

ReadWorks, Inc.

Audited Financial Statements

August 31, 2023

ReadWorks, Inc.

Audited Financial Statements

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C O N T E N T S

	Page
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14



Independent Auditor's Report

To the Board of Directors of
ReadWorks, Inc.

Opinion

We have audited the accompanying financial statements of ReadWorks, Inc. (the "Organization"), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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 Organization as of August 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 accounting principles generally accepted in the United States of America, 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 Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's 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 auditor's 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 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, 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 Organization'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 Organization'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 Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 13, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sax CPAs LLP

New York, NY
July 17, 2024

ReadWorks, Inc.

Statement of Financial Position

As of August 31, 2023
(With comparative totals as of August 31, 2022)

	<u>August 31,</u>	
	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,434,930	\$ 660,412
Pledges receivable	1,015,457	201,349
Licensing income receivable	-	15,283
Property and equipment, net	9,057	13,473
Investments held for board designated reserve	<u>226,023</u>	<u>249,188</u>
TOTAL ASSETS	<u>\$ 2,685,467</u>	<u>\$ 1,139,705</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 82,239</u>	<u>\$ 126,064</u>
Total liabilities	<u>82,239</u>	<u>126,064</u>
NET ASSETS		
Without donor restrictions		
Operations	1,304,245	532,453
Board designated	<u>226,023</u>	<u>249,188</u>
Total without donor restrictions	<u>1,530,268</u>	<u>781,641</u>
With donor restrictions	<u>1,072,960</u>	<u>232,000</u>
Total net assets	<u>2,603,228</u>	<u>1,013,641</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,685,467</u>	<u>\$ 1,139,705</u>

The attached notes and auditor's report are an integral part of these financial statements.

ReadWorks, Inc.

Statement of Activities

For the Year Ended August 31, 2023
(With comparative totals for the year ended August 31, 2022)

	Without Donor Restrictions			With Donor Restrictions	Total 8/31/23	Total 8/31/22
	Operations	Board Designated	Total			
PUBLIC SUPPORT AND REVENUE						
Contributions and fundraising	\$ 3,396,764	\$ -	\$ 3,396,764	\$ 975,000	\$ 4,371,764	\$ 1,731,169
Contract services	124,646	-	124,646	-	124,646	37,984
Licensing income	96,719	-	96,719	-	96,719	110,028
Net investment return	(1,494)	5,127	3,633	-	3,633	(15,094)
Miscellaneous income	-	-	-	-	-	6,814
Net assets released from board designated	28,292	(28,292)	-	-	-	-
Net assets released from restrictions	134,040	-	134,040	(134,040)	-	-
Total public support and revenue	3,778,967	(23,165)	3,755,802	840,960	4,596,762	1,870,901
EXPENSES						
Program services:						
Curriculum	813,075	-	813,075	-	813,075	533,881
Teacher training	231,632	-	231,632	-	231,632	284,599
Online delivery, assessment and evaluation	1,043,639	-	1,043,639	-	1,043,639	1,001,646
Client development	461,164	-	461,164	-	461,164	331,952
Total program services	2,549,510	-	2,549,510	-	2,549,510	2,152,078
Supporting services:						
Management and general	225,343	-	225,343	-	225,343	140,150
Fundraising	232,322	-	232,322	-	232,322	325,906
Total supporting services	457,665	-	457,665	-	457,665	466,056
Total expenses	3,007,175	-	3,007,175	-	3,007,175	2,618,134
Change in net assets	771,792	(23,165)	748,627	840,960	1,589,587	(747,233)
NET ASSETS, beginning of year	532,453	249,188	781,641	232,000	1,013,641	1,760,874
NET ASSETS, end of year	\$ 1,304,245	\$ 226,023	\$ 1,530,268	\$ 1,072,960	\$ 2,603,228	\$ 1,013,641

The attached notes and auditor's report are an integral part of these financial statements.

ReadWorks, Inc.

Statement of Functional Expenses

For the Year Ended August 31, 2023
(With comparative totals for the year ended August 31, 2022)

	Program Services				Supporting Services			Total Expenses 08/31/23	Total Expenses 08/31/22	
	Curriculum	Teacher Training	Online Delivery Assessment & Evaluation	Client Development	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries	\$ 489,851	\$ 181,216	\$ 570,110	\$ 252,979	\$ 1,494,156	\$ 91,084	\$ 96,450	\$ 187,534	\$ 1,681,690	\$ 1,472,692
Payroll taxes and benefits	76,336	28,240	88,843	39,423	232,842	14,195	15,030	29,225	262,067	207,661
Total personnel expenses	566,187	209,456	658,953	292,402	1,726,998	105,279	111,480	216,759	1,943,757	1,680,353
Professional fees and services	206,433	15,666	364,996	95,379	682,474	45,367	80,342	125,709	808,183	824,593
Occupancy	617	500	1,323	323	2,763	59	118	177	2,940	2,265
Curriculum materials	17,457	-	-	-	17,457	-	-	-	17,457	3,048
Insurance	2,926	2,369	6,270	1,533	13,098	279	557	836	13,934	12,152
Membership fees	954	-	193	14,950	16,097	880	-	880	16,977	33,602
Communications and IT	1,549	1,254	4,585	811	8,199	148	295	443	8,642	6,417
Printing	-	-	-	-	-	2,121	696	2,817	2,817	7,934
Office supplies and equipment	2,949	2,387	6,999	1,545	13,880	-	10,390	10,390	24,270	13,248
Conferences	13,821	-	320	54,076	68,217	729	27,840	28,569	96,786	1,091
Postage and shipping	-	-	-	-	-	2,084	-	2,084	2,084	2,452
Travel	-	-	-	124	124	33,353	67	33,420	33,544	9,833
Other expenses	182	-	-	21	203	21,037	537	21,574	21,777	14,141
Bank charges	-	-	-	-	-	9,590	-	9,590	9,590	2,388
Total expenses before depreciation and amortization	813,075	231,632	1,043,639	461,164	2,549,510	220,926	232,322	453,248	3,002,758	2,613,517
Depreciation and amortization	-	-	-	-	-	4,417	-	4,417	4,417	4,617
Total expenses	\$ 813,075	\$ 231,632	\$ 1,043,639	\$ 461,164	\$ 2,549,510	\$ 225,343	\$ 232,322	\$ 457,665	\$ 3,007,175	\$ 2,618,134

The attached notes and auditor's report are an integral part of these financial statements.

ReadWorks, Inc.

Statement of Cash Flows

For the Year Ended August 31, 2023
(With comparative totals for the year ended August 31, 2022)

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,589,587	\$ (747,233)
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:		
Depreciation and amortization	4,417	4,617
Realized and unrealized (gain)/loss on investments	2,756	19,398
Changes in assets and liabilities:		
Pledges receivable	(814,108)	343,517
Licensing income receivable	15,283	(15,283)
Accounts payable and accrued expenses	(43,825)	83,197
Total adjustments	<u>(835,477)</u>	<u>435,446</u>
Net cash provided by/(used for) operating activities	<u>754,110</u>	<u>(311,787)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(9,218)
Purchases of investments (dividends re-invested)	(6,213)	(32,813)
Sales of investments	26,621	-
Net cash provided by/(used for) investing activities	<u>20,408</u>	<u>(42,031)</u>
Net increase (decrease) in cash and cash equivalents	774,518	(353,818)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	<u>660,412</u>	<u>1,014,230</u>
CASH AND CASH EQUIVALENTS, <i>end of year</i>	<u>\$ 1,434,930</u>	<u>\$ 660,412</u>

SUPPLEMENTAL INFORMATION

No interest or taxes were paid.

The attached notes and auditor's report are an integral part of these financial statements.

ReadWorks, Inc.

Notes to Financial Statements

August 31, 2023

Note 1 - Nature of the Organization

ReadWorks, Inc. (the "Organization") was formally introduced in November 2010. As a Brooklyn-based edtech non-profit, ReadWorks is focused on improving reading comprehension through our digital platform, providing research-based content, curricular supports, and other features that integrate with core English Language Arts (ELA) curricula.

Curriculum: At ReadWorks, we have a deep-seated belief that ALL students deserve a high-quality reading education, one that is based on research, in order to give them the best possible chance at success in school and in life. By providing reading content that reflects the diversity of our world - and that is freely accessible to all - we work to ensure that every child can see themselves reflected in their reading materials. By providing free materials to make all teachers more effective at teaching regardless of zip code, we are doing our part to move closer to a world of successful readers with bright futures ahead.

Teacher Training: With over 5,500 texts, ReadWorks offers one of the largest, highest-quality libraries of curated nonfiction texts in the country, with research-based curricular supports and formative assessments. Our products offer digital tools for differentiation to help teachers support English language learners, struggling students, and reluctant readers. Our digital supports include eBooks, human-voice audio, less complex texts to scaffold content (StepReads), and more. We also offer free training through webinars.

Online Delivery, Assessment and Evaluation: It is this unique combination of high-quality content, an easy-to-use platform that includes numerous features and tools, and teacher guidance that has created our incredible community of educators and helped us grow to reach over 13.1 million students each year, enabling greater impact than other organizations.

Client Development: ReadWorks content and learning partnerships include the American Museum of Natural History, the New-York Historical Society, the Schomburg Center, the International Quilt Museum of Lincoln, Nebraska, the National Fish and Wildlife Foundation, the New York Philharmonic, and more. Research partnerships include New York University's BetaEd and STERN, Harvard's Opportunity Insights, Digital Promise, TNTP, Chapman University, and others. ReadWorks has been supported by the Brooke Astor Fund for NY City Education, the Bill and Melinda Gates Foundation, the William R. Kenan, Jr. Charitable Trust, Robin Hood, Travelers Foundation, GEICO Foundation, and the Robert and Ardis James Foundation.

The primary sources of revenue for the Organization are contributions and content sub-licensing agreements.

The Organization has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income tax under Section 501 (c) 3 of the Internal Revenue Code and has not been determined to be a private foundation.

ReadWorks, Inc.

Notes to Financial Statements

August 31, 2023

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recording revenue and expenses when earned or incurred rather than received or paid.

The financial statements are presented in accordance with the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 958 - *Presentation of Financial Statement of Not-For-Profit Entities*. FASB ASC 958 requires the Organization to report information regarding its financial position and activities according to the following specific classes of net assets:

- *Net Assets without Donor Restrictions* - represents those resources for which there are no restrictions by donors as to their use. The Board of Directors has designated the investment account as a board designated fund, to serve as a reserve for operating contingencies. Any portion of these funds may be expended upon approval of the Board of Directors, with any such use including a formally adopted and realistic plan to replenish the funds in a reasonable timeframe.
- *Net Assets with Donor Restrictions* - relates to contributions of cash or other assets with donor stipulations that make clear the assets' restriction, either due to a program nature or by the passage of time.

b. Recently Adopted Accounting Standard

During the year ended August 31, 2023, the Organization adopted Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-02, Leases. The ASU requires lessees to recognize leases on the statement of financial position as right-of-use ("ROU") assets and lease liabilities based on the value of the discounted future lease payments. The Organization adopted an accounting policy to not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. Adoption of this standard did not have a material impact on the Organization's financial statements.

Additionally, during the year ended August 31, 2023, the Organization adopted FASB's ASU No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures. Adoption of this standard did not have a material impact on the Organization's financial statements.

ReadWorks, Inc.

Notes to Financial Statements

August 31, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

c. Revenue Recognition

The Organization follows the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 606 for recognizing revenue from contracts with customers. Licensing income and contract services income fall under FASB ASC 606. The Organization analyzes each source of revenue to determine that it has a contract with the customer that identifies both the performance obligation and the transaction price. Revenue is recognized when the performance obligation is completed. Payments received in advance of the completion of the earnings process are reported as deferred revenue.

The Organization receives licensing income in exchange for the right of a third party to access the Organization's educational materials. Licensing income is recognized as performance obligations are met by the Organization by making the materials available to third parties over the course of the fiscal year.

Contract services are recognized as revenue when the performance obligation is met at the time the Organization provides services as detailed in the contract to the third party.

The Organization follows the requirements of FASB ASC 958-605 for recording contributions, which are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions that do not contain donor restrictions are recorded in the class of net assets without donor restrictions. Contributions that do contain donor restrictions are recorded in the class of net assets with donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified in the class of net assets without donor restrictions.

Contributions may be subject to conditions which are defined as both a barrier to entitlement and a right of return of payments or release from obligations and are recognized as income once the conditions have been substantially met.

Unconditional promises to give that are expected to be received in less than one year are recorded at net realizable value. Those that are due in greater than one year are recorded at fair value, which is calculated using risk adjusted present value techniques. Long-term promises to give are treated as time restricted until the period they are due, at which time they will be released from restriction and counted towards operations. Pledges are reviewed for collectability.

Outstanding receivables from fees, contributions, and grants are reviewed on an annual basis and an allowance for doubtful accounts is maintained based on historical trends and past collection data to assess the likelihood of future payments. As of August 31, 2023 and 2022, no allowance was deemed necessary.

d. Cash and Cash Equivalents

The Organization considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

ReadWorks, Inc.

Notes to Financial Statements

August 31, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

e. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to a concentration of credit risk consist of cash, money market accounts and investment securities, which are placed with financial institutions that management deems to be creditworthy. At times and at year end, balances may exceed federally insured limits. A portion of the funds is not insured; however, the Organization has not experienced any losses from these accounts.

The market value of investments is subject to fluctuation; however, management believes the investment policy is prudent for the long-term welfare of the Organization.

f. Investments

Investments with readily available market prices are carried at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are included in income on the statement of activities. See Note 3 for additional information.

g. Property and Equipment

Property and equipment over \$1,000 to which the Organization retains title and capital items purchased, which benefit future periods, are capitalized at cost, or if donated, at the estimated fair value at the time of donation.

Property and equipment consists of furniture, equipment, computers, computer software, and website costs, which are carried at cost and depreciated over their estimated useful lives using the straight-line method.

h. In-Kind Contributions

The Organization recognizes contributions of services that create or enhance non-financial assets or require specialized skills, that are provided by those possessing those skills and would have been paid if not contributed.

i. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

j. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

ReadWorks, Inc.

Notes to Financial Statements

August 31, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

j. Functional Allocation of Expenses - Continued

The following costs are allocated by time and effort:

- Salaries
- Payroll taxes and benefits
- Occupancy
- Insurance
- Communications and IT
- Office supplies and equipment
- Depreciation and amortization

All other expenses have been charged directly to the applicable program or supporting services.

k. Advertising Costs

Advertising costs are expensed as incurred.

l. Accounting for Uncertainty of Income Taxes

The Organization does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending August 31, 2020 and later are subject to examination by applicable taxing authorities.

m. Summarized Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2022, from which the summarized information was derived.

n. New Accounting Pronouncement

FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses* ("Topic 326"). The ASU, which becomes effective for the August 31, 2024 year, requires Financial assets, which potentially subject the Organization to credit losses to be reflected on the statement of financial position. Expected losses are recorded to an allowance for credit losses valuation account that is net against the corresponding asset to present the net amount expected to be collected on the financial asset. The credit loss allowance is determined through analysis of the financial assets and assessments of risk that are based on historical trends and evaluation of the impact of current and projected economic conditions.

The Organization is in the process of evaluating the impact this standard will have on future statements.

ReadWorks, Inc.

Notes to Financial Statements

August 31, 2023

Note 3 - Investment Income

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

All investments consist of a fixed income securities mutual fund which was measured using Level 1 inputs.

Net investment return consists of the following:

	August 31,	
	2023	2022
Interest and dividend income - investments	\$ 6,213	\$ 4,103
Interest income - money market	176	201
Realized gain on investments	4,243	850
Unrealized loss on investments	(6,999)	(20,248)
Total	<u>\$ 3,633</u>	<u>\$ (15,094)</u>

Note 4 - Pledges Receivable

Pledges receivable are expected to be collected in the following periods:

	August 31,	
	2023	2022
Year ending:		
August 31, 2023	\$ -	\$ 101,349
August 31, 2024	823,457	100,000
August 31, 2025	200,000	-
	<u>1,023,457</u>	<u>201,349</u>
Less: discount on long-term receivables of 4.17%	(8,000)	-
Total contributions receivable, net	<u>\$ 1,015,457</u>	<u>\$ 201,349</u>

ReadWorks, Inc.

Notes to Financial Statements

August 31, 2023

Note 8 - Commitments and Contingencies

In the normal course of business, the Organization could be subject to claims, lawsuits, and other matters that are subject to uncertain future events. Management has not been advised by legal counsel that there are any matters that are probable of future payouts and no reserves have been established.

Note 9 - Retirement Plan

The Organization has a retirement plan under IRS Section 403(b). Eligible employees may contribute pre-tax amounts of their salary up to IRS maximum limits. No employer contributions are required to be made.

Note 10 - Availability and Liquidity

The Organization maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management, the Organization operates its programs within a board approved budget and relies on contributions and earned income to fund its operations and program activities.

The following reflects the Organization's financial assets that are available to meet cash needs for general expenditures within one year of the date of the statements of financial position:

Financial assets at year-end:		
Cash and cash equivalents	\$ 1,434,930	
Investments held for board designated reserve	226,023	
Pledges receivable - due in one year	823,457	
Total financial assets		\$ 2,484,410
Less amounts not available for general expenditures:		
Board designated fund		(226,023)
Net asset with donor restrictions - programs		(72,960)
Total amount not available for general expenditures:		(298,983)
Financial assets available to meet cash needs for general expenditures within one year		<u>\$ 2,185,427</u>

Note 11 - Subsequent Events

Subsequent events have been evaluated through July 17, 2024, the date the financial statements were available to be issued. There were no material events that have occurred that required adjustment to or disclosure to the financial statements.