JohnsonLambert LLP
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International Research & Exchanges Board, Inc.

Audited Consolidated Financial Statements,

Years ended June 30, 2018 and 2017
with Report of Independent Auditors

International Research & Exchanges Board, Inc.

Audited Consolidated Financial Statements,

Years ended June 30, 2018 and 2017

Contents

Report of Independent Auditors

Board of Directors
International Research & Exchanges Board, Inc.

We have audited the accompanying consolidated financial statements of International Research & Exchanges Board, Inc. (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Research & Exchanges Board, Inc. as of June 30, 2018 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - 2017 Consolidated Financial Statements

The consolidated financial statements of International Research & Exchanges Board, Inc. as of and for the year ended June 30, 2017, were audited by another auditor whose report dated May 8, 2018 expressed an unmodified opinion on those statements and included an other matter paragraph that described the purpose of the supplemental information included in the report.

Johnson Lambert LLP

Vienna, Virginia
March 11, 2019

International Research & Exchanges Board, Inc.

Consolidated Statements of Financial Position

	June 30, 2018	June 30, 2017
Assets		
Cash and cash equivalents	$ 3,403,217	$ 3,825,834
Short-term investments	1,060,168	915,053
Grants receivable, net of reserve for potential disallowed costs of approximately $92,200 and $181,300 for 2018 and 2017, respectively	5,140,880	3,142,346
Prepaid expenses and other assets	2,086,679	895,799
Property and equipment, net	1,749,579	2,093,557
Long-term investments	10,505,346	11,058,506
Total assets	$ 23,945,869	$ 21,931,095
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	$ 4,880,901	$ 4,881,099
Deferred revenue	5,768,812	3,842,982
Deferred rent	2,323,846	2,493,308
Total liabilities	12,973,559	11,217,389
Net assets:		
Unrestricted	8,724,887	8,493,895
Temporarily restricted	863,423	835,811
Permanently restricted	1,384,000	1,384,000
Total net assets	10,972,310	10,713,706
Total liabilities and net assets	$ 23,945,869	$ 21,931,095

See accompanying notes to the consolidated financial statements.

International Research & Exchanges Board, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Federal grants and contracts	$ 81,020,657	$ -	$ -	$ 81,020,657
Private grants and contracts	2,541,832	-	-	2,541,832
Contributions	246,329	-	-	246,329
Other revenue	49,954	-	-	49,954
In-kind support	8,153,711	-	-	8,153,711
Total revenue and other support	92,012,483	-	-	92,012,483
Expenses				
Program activities	72,360,253	-	-	72,360,253
In-kind expenses	8,153,711	-	-	8,153,711
Total program expenses	80,513,964	-	-	80,513,964
Other expenses				
General administration	12,035,103	-	-	12,035,103
Total expenses	92,549,067	-	-	92,549,067
Change in net assets before investment return, net	(536,584)	-	-	(536,584)
Investment return, net	767,576	27,612	-	795,188
Change in net assets	230,992	27,612	-	258,604
Net assets, beginning of year	8,493,895	835,811	1,384,000	10,713,706
Net assets, end of year	$ 8,724,887	$ 863,423	$ 1,384,000	$ 10,972,310

See accompanying notes to the consolidated financial statements.

International Research & Exchanges Board, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Federal grants and contracts	$ 74,109,617	$ -	$ -	$ 74,109,617
Private grants and contracts	4,664,720	-	-	4,664,720
Contributions	131,793	-	-	131,793
Other revenue	51,014	-	-	51,014
In-kind support	7,524,929	-	-	7,524,929
Total revenue and other support	86,482,073	-	-	86,482,073
Expenses				
Program activities	69,725,396	-	-	69,725,396
In-kind expenses	7,524,929	-	-	7,524,929
Total program expenses	77,250,325	-	-	77,250,325
Other expenses				
General administration	10,051,083	-	-	10,051,083
Total expenses	87,301,408	-	-	87,301,408
Change in net assets before investment return, net	(819,335)	-	-	(819,335)
Investment return, net	1,176,092	46,373	-	1,222,465
Change in net assets	356,757	46,373	-	403,130
Net assets, beginning of year	8,137,138	789,438	1,384,000	10,310,576
Net assets, end of year	$ 8,493,895	$ 835,811	$ 1,384,000	$ 10,713,706

See accompanying notes to the consolidated financial statements.

International Research & Exchanges Board, Inc.

Consolidated Statements of Cash Flows

	Years ended June 30, 2018	2017
Cash flows from operating activities		
Change in net assets	$ 258,604	$ 403,130
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	398,658	491,073
Reserve for potential disallowed costs	(89,118)	181,318
Net realized and unrealized gain on long-term investments	(795,188)	(1,243,165)
Changes in assets and liabilities:		
Grants receivable	(1,909,416)	(2,466,037)
Prepaid expenses and other assets	(1,190,880)	876,219
Accounts payable and accrued expenses	(198)	2,008,397
Deferred rent	(169,462)	(127,349)
Deferred revenue	1,925,830	74,349
Net cash (used in) provided by operating activities	(1,571,170)	197,935
Cash flows from investing activities		
Proceeds from sale of investments	1,348,348	1,841,823
Purchase of investments	(145,115)	-
Purchase of property and equipment	(54,680)	(115,234)
Net cash provided by investing activities	1,148,553	1,726,589
Net change in cash and cash equivalents	(422,617)	1,924,524
Cash and cash equivalents, beginning of year	3,825,834	1,901,310
Cash and cash equivalents, end of year	$ 3,403,217	$ 3,825,834

See accompanying notes to the consolidated financial statements.

Note A - Summary of Significant Accounting Policies and General Information

Nature of Operations

The International Research & Exchanges Board, Inc. (IREX or the Organization), is an international nonprofit organization dedicated to the advancement of knowledge. Central to its mission is the empowering of individuals and institutions to participate meaningfully in civil society. IREX contributes to the development of students, scholars, policymakers, business leaders, journalists, and other professionals; strengthens independent media, academic, public, and nongovernmental institutions; and makes the knowledge and skills developed through its programs available to universities, foundations, policymakers, and the corporate sector. IREX administers programs between the United States and the countries of Eastern Europe, Asia, the Near East, Latin America and Africa. A significant portion of IREX's operations is carried out in foreign countries.

IREX receives funds from the Department of State (DOS), United States (U.S.) Agency for International Development (USAID), other federal agencies, and private-sector sources. Approximately 86 percent of the funds received in 2018 and 2017, respectively, were through awards from the U.S. government.

The Academy for International Development Education and Research, LLC (AIDER) was registered as a limited liability company under the laws of the Commonwealth of Virginia effective March 1, 2017. The purpose of AIDER is to support the mission of IREX and the advancement of standards in global education, information and media and to support the empowerment of youth in leading and developing their own communities. AIDER has a subsidiary incorporated in the Republic of Turkey, Consultancy Solutions, LLC, which is included in AIDER's financial results.

Together We Thrive, LLC (TWT) is a limited liability company whose mission is to build more just, prosperous and inclusive societies around the world by empowering youth, cultivating leaders, strengthening institutions and extending access to quality education and information.

Basis of Presentation

IREX prepares its consolidated financial statements on the accrual basis of accounting.

Principles of Consolidation

In order to carry forward its mission IREX has a number of field offices in foreign countries. To comply with the legal requirements of certain host countries, IREX has registered separate field offices in such countries. All activities of the field offices noted above, AIDER and TWT are reflected in the accompanying consolidated financial statements. All significant inter-entity transactions and balances have been eliminated in consolidation.

Note A - Summary of Significant Accounting Policies and General Information (Continued)

Revenue Recognition
Grants, cooperative agreements and contracts are awarded to the Organization from U.S. government agencies and private organizations for the purpose of implementing mission-related projects. Grants, cooperative agreements and contracts received from U.S. government agencies are accounted for as exchange transactions, and accordingly, revenue is recognized when the qualifying expenditures are made. Revenue is recognized based on actual indirect rates incurred, billings are rendered using approved provisional rates. Any necessary adjustments will be recorded when final rates are approved by the U.S. government (USG). Final negotiated rates have been approved through 2016, and negotiated indirect rate agreement (NICRA) was signed by the cognizant agency on May 9, 2018.

Grants or contracts from private organizations may be accounted for as either exchange transactions or contributions, depending on the nature of the award. In an exchange transaction, revenue is recognized when the qualifying expenditures are made. Funds received related to these transactions not expended at year-end are recorded as deferred revenue. In a contribution transaction, revenue is recognized when the commitment is made by the donor. Funds received as donor-restricted contributions, but not expended at year-end are recorded as temporarily restricted net assets. The assets are released from restriction as revenue when the satisfaction of the restriction has been met.

Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Classification of Net Assets
The net assets, revenue, expenses, gains and losses of IREX are classified based on the existence, or absence, of donor-imposed restrictions. Accordingly, the net assets of IREX and the changes therein, are classified and reported as such:

> <u>Unrestricted</u>–Unrestricted revenues and operating expenses of IREX. Current investment earnings are available to support current operations.
>
> <u>Temporarily Restricted</u>–Investment returns on certain permanently restricted net assets. In addition, contributions restricted, as to time or purpose, by the donor. When the purpose or time period restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.
>
> <u>Permanently Restricted</u>–Funds that are restricted by donors requiring that the principal be invested in perpetuity. The earnings on these funds are used for operations in accordance with a spending policy approved by the Board of Directors or based on the restricted associated with the funds.

Note A - Summary of Significant Accounting Policies and General Information (Continued)

Expenses
Costs that can be identified specifically with a particular cost objective or project are charged directly to the applicable grant, cooperative agreement, or contract. Indirect costs are allocated to all applicable awards and functions based on actual costs incurred.

Cash and Cash Equivalents
For consolidated financial statement purposes, the Organization considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents except for those held in brokerage accounts or held for other than operating purposes which are classified as investments.

In-Kind Support
IREX receives in-kind contributions of tuition, materials, supplies, facilities, and other services from a number of contributors. These amounts are reflected as revenues and expenses at the estimated fair value when received in the accompanying consolidated statements of activities and changes in net assets.

Fixed Assets
Fixed assets are carried at cost. Depreciation of fixed assets is provided on the straight-line method over estimated useful lives of three to five years. Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of fixed assets, if any, are included in the accompanying consolidated statements of activities and changes in net assets.

The Organization occasionally purchases and expenses equipment for overseas projects with funds received from the USG and private grantors. Title is determined by the terms of the awards, usually title to the assets remains with the recipient, IREX, but the grantor generally retains control of the disposition of the equipment at the conclusion of the project. In most cases, at the conclusion of the project, the equipment is donated to local organizations. Proceeds, if any, from the sale of equipment under USG awards with a fair market value exceeding $5,000 are returned to the respective grantor.

The Organization capitalizes certain costs associated with computer software developed or obtained for internal use and website development. The Organization’s policy provides for the capitalization of external direct costs of materials and services. Costs associated with preliminary project stage activities, and post implementation stage activities, such as training and maintenance, are expensed as incurred. Costs capitalized are amortized over the useful life of the software or website on a straight-line basis which has been estimated at three years.

Note A - Summary of Significant Accounting Policies and General Information (Continued)

Income Tax
The Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

IREX is exempt from US federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. AIDER and TWT are disregarded entities for US federal income tax purposes.

Additionally, in certain circumstances, IREX is required to withhold federal income tax for payments of taxable scholarships, fellowships and grants to nonresident aliens. Federal income taxes were incurred relating to this of approximately $653,000 and $74,000 for the years ended June 30, 2018 and 2017, respectively.

No provision for income taxes has been recorded in 2018 and 2017 because management believes there is no material unrelated business income tax. IREX has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. IREX has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Fair Value of Financial Instruments
The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

> Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that IREX has the ability to access.
>
> Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the assets or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Note A - Summary of Significant Accounting Policies and General Information (Continued)

Fair Value of Financial Instruments (continued)

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Using Estimates in Preparing Financial Statements
In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required 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 consolidated financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk
Financial instruments which potentially subject IREX to concentrations of credit risk consist primarily of cash and cash equivalents. At times, the Organization maintains cash balances in financial institutions which may exceed federally insured limits. The Company has not experienced any losses in its accounts and believes it is not exposed to significant credit risk on its cash and cash equivalents.

Subsequent Events
IREX has evaluated its consolidated financial statements for subsequent events through March 11, 2019, the date the consolidated financial statements were available to be issued. IREX is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

Note B - Investments and Fair Value Measurements

The following is a description of the valuation methodologies and inputs used for assets measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

The following table sets forth IREX's short and long term investments measured at fair value within the fair value hierarchy as of June 30:

	2018	2017	Level
Short-term investments:			
Money market reserves and certificates of deposit	$ 1,060,168	$ 915,053	N/A
Total short-term investments	1,060,168	915,053	
Long-term investments:			
Mutual funds	10,505,346	11,058,506	1
Total long-term investments	10,505,346	11,058,506	
Total investments	$ 11,565,514	$ 11,973,559	

Investment return, net consists of the following for the years ended June 30:

	2018	2017
Unrealized gains, net	$ 546,649	$ 1,191,737
Realized gains, net	269,924	51,428
Investment management fees	(21,385)	(20,700)
Investment return, net	$ 795,188	$ 1,222,465

Mutual Funds

Investments in mutual funds are valued at the closing price reported on the active market on which the individual securities are traded.

Note C - Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Furniture, equipment and computer software	$ 2,280,955	$ 2,216,526
Leasehold improvements	2,948,870	2,948,890
	5,229,825	5,165,416
Accumulated depreciation	(3,480,246)	(3,071,859)
	$ 1,749,579	$ 2,093,557

The Organization recorded depreciation expense of $398,658 and $491,073 for the years ended June 30, 2018 and 2017, respectively.

Note D - Temporarily Restricted Net Assets

As of June 30, 2018 and 2017, temporarily restricted net assets consist of balances restricted for the purpose of conducting NEH endowment-supported programs. No material NEH endowment-supported programs were conducted during the years ended June 30, 2018 and 2017, and accordingly, no net assets relating to this purpose were released from restriction.

Temporarily restricted net assets at June 30, 2018 are as follows:

	Balance June 30, 2017	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2018
National Endowment for Humanities (NEH) endowment-supported programs	$ 835,811	$ 27,612	$ -	$ 863,423

Temporarily restricted net assets at June 30, 2017 are as follows:

	Balance June 30, 2016	Investment Gains	Net Assets Released from Restriction	Balance June 30, 2017
NEH endowment-supported programs	$ 789,438	$ 46,373	$ -	$ 835,811

Note E - Permanently Restricted Net Assets and Endowment

Permanently restricted net assets at June 30, 2018 and 2017 consist of the following endowment funds:

	2018	2017
NEH	$ 384,000	$ 384,000
Andrew W. Mellon Foundation (Mellon)	1,000,000	1,000,000
	$ 1,384,000	$ 1,384,000

Investment income earned on the Mellon endowment funds is available for general unrestricted purposes.

Investment income earned on the NEH endowment funds is to be used for support of humanities activities in education, public programming, scholarly research and preservation and is temporarily restricted until used for that purpose.

Interpretation of Relevant Law

The management of IREX has interpreted the District of Columbia "Uniform Prudent Management of Institutional Funds Act of 2007" (the Act), absent explicit donor stipulations to the contrary, to require IREX to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulated endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. IREX classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument, if applicable.

Endowment Spending Policy

On an annual basis, and subject to actual investment performance, the President of IREX is authorized to allocate, assign and earmark an amount equal to 5% of the endowment balance to be used to pay operating expenses. Should the total return from the endowment funds be less than 5% (over the trailing 36 months), 80% of the amount earned will be made available for use as operating expenses, and the remaining earnings must be reinvested.

Endowment Investment Policies

IREX's investments are managed in accordance with the Board adopted Investment Policy Statement. IREX's investment policy is to preserve the long-term real purchasing power of assets, while providing a long-term competitive rate of return on investments, net of expense, that is equal to or exceeds the appropriate benchmark returns over a three-year rolling period without additional risk as measured by the variability of returns.

Note E - Permanently Restricted Net Assets and Endowment (Continued)

Funds with Deficiencies
From time to time, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor requires IREX to retain as a fund of perpetual duration. Deficiencies of this nature for the NEH Endowment are reported in unrestricted net assets if the NEH temporary restricted funds prior years' accumulated investment income is not sufficient to cover the deficit. Any deficiencies for the Mellon Endowment are covered by unrestricted net assets.

Changes in endowment net assets for the year ended June 30, 2018 is as follows:

	June 30, 2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 835,811	$ 1,384,000	$ 2,219,811
Investment return, net	27,612	-	27,612
Endowment net assets, end of year	$ 863,423	$ 1,384,000	$ 2,247,423

Changes in endowment net assets for the year ended June 30, 2017 is as follows:

	June 30, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ 789,438	$ 1,384,000	$ 2,173,438
Investment return, net	46,373	-	46,373
Endowment net assets, end of year	$ 835,811	$ 1,384,000	$ 2,219,811

Note F - Retirement Plan

IREX has a defined contribution retirement plan, which covers eligible employees starting on their first day of service and funds are 100% vested immediately. From July 1, 2016 to December 31, 2016, employees who enrolled received 1:1 match on their salary deferrals up to 5% of their eligible compensation for the first two years of employment. After two years of cumulative eligible service, but less than ten years of cumulative eligible service, enrolled employees received a 2:1 match on their eligible compensation deferrals up to 5% of their gross salary. Enrolled employees with more than ten years of cumulative eligible service received a 3:1 match on their salary deferrals up to 5% of their eligible compensation.

Starting January 1, 2017, all eligible employees will receive 2% discretionary contribution on their eligible compensation. Employees who enroll will receive 1:1 match on their deferrals up to 5% of their eligible compensation.

During 2018 and 2017, IREX contributed $855,733 and $791,009, respectively, to the plan.

Note G - Commitments and Contingencies

Leases
The Organization leases certain facilities and equipment under non-cancelable operating lease agreements. Approximate future minimum lease payments are as follows:

Year Ending June 30,		
2019	$	2,262,000
2020		1,928,000
2021		1,933,000
2022		1,948,000
2023		1,958,000
Thereafter		3,532,000
	$	13,561,000

Rent expense for the years ended June 30, 2018 and 2017 (including field offices) was $1,992,998 and $1,553,670, respectively.

The Washington D.C. office lease provides for rent abatements, tenant improvement allowances, and escalation clauses, the value of which is amortized over the life of the lease. Deferred rent represents the difference between the minimum rental payments in accordance with the lease, and straight-line amortization of lease incentives.

Note H - Costs Subject to Audit

Costs incurred by IREX are subject to the regulations of granting agencies and may be disallowed after review and audit. Final negotiated rates have been approved through 2016. Management has established a reserve of approximately $92,200 and $181,318 for potential disallowed costs as of June 30, 2018 and 2017, respectively. Management believes adjustments, if any, in excess of this reserve would not be material to the consolidated financial statements or major programs.