739	12 806
Leasing SEB bank (point 3., 4.)	24 175	28 214
Total:	<u>174 665</u>	<u>120 440</u>

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1) The Company entered into a credit agreement TA 11249, loan repayment shall be done in monthly principal repayments with final term on November 24, 2016.
 Loan interest rate consists of a base rate EUR EURIBOR 3 months and added rate of 4%. Loan received cars VOLVO FM 460 purchase. December 31, 2015, the loan balance shall be drawn up EUR 11 739th.

As collateral for the loan serves a mortgage on real property located in Dumpisu Street 3, Stende, Talsu district, Financial pledge on the Company's cash and Commercial pledge on the newly purchased cars Volvo FM 460 in accordance with the concluded contract Pledges No. TA11249 / QC-1. The residual value of Car VOLVO EUR 48 390 on 31.12.2015.

2) The Company entered into a credit line agreement TA 10138, the limit of EUR 100 000 for the repayment period September 22nd,2015. The interest rate consists of a base rate EUR EURIBOR 3 months and added the rate of 4%. Used the credit balance is 31.12.2015 EUR 00.0 Secured by a mortgage on real estate Dumpisu Street 3, Stende, Talsu region under the mortgage agreement, the commercial pledge on the company's existing and future fixed assets, inventories and claim rights and financial pledge to the Company accounts for all existing and incoming funds the right to claim the amount.

3) The Company entered into financial leasing contract, TA11166. In accordance with its terms, the repayment is due in monthly principal repayments with final term on July 25, 2016. Leasing certain variable interest rate of 4,506% per annum of the residual value of the fixed percentage 3.11%. Finance lease receipt for the purchase of the car BMW X5. As collateral serves as the leasing object. The book value of the pledged property EUR 34 296. The amount to be paid the balance of EUR 6 172.

4) The Company entered into financial leasing contract TA 14,055th accordance with its terms, the repayment is due in monthly principal repayments with final term on 25 May 2019. Leasing certain variable interest rate of 2,978% per annum of the residual value of the fixed percentage 2.650%. Capital lease cars received VOLVO L90G purchase. As collateral serves as the leasing object. The book value of the pledged property EUR 120 779. The amount to be paid the balance of EUR 61 509.

5) The Company entered into credit contract NoTA15114. The repayment is due in monthly principal repayments with final term on 11 November , 2020. Loan interest rate consists of a base rate EUR EURIBOR 6 months and added rate of 3%.
 Loan received for building woodmaterials dryer house and purchase. December 31, 2015, the loan balance shall be drawn up EUR 95 245.

18. Taxes payable

EUR	(Liabilities)/ assets 31.12.2014	Calculated	2015 Tranferred to other taxes	Paid/(claimed back)	(Liabilities)/ assets 31.12.2015
Value added tax (VAT)	1 206	9 809	(15 218)	5 371	1 168
Social contributions	(17 448)	(155 705)	15 218	135 600	(22 335)
Personnel income tax	(9 673)	(77 574)	-	75 094	(12 153)
Real estate tax		(1 243)	-	1 243	-
Nature resources tax	(186)	(563)	-	480	(269)
Corporate income tax	(11 121)	(16 296)		25 665	(1 752)
Risk duty	(16)	(224)	-	220	(20)
Total	(37 238)	(241 796)	-	243 673	(35 361)
	Liabilities	(38 444)			(36 529)
	Prepayments	1 206			1 168

Tax receivables are included in other debtors, see Note 12.

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19. Deferred tax liabilities

Deferred tax attributable to the following temporary differences:

	Active	2015 EUR liabilities	active	2014 EUR liabilities
Depreciation of fixed assets -		49 915		42 252
Provisions for vacations	4 262		4 228	
Net deferred tax liabilities		42 653		38 024

	2015 EUR	2014 EUR
Deferred tax liabilities at beginning of period	38 024	25 339
Recognised deferred tax changes in the income statement (see note 9)	4 629	12 685
Deferred tax liabilities at end of period	42 653	38 024

20. Information on the sworn auditor remuneration

Administration costs include also the consideration sworn auditor auditing the annual accounts of EUR 1800 (2014 year -LVL 1600). During the reporting period the Company did not receive from the auditor's other services.

21. Off-balance sheet commitments

The Company entered into a credit line agreement TA 10138, the limit of EUR 100 000 for the repayment period September 22nd,2016. The interest rate consists of a base rate EUR EURIBOR 3 months and added the rate of 3.2%. Used the credit balance is 31.12.2015 EUR 00.0 Secured by a mortgage on real estate Dumpisu Street 3, Stende, Talsu region under the mortgage agreement, the commercial pledge on the company's existing and future fixed assets, inventories and claim rights and financial pledge to the Company accounts for all existing and incoming funds the right to claim the amount.

22. Employers

	2015	2014
Average number of employers for the reporting year	50	46

23. Staff costs

	2015 EUR	2014 EUR
Remunerationforwork	467 547	349 317
Social insurance contributions	107 751	80 594
Amount of total	575 298	429 911

24. Management remuneration

Members of the Board on the work of the Council and Board of Directors of the Management Board shall not be remunerated work.

25. Transactions with related parties

	Receivables 2015 EUR	Payables 2015 EUR	Revenue 2014 EUR	Expenditur 2014 EUR
Gatis Štāks	-	-	43	-
Amount total:	-	-	43	-

2014 issued loan 4000 EUR Chairman of the Board Gatis Stakes with a maturity date 31.12.2014. Amount outstanding at the beginning of 2015 to draw up a EUR 0,00. The interest rate 4%. For receivables from related parties has not been granted and received guarantees. On 31.12.2014. the amount of debt has been extinguished.

26. Financial risk management

The most significant financial instruments for the Company are loans from credit institutions, related entities and cash and cash equivalents. The main purpose of those financial instruments is to ensure operating activities of the Company. The Company is also exposed to other financial investments that are directly related to operating activities of the Company, such as, trade receivables and other receivables, trade payables and other payables.

27. Events after the balance sheet date

During the period from the last date of the financial statements until the date of signing no events have occurred which resulted in the financial statements should be modified, or that it should be explained in the financial statements.