

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

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Fick, Eggemeyer & Williamson

Certified Public Accountants, PC



MEMBERS OF THE
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lutheran Elementray School Association

We have audited the accompanying financial statements of Lutheran Elementray School Association (a non-profit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Elementray School Association as of June 30, 2016, 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.

Report on Summarized Comparative Information

We have previously reviewed the Lutheran Elementray School Association 2015 financial statements, and issued our report dated August 24, 2015. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we did not express such an opinion.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental statement of functional expenses and the supplemental statement of activities - by class are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fick, Eggemeyer & Williamson
Fick, Eggemeyer, & Williamson CPAs
Saint Louis, MO
October 14, 2016

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
STATEMENT OF FINANCIAL POSITION

June 30,	2016	(Unaudited) 2015
<u>ASSETS</u>		
Cash and cash equivalents	\$ 549,239	\$ 493,888
Investments - note 6	6,008,955	5,698,750
Grants receivable - note 2	141,000	130,000
Pledges receivable	-	5,300
Other assets	63,832	61,530
	6,763,026	5,989,543
 Total current assets		
Property and equipment - note 4	18,671	18,671
Accumulated depreciation and amortization	(18,479)	(17,953)
	192	718
 Total property and equipment		
 Total assets	\$ 6,763,218	\$ 6,390,186
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 55	\$ -
Payroll taxes payable	5,715	5,110
Other liabilities	2,095	1,880
Unearned grants	141,000	130,000
	148,865	136,990
 Total current liabilities		
 Total liabilities	136,990	136,990
<u>NET ASSETS</u>		
Unrestricted	2,432,151	1,999,946
Temporarily restricted	538,840	455,661
Permanently restricted	3,643,362	3,797,589
	6,614,353	6,253,196
 Total net assets		
 Total liabilities and net assets	\$ 6,763,218	\$ 6,390,186

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
STATEMENT OF ACTIVITIES

For the years ended June 30,				2016	(Unaudited) 2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Contributions	\$ 1,392	\$ 1,159,358	\$ -	\$ 1,160,750	\$ 934,560
Dues income	34,549	-	-	34,549	34,073
Fundraising income	311,482	-	-	311,482	287,382
Total support and revenue	347,423	1,159,358	-	1,506,781	1,256,015
Net assets released from restrictions	1,168,637	(1,168,637)	-	-	-
Total	1,516,060	(9,279)	-	1,506,781	1,256,015
Program expenses	799,083	-	-	799,083	647,966
Total program expenses	799,083	-	-	799,083	647,966
Support services					
Administration	162,727	-	-	162,727	174,342
Fundraising	123,482	-	-	123,482	140,658
Total support services	286,209	-	-	286,209	315,000
Total expenses	1,085,292	-	-	1,085,292	962,966
Changes in net assets from operations	430,768	(9,279)	-	421,489	293,049
Investment activities					
Dividend and interest income	1,437	92,458	-	93,895	306,524
Realized gain/(loss) on securities	-	-	54,986	54,986	99,965
Unrealized gain/(loss) on securities	-	-	(209,213)	(209,213)	(279,315)
Total investment activity	1,437	92,458	(154,227)	(60,332)	127,174
Changes in net assets	432,205	83,179	(154,227)	361,157	420,223
Net assets, beginning of year	1,999,946	455,661	3,797,589	6,253,196	5,832,973
Net assets, end of year	<u>\$ 2,432,151</u>	<u>\$ 538,840</u>	<u>\$ 3,643,362</u>	<u>\$ 6,614,353</u>	<u>\$ 6,253,196</u>

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
STATEMENT OF CASH FLOWS

For the years ended June 30,	2016	(Unaudited) 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 361,157	\$ 420,223
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	526	951
Changes in assets and liabilities:		
(Increase) decrease in grants receivable	(11,000)	20,000
(Increase) decrease in pledges receivable	5,300	(5,300)
(Increase) decrease in other assets	(2,302)	(2,769)
Increase (decrease) in accounts payable	55	(3,065)
Increase (decrease) in payroll taxes payable	605	(63)
Increase (decrease) in other liabilities	215	1,880
Increase (decrease) in unearned grants	11,000	(20,000)
Net cash provided by (used in) operating activities	365,556	411,857
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of and proceeds from investments	(464,432)	(425,216)
Net unrealized (gain)/loss on investments	209,213	279,315
Net realized (gain)/loss on sales	(54,986)	(99,965)
Net cash provided by (used in) investing activities	(310,205)	(245,866)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	-	-
Net increase (decrease) in cash and cash equivalents	55,351	165,991
Cash and cash equivalents - beginning of year	493,888	327,897
Cash and cash equivalents - end of year	\$ 549,239	\$ 493,888

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Lutheran Elementary School Association (the Association) is a Recognized Service Organization, designated by the Board of Congregational Services of The Lutheran Church-Missouri Synod. The Scholarship Fund serves the Metropolitan St. Louis Area by providing funding to support scholarships for under-privileged youth to attend private metro-area schools. The Association's support comes primarily from individual donors' contributions and various religious and social agency grants.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

These financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Income is recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards *Financial Statements of Not-for-Profit Organizations*. Under *Financial Statements of Not-for-Profit Organizations*, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - represent resources over which the Board of Directors has unlimited discretionary control to carry out the activities of the Association in accordance with the Articles of Incorporation and By-Laws.

Temporarily Restricted Net Assets - represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the Association or by the passage of time.

Permanently Restricted Net Assets - are subject to donor-imposed stipulations that the net assets be retained and invested permanently.

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give

Contributions and grants are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions or grants are recognized. All other donor-restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

The Association is exempt from income taxes pursuant to section 501(c)(3) of the Internal Revenue Service Code. Therefore, no provision is made for taxes on income.

The Association adopted the provisions of Accounting for Uncertainty in Income Taxes on July 1, 2010. The adoption of that guidance resulted in no change to the financial statements for prior periods. As of June 30, 2016, no amounts have been recognized for uncertain tax positions. The Association's tax returns filed prior to fiscal 2013 are closed.

Allowance for Doubtful Accounts

The Association considers grants receivable to be fully collectable; accordingly, the allowance for doubtful accounts balance is \$0.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents

The Association considers all highly liquid investments and certificates of deposit with a maturity of three months or less to be cash equivalents.

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are capitalized at cost. It is the Association's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. Equipment and furniture are being depreciated over estimated useful lives of five to seven years. Software is amortized over a three year period, on the straight-line basis.

Note 2 - GRANTS RECEIVABLE

The following grants were receivable at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Serving Children Through Lutheran Schools 2015-2016	\$ -	\$ 130,000
Serving Children Through Lutheran Schools 2016-2017	116,000	-
The Dana Brown Charitable Trust	<u>25,000</u>	<u>-</u>
	<u>\$ 141,000</u>	<u>\$ 130,000</u>

Note 3 - DONATED SERVICES

The Association receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

Note 4 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 15,772	\$ 15,772
Office furniture and equipment	2,070	2,070
Software	<u>829</u>	<u>829</u>
Total property and equipment	19,071	18,671
Less: accumulated depreciation and amortization	<u>(18,479)</u>	<u>(17,953)</u>
Total	<u>\$ 192</u>	<u>\$ 718</u>

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Depreciation expense for fiscal 2016 and 2015 were \$526 and \$951, respectively.

Note 5 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Association to credit risk consist principally of cash and investments. The Association places its cash and investments with quality institutions and attempts to limit the amount of credit exposure. The Association had cash deposits and securities in a brokerage account with United Missouri Bank of \$2,059,892 as of June 30, 2016. This balance is in excess of the Securities Investor Protection Corporation insurance limit of \$500,000 per investor.

The Association had cash deposits totaling \$291,063 with the Lutheran Church Extension Fund as of June 30, 2016. Deposits with the Lutheran Church Extension Fund are not insured.

The Association also had investments, totaling \$4,002,663, with Lutheran Legacy Foundation, Inc and \$67,898, with YouthBridge Community Foundation. as of June 30, 2016. Investments at the Lutheran Legacy Foundation and YouthBridge Community Foundation are not insured.

Note 6 - INVESTMENTS

Fair Value Measurements

Financial Accounting Standards Board Statement *Fair Value Measurements* establishes a framework for measuring fair value. That framework 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 and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under *Fair Value Measurements* are described below:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association 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 similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 6 - INVESTMENTS (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used for fiscal 2016.

Mutual, equity, fixed income, and exchange-traded funds: Valued at the net asset value of shares held by the Association at year end.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Funds held by the Lutheran Legacy Foundation (LLF) and YouthBridge Community Foundation (YB) are pooled with other investor accounts and invested jointly. The LLF and YB value the pool based on published closing prices of various securities on active exchanges.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of June 30, 2016 and 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2016 Total</u>	<u>2015 Total</u>
Equity Funds	\$ 459,949	\$ -	\$ -	\$ 459,949	\$ 505,211
Fixed Income Funds	368,906	-	-	368,906	317,422
Exchange-Traded Funds	31,035	-	-	31,035	26,142
Common Stocks	842,676	-	-	842,676	830,414
Corporate Bonds	210,520	-	-	210,520	161,680
U.S. Government Securities	25,308	-	-	25,308	26,277
Securities held by LLF	-	-	4,002,663	4,002,663	3,765,477
Securities held by YB	-	-	67,898	67,898	66,127
Total at fair value	<u>\$1,938,394</u>	<u>\$ -</u>	<u>\$4,070,561</u>	<u>\$6,008,955</u>	<u>\$5,698,750</u>

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 6 - INVESTMENTS (Continued)

The tables below set forth a summary of changes in the fair value of the Association's level 3 assets for the year ended June 30, 2016 and 2015:

	2016	2015
	<u>Securities held by LLF</u>	<u>Securities held by LLF</u>
Balance, beginning of year	\$ 3,765,477	\$ 3,489,876
Realized gains/(losses)	(34,758)	13,108
Unrealized gains/(losses) relating to instruments still held at the reporting date	(94,601)	(225,737)
Interest/dividends	42,625	249,831
Investment fees	(37,652)	(36,168)
Purchases, sales, issuances, and settlements (net)	361,572	274,567
Balance, end of year	<u>\$ 4,002,663</u>	<u>\$ 3,765,477</u>

Funds held by the LLF for the benefit of LESA can be returned to LESA only under three circumstances: 1. for a capital project 2. the Association has an extraordinary financial need 3. The LLF does not act as a prudent investment manager.

	<u>Securities held by YB</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 66,127	\$ -
Realized gains/(losses)	157	162
Unrealized gains/(losses) relating to instruments still held at the reporting date	(725)	1,011
Interest/dividends	1,363	1,117
Investment fees	(331)	(277)
Purchases, sales, issuances, and settlements (net)	1,307	64,114
Balance, end of year	<u>\$ 67,898</u>	<u>66,127</u>

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2016 and 2015 the following restricted activity balances comprised:

Temporarily Restricted Net Assets	<u>2016</u>	<u>2015</u>
LESA investment endowment		
Restricted for scholarships	\$ 290,808	\$ 196,521
Future operations and programs	248,032	137,790
Operations and programming endowment	<u>-</u>	<u>121,350</u>
Total	<u>\$ 538,840</u>	<u>\$ 455,661</u>
Permanently Restricted Net Assets	<u>2016</u>	<u>2015</u>
Cash - First National Bank	\$ 36,379	\$ 36,379
LESA investment endowment	<u>3,761,210</u>	<u>3,940,560</u>
Net Endowment*	3,797,589	3,976,939
Net realized and unrealized gains/losses on LESA endowment	<u>(154,227)</u>	<u>(179,350)</u>
Total	<u>\$ 3,643,362</u>	<u>\$ 3,797,589</u>

* LESA endowment is comprised of original investments of \$3 million from The Lutheran Foundation, \$250,000 from the Werner Foundation, and cumulative gains and losses since the original contributions.

Note 8 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are allocated between administration, fundraising, and the appropriate program based on evaluations of the related benefits. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

Note 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 14, 2016, the date which the financial statements were available for issue, and noted no reportable events.

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

For the years ended June 30, 2016 and 2015

	Program Expenses			2016 Total	(Unaudited) 2015 Total
	Administration	Fundraising			
Salaries	\$ 95,608	\$ 45,732	\$ 55,735	\$ 197,075	\$ 178,262
Payroll taxes	-	6,689	4,518	11,207	9,445
Employee benefits	9,792	13,885	8,915	32,592	31,032
Scholarships	632,612	-	-	632,612	513,606
Fundraising	-	-	46,457	46,457	43,085
Joint marketing expense	26,157	-	3,000	29,157	26,379
Rent	-	16,143	-	16,143	13,792
Office supplies	34	4,933	-	4,967	4,301
Telephone	-	1,954	-	1,954	2,139
Administrative development	5,189	1,551	618	7,358	6,384
Postage and printing	-	3,885	2,495	6,380	6,280
Professional fees	120	5,262	325	5,707	6,768
Depreciation	-	526	-	526	951
Insurance	-	1,828	-	1,828	2,634
Travel	1,610	1,029	908	3,547	4,330
Teacher expenses	15,402	-	-	15,402	18,574
Counseling expense	12,240	-	-	12,240	12,000
Investment fees	-	53,140	-	53,140	52,010
Other expenses	319	1,488	511	2,318	30,994
Computer Maintenance	-	4,682	-	4,682	30,994
TOTAL	\$ 799,083	\$ 162,727	\$ 123,482	\$ 1,085,292	\$ 993,960

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
SUPPLEMENTAL SCHEDULE
STATEMENT OF ACTIVITIES - BY CLASS
AS PROVIDED BY MANAGEMENT

For the years ended June 30,						2016	(Unaudited) 2015
	Programs						
	Educational Resources Division	Scholarships	Office, CEO	Endowment Investments	Fund Development Marketing	Total	Total
Support and revenue							
Contributions	\$ -	\$ 116,928	\$ -	\$ 150,000	\$ -	\$ 266,928	\$ 157,069
Grants	51,000	273,309	39,500	489,121	39,500	892,430	775,498
Dues income	34,549	-	-	-	-	34,549	34,073
Fundraising income	-	311,482	-	-	-	311,482	287,382
Other income	384	-	1,008	-	-	1,392	1,993
Total support and revenue	85,933	701,719	40,508	639,121	39,500	1,506,781	1,256,015
Program expenses	111,297	432,803	-	199,809	-	743,909	647,966
Total program expenses	111,297	432,803	-	199,809	-	743,909	647,966
Support services							
Administration	-	-	138,604	53,140	-	191,744	174,342
Fundraising	-	-	-	-	149,639	149,639	140,658
Total support services	-	-	138,604	53,140	149,639	341,383	315,000
Total expenses	111,297	432,803	138,604	252,949	149,639	1,085,292	962,966
Changes in net assets from operations	(25,364)	268,916	(98,096)	386,172	(110,139)	421,489	293,049
Investment activities							
Dividend and interest income	-	-	1,437	92,458	-	93,895	306,524
Realized gain on securities	-	-	-	54,986	-	54,986	99,965
Unrealized loss on securities	-	-	-	(209,213)	-	(209,213)	(279,315)
Total investment activity	-	-	1,437	(61,769)	-	(60,332)	127,174
Changes in net assets	(25,364)	268,916	(96,659)	324,403	(110,139)	361,157	420,223
Net assets, beginning of year	(48,080)	9,345	16,496	6,370,093	(94,658)	6,253,196	5,832,973
Net assets, end of year	\$ (73,444)	\$ 278,261	\$ (80,163)	\$ 6,694,496	\$ (204,797)	\$ 6,614,353	\$ 6,253,196

See accompanying notes and independent auditors' report