

Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2023 and 2022, and Independent Auditors' Report



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

February 22, 2024

Federal Financial Institutions Examination Council
3501 Fairfax Drive, E-2035-C
Arlington, VA 22226-3550

Dear Members of the Federal Financial Institutions Examination Council:

This letter transmits the *Independent Auditors' Report* prepared by KPMG LLP on the Federal Financial Institutions Examination Council's (FFIEC) financial statements. We contracted with KPMG to audit the financial statements of the FFIEC as of and for the years ended December 31, 2023 and 2022.

The contract requires the audit to be performed in accordance with the auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the comptroller general of the United States. We reviewed and monitored the work of KPMG to ensure compliance with the contract. KPMG is responsible for the accompanying *Independent Auditors' Report*, dated February 22, 2024.

We do not express an opinion on the FFIEC's financial statements. In addition, we do not draw conclusions on the *Independent Auditors' Report*.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Bialek', written in a cursive style.

Mark Bialek
Inspector General

cc: Judith Dupre, Executive Secretary, FFIEC
Benjamin McDonough, Chair, FFIEC Legal Advisory Group, and Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency
Ricardo A. Aguilera, Chief Financial Officer, Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council

Financial Statements as of and for the Years
Ended December 31, 2023 and 2022, and
Independent Auditors' Report

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Federal Financial Institutions Examination Council:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to the financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for a reasonable period of time.

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

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2023, we considered the Council's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements as of and for the year ended December 31, 2023 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 22, 2024

Federal Financial Institutions Examination Council Balance Sheets

	As of December 31,	
	2023	2022
Assets		
Current assets:		
Cash	\$ 2,441,601	\$ 3,889,063
Accounts receivable from member agencies – net	664,758	425,994
Accounts receivable from non-member agencies – net	9,050	6,900
Total current assets	<u>3,115,409</u>	<u>4,321,957</u>
Non-current assets:		
Operating lease real estate right-of-use asset	676,153	1,012,374
Operating lease equipment right-of-use assets	223,576	56,362
Total non-current assets	<u>899,729</u>	<u>1,068,736</u>
Total assets	<u>\$ 4,015,138</u>	<u>\$ 5,390,693</u>
Liabilities and cumulative results of operations		
Current liabilities:		
Accounts payable and accrued liabilities payable to member agencies	\$ 714,825	\$ 1,920,206
Accounts payable and accrued liabilities payable to non-member agencies	318,351	317,350
Accrued annual leave	90,263	105,914
Deferred revenue	311,200	311,200
Operating lease payable	396,080	395,057
Total current liabilities	<u>1,830,719</u>	<u>3,049,727</u>
Long-term liabilities:		
Operating lease payable	<u>532,695</u>	<u>695,286</u>
Total long-term liabilities	<u>532,695</u>	<u>695,286</u>
Total liabilities	<u>2,363,414</u>	<u>3,745,013</u>
Cumulative results of operations	<u>1,651,724</u>	<u>1,645,680</u>
Total liabilities and cumulative results of operations	<u>\$ 4,015,138</u>	<u>\$ 5,390,693</u>

See notes to financial statements.

Federal Financial Institutions Examination Council Statements of Operations

	For the years ended December 31,	
	2023	2022
Revenues:		
Central Data Repository	\$ 3,158,532	\$ 3,429,150
Tuition	4,750,039	4,374,670
Assessments on member agencies	1,625,385	1,654,459
Community Reinvestment Act	694,863	475,080
Uniform Bank Performance Report	691,756	662,601
Other Revenues	<u>803,602</u>	<u>681,700</u>
Total revenues	<u>11,724,177</u>	<u>11,277,660</u>
Expenses:		
Professional fees	5,082,297	4,901,104
Salaries and related benefits	3,424,012	3,574,373
Data processing	1,498,465	1,156,780
Administration fees	1,088,275	1,002,400
Rental of office space	339,386	339,386
Travel	108,643	26,726
Rental and maintenance of office equipment	78,043	79,137
Other seminar expenses	50,754	6,523
Office and other supplies	27,541	18,980
Printing	4,653	9,075
Miscellaneous	<u>16,064</u>	<u>11,493</u>
Total expenses	<u>11,718,133</u>	<u>11,125,977</u>
Results of operations	6,044	151,683
Cumulative results of operations – beginning of year	<u>1,645,680</u>	<u>1,493,997</u>
Cumulative results of operations – end of year	<u>\$ 1,651,724</u>	<u>\$ 1,645,680</u>

See notes to financial statements.

**Federal Financial Institutions Examination Council
Statements of Cash Flows**

	For the years ended December 31,	
	2023	2022
Cash flows from (used in) operating activities:		
Results of operations	\$ 6,044	\$ 151,683
Adjustments to reconcile results of operations to net cash from operating activities:		
Net operating lease assets and payables (current and non-current)	7,439	2,128
(Increase) decrease in assets:		
Accounts receivable from member agencies	(238,764)	281,623
Accounts receivable from non-member agencies	(2,150)	(3,525)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member agencies	(1,205,381)	1,402,787
Other accounts payable and accrued liabilities payable to non-member agencies	1,001	12,352
Accrued annual leave	(15,651)	(39,962)
Deferred revenue (current and non-current)	-	311,200
Net cash from (used in) operating activities	(1,447,462)	2,118,286
Net increase (decrease) in cash	(1,447,462)	2,118,286
Cash balance – beginning of year	<u>3,889,063</u>	<u>1,770,777</u>
Cash balance – end of year	<u>\$ 2,441,601</u>	<u>\$ 3,889,063</u>

See notes to financial statements.

Federal Financial Institutions Examination Council Notes to Financial Statements as of and for the Years Ended December 31, 2023 and 2022

(1) Organization and Purpose

The Federal Financial Institutions Examination Council (the Council) was established under title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The Council has six voting members. The five federal agencies represented on the Council during 2023, referred to collectively as member agencies, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Consumer Financial Protection Bureau (CFPB)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency (OCC)

In accordance with the Financial Services Regulatory Relief Act of 2006, a rotating representative state regulator was added as a full voting member of the Council in October 2006.

The Council was given additional statutory responsibilities by section 340 of the Housing and Community Development Act of 1980, Public Law 96-399. Among these responsibilities is the implementation of a system, in consultation with the Secretary of the Department of Housing and Urban Development (HUD), to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. This legislation gave the CFPB general rule-writing responsibility for federal consumer financial laws and the HMDA supervisory and enforcement authority. The CFPB, as part of these responsibilities, developed a new HMDA processing system that replaced the HMDA processing system maintained by the FRB. The Council is performing the collection and billing activity for the new HMDA processing system developed by the CFPB. The activity includes the member agencies and HUD. As a collecting entity, the Council does not recognize the transfers from member agencies as revenue nor does the Council use the collections to fund Council expenses; the funds are transferred to the CFPB.

The Council is performing the collection and billing activity for the Computational Tools product services developed by the FRB. The activity includes the member agencies. Similar to the collection activity for the CFPB, the Council does not recognize the transfers from member agencies as revenue nor does the Council use the collections to fund Council expenses; the funds are transferred to the FRB.

The Council's financial statements do not include financial data for the Council's Appraisal Subcommittee (the Subcommittee). The Subcommittee was created pursuant to Public Law 101-73, title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council is not responsible for any debts incurred by the Appraisal Subcommittee, nor are Appraisal Subcommittee funds available for use by the Council.

(2) Significant Accounting Policies

Basis of Accounting — The Council prepares its financial statements in accordance with accounting principles generally accepted in the United States (GAAP).

Revenues — Assessments are made on member organizations to fund the Council's operations based on expected cash needs and are recognized as revenue in the period in which they are assessed. Amounts over- or under-assessed due to differences between assessments and actual expenses are presented in the Council's Statements of Operations in the "Cumulative results of operations" line item during the year and then may be used to offset or increase the next year's assessment. Deficits in "Cumulative results of operations" can be recouped in the following year's assessments.

The Council provides in-person and virtual training seminars in the Washington, D.C. area and at locations throughout the country for member organizations, other federal agencies, and state organizations. The Council recognizes revenue from member agencies for the production and distribution of the Uniform Bank Performance Reports (UBPR) through the FDIC. Tuition and UBPR revenue are adjusted at year-end to match expenses incurred as a result of providing education classes and UBPR services. For differences between revenues and expenses, member agencies are assessed an additional amount or credited a refund based on each member's proportional cost for the examiner education and UBPR budget. The Council recognizes revenue from member agencies for expenses incurred related to the Central Data Repository (CDR) processing system, the Community Reinvestment Act (CRA) processing system, and the Geocoder and Census Product Services (Other Revenues).

Equipment and Software — Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed and any gain or loss is recognized. Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor enhancements related to software are charged to operating expense in the year incurred. The CDR system, which consists of internally developed software projects, are recorded at cost less accumulated depreciation; unique useful lives are applied to these assets as appropriate.

Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities 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. Significant items subject to such estimates include useful lives of the CDR and the HMDA processing systems previously maintained by the FRB.

Leases — Leases are identified in accordance with the Financial Accounting Standards Board (FASB), ASC 842. The Council’s leases involve lessee arrangements for office and classroom space and equipment that are classified as operating leases. The Council’s discount rate is based on a risk-free Treasury borrowing rate at lease commencement using a period comparable to the lease term. The Council elected to utilize the transition package of practical expedients permitted under Topic 842, which, among other things, allowed the Council to carry forward the historical lease classification. Additionally, the Council made an accounting policy election to exempt short-term leases (with an initial term of 12 months or less) from the provisions of Topic 842, which resulted in recognition of the related lease payments on a straight-line basis over the lease term, consistent with prior treatment under Topic 840. The Council did not elect the “hindsight” practical expedient when determining the lease terms under Topic 842.

Accounts Receivable — Accounts receivable for members and nonmembers are shown net of the allowance for doubtful accounts. In 2023, the Council adopted FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended. This update introduced the current expected credit loss (CECL) methodology for measuring the allowance for doubtful accounts. The allowance for doubtful accounts is reviewed monthly, based on the Council’s historical experiences, current conditions, and reasonable and supportable forecasts of its outstanding receivables. Based on this method, the Council currently believes its receivables to be fully collectible.

Prepaid Expenses — The Council recognizes expenses as prepaid for costs paid in advance that will be expensed with the passage of time or upon the occurrence of a triggering event in future periods.

Commitments and contingencies — Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Tax Exempt Status — The Council is not subject to state or local income taxes, and federal law does not impose taxes on the Council’s income.

(3) Selected Transactions with Member Agencies

	2023	2022
Accounts receivable:		
Board of Governors of the Federal Reserve System	\$ 181,407	\$ 123,980
Consumer Financial Protection Bureau	38,693	18,000
Federal Deposit Insurance Corporation	221,309	139,759
National Credit Union Administration	38,693	18,000
Office of the Comptroller of the Currency	184,656	126,255
	<u>\$ 664,758</u>	<u>\$ 425,994</u>
Accounts payable and accrued liabilities:		
Board of Governors of the Federal Reserve System	\$ 385,513	\$ 870,604
Consumer Financial Protection Bureau	32,475	31,459
Federal Deposit Insurance Corporation	122,248	592,910
National Credit Union Administration	109,639	129,129
Office of the Comptroller of the Currency	64,950	296,104
	<u>\$ 714,825</u>	<u>\$ 1,920,206</u>
Operations:		
Council operating expenses reimbursed by members	\$ 1,625,385	\$ 1,654,459
FRB-provided administrative support	\$ 1,088,275	\$ 1,002,400
FRB-provided data processing	\$ 1,498,465	\$ 1,156,780
Tuition revenue:		
Member tuition	\$ 4,616,364	\$ 4,242,045

* As part of the 2022 Budget, the Council approved \$311,200 for the Website Modernization Effort, but it has been delayed to 2024. As a result, the balance is reflected within Deferred Revenue under Current Liabilities for 2023 and 2022.

Member agencies of the Council detail personnel to support Council operations. The salaries and related costs presented on the Statement of Operations represent the amounts which the Council has reimbursed member agencies. These detailed personnel are paid through the payroll systems of their respective member agency. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel are included in the plans of the member agencies.

Member agencies are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services is not included in the accompanying financial statements.

(4) Central Data Repository

In 2003, the Council entered into an agreement with Unisys to enhance the methods and systems used to collect, validate, process, and distribute Call Report information used by member organizations, and to store this information in the CDR. The CDR was placed into service in October 2005. Since 2005, the CDR has undergone several enhancements which extended its useful

life. As of December 31, 2023, the CDR asset value is \$21,839,856 and is fully depreciated. The Council also pays for hosting and maintenance expenses for the CDR and recognizes the associated revenue from members.

CDR Financial Activity — The Council is funding the program by billing the three participating Council member agencies (FRB, FDIC, and OCC). The accounts payable and accrued liabilities related to the main supplier for CDR who provides the maintenance and support services are \$243,000 and \$263,000 as of December 31, 2023 and 2022, respectively.

(5) Leases

In 2020, the Council agreed to the option to extend for another five years an operating lease with the FDIC to secure office and classroom space and in February 2021 the agreement was officially executed. In 2023, the Council entered into operating leases for copier equipment, which resulted in the recording of ROU assets and corresponding lease liabilities of \$223,576 and \$223,576, respectively, as of December 31, 2023. The Council's current lease arrangements expire through 2028.

The Council's lease population does not include any residual value guarantees, and therefore none were considered in the calculation of the right-of-use (ROU) asset and lease liability balances. The Council has leases that contain variable payments, most commonly in the form of common area maintenance charges, which are based on actual costs incurred. These variable payments were excluded from the calculation of the ROU asset and lease liability balances since they are not fixed or in-substance fixed payments.

For leases with terms greater than 12 months, the FFIEC records the related ROU assets and lease liabilities at the present value of lease payments over the lease terms. For leases with an initial term of 12 months or less (with purchase options or extension options that are not reasonably certain to be exercised), the Council does not record them on the balance sheet, but instead recognizes lease expense on a straight-line basis over the terms of the leases.

Lease cost. The Council's lease cost was comprised of the following components for the years ended December 31, 2023 and 2022:

	2023	2022
Operating lease cost	\$ 400,410	\$ 407,535
Variable lease cost	17,019	10,987
Total lease cost	<u>\$ 417,429</u>	<u>\$ 418,522</u>

Lease commitments. The Council's future minimum lease payments required under operating leases as of December 31, 2023 were as follows:

	<u>Operating Leases</u>
2024	\$ 397,354
2025	402,147
2026	50,798
2027	50,798
2028	46,566
Thereafter	-
Total lease payments	947,663
Less imputed interest	18,888
Present value of lease payments	928,775
Less current maturities of lease obligations	396,080
Long-term lease obligations	<u>\$ 532,695</u>

In order to calculate the ROU asset and lease liability for a lease, Topic 842 requires that a lessee apply a discount rate equal to the rate implicit in the lease whenever that rate is readily determinable. The Council's lease agreements do not provide a readily determinable implicit rate, nor is the rate available to the Council from its lessors. Therefore, as permitted under Topic 842 for non-public business entities in such situations, management estimates the Council's risk-free rate (U.S. Treasury rate), as determined using a period comparable with that of the lease term. The risk-free rate, which is based on information available at either the implementation date of Topic 842 or at lease commencement for leases entered into subsequently, is used to discount the remaining lease payments to present value.

Additional lease information. Additional information related to the Council's leases as of December 31, 2023 and 2022 was as follows:

	2023	2022
Weighted Average Remaining Lease Term		
Operating leases	2.71 years	2.89 years
Weighted Average Discount Rate		
Operating leases	1.37%	0.43%

Supplemental cash flow information. Supplemental cash flow information related to the Council's leases during the years ended December 31, 2023 and 2022 was as follows:

	2023	2022
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 406,978	\$ 416,394

(6) Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2023. Subsequent events were evaluated through February 22, 2024, which is the date the financial statements were available to be issued.

* * * * *