

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017

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 Elementary School Association

We have audited the accompanying financial statements of Lutheran Elementary School Association (a non-profit corporation), which comprise the statement of financial position as of June 30, 2017, 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 Elementary School Association as of June 30, 2017, 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 audited the Lutheran Elementary School Association 2016 financial statements, and issued our report dated October 14, 2016.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses on page 11 is presented for purposes of additional analysis and is 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.

The accompanying schedule on page 12, described as the supplemental statement of activities - by class, has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on this statement.

Fick, Eggemeyer & Williamson

Fick, Eggemeyer, & Williamson CPAs

Saint Louis, MO

October 3, 2017

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
STATEMENT OF FINANCIAL POSITION

June 30,	2017	2016
<u>ASSETS</u>		
Cash and cash equivalents	\$ 550,498	\$ 549,239
Investments - note 6	7,189,599	6,008,955
Grants receivable - note 2	157,500	141,000
Other assets	66,942	63,832
Total current assets	7,964,539	6,763,026
Property and equipment - note 4	8,882	18,671
Accumulated depreciation and amortization	(7,230)	(18,479)
Total property and equipment	1,652	192
Total assets	\$ 7,966,191	\$ 6,763,218
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ -	\$ 55
Payroll taxes payable	5,640	5,715
Other liabilities	3,492	2,095
Unearned grants	112,500	141,000
Total current liabilities	121,632	148,865
Total liabilities	121,632	148,865
<u>NET ASSETS</u>		
Unrestricted	4,232,552	2,825,513
Temporarily restricted	362,007	538,840
Permanently restricted	3,250,000	3,250,000
Total net assets	7,844,559	6,614,353
Total liabilities and net assets	\$ 7,966,191	\$ 6,763,218

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
STATEMENT OF ACTIVITIES

For the years ended June 30,				2017	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Contributions	\$ 680	\$ 867,999	\$ -	\$ 868,679	\$ 1,160,750
Dues income	34,913	-	-	34,913	34,549
Fundraising income	277,940	-	-	277,940	311,482
Total support and revenue	313,533	867,999	-	1,181,532	1,506,781
Net assets released from restrictions	1,183,656	(1,183,656)	-	-	-
Total	1,497,189	(315,657)	-	1,181,532	1,506,781
Program expenses	820,622	-	-	820,622	799,083
Total program expenses	820,622	-	-	820,622	799,083
Support services					
Administration	82,356	-	-	82,356	162,727
Fundraising	97,102	-	-	97,102	123,482
Total support services	179,458	-	-	179,458	286,209
Total expenses	1,000,080	-	-	1,000,080	1,085,292
Changes in net assets from operations	497,109	(315,657)	-	181,452	421,489
Investment activities					
Dividend and interest income	837	138,824	-	139,661	93,895
Realized gain/(loss) on securities	90,882	-	-	90,882	54,986
Unrealized gain/(loss) on securities	818,211	-	-	818,211	(209,213)
Total investment activity	909,930	138,824	-	1,048,754	(60,332)
Changes in net assets	1,407,039	(176,833)	-	1,230,206	361,157
Net assets, beginning of year, as restated	2,825,513	538,840	3,250,000	6,614,353	6,253,196
Net assets, end of year	\$ 4,232,552	\$ 362,007	\$ 3,250,000	\$ 7,844,559	\$ 6,614,353

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
STATEMENT OF CASH FLOWS

For the years ended June 30,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,230,206	\$ 361,157
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	605	526
Changes in assets and liabilities:		
Fixed asset purchases	(2,065)	(11,000)
(Increase) decrease in grants receivable	(16,500)	5,300
(Increase) decrease in other assets	(3,110)	(2,302)
Increase (decrease) in accounts payable	(55)	55
Increase (decrease) in payroll taxes payable	(75)	605
Increase (decrease) in other liabilities	1,397	215
Increase (decrease) in unearned grants	(28,500)	11,000
Net cash provided by (used in) operating activities	<u>1,181,903</u>	<u>365,556</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of and proceeds from investments	(271,551)	(464,432)
Net unrealized (gain)/loss on investments	(160,196)	209,213
Net realized (gain)/loss on sales	(748,897)	(54,986)
Net cash provided by (used in) investing activities	<u>(1,180,644)</u>	<u>(310,205)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
None	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>1,259</u>	<u>55,351</u>
Cash and cash equivalents - beginning of year	<u>549,239</u>	<u>493,888</u>
Cash and cash equivalents - end of year	<u>\$ 550,498</u>	<u>\$ 549,239</u>

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017

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, 2017, no amounts have been recognized for uncertain tax positions. The Association's tax returns filed prior to fiscal 2014 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, 2017

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Serving Children Through Lutheran Schools 2016-2017	\$ 100,000	\$ 116,000
Eugene and Linda Lehr Revocable Trust	45,000	
The Dana Brown Charitable Trust	<u>12,500</u>	<u>25,000</u>
	<u>\$ 157,500</u>	<u>\$ 141,000</u>

Note 3 - DONATED SERVICES

The Association receives a significant amount of donated services from unpaid volunteers who assist in fund-raising 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Computer equipment	\$ 6,812	\$ 15,772
Office furniture and equipment	2,070	2,070
Software	<u>-</u>	<u>829</u>
Total property and equipment	8,882	18,671
Less: accumulated depreciation and amortization	<u>(7,230)</u>	<u>(18,479)</u>
Total	<u>\$ 1,652</u>	<u>\$ 192</u>

Depreciation expense for fiscal 2017 and 2016 were \$605 and \$526, respectively.

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 \$2,084,922 as of June 30, 2017. This balance is in excess of the Securities Investor Protection Corporation insurance limit of \$500,000 per investor.

The Association had cash deposits totaling \$216,207 with the Lutheran Church Extension Fund as of June 30, 2017. Deposits with the Lutheran Church Extension Fund are not insured.

The Association also held investments, totaling \$4,863,028, with Lutheran Legacy Foundation, Inc. and \$130,390 with YouthBridge Community Foundation as of June 30, 2017. Investments at the Lutheran Legacy Foundation and the 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, 2017

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 2017.

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

Common stocks, exchange-traded funds, 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. LLF and YB both value the investment pools 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, 2017 and 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2017 Total</u>	<u>2016 Total</u>
Equity Funds	\$ 554,173	\$ -	\$ -	\$ 554,173	\$ 459,949
Fixed Income Funds	462,470	-	-	462,470	368,906
Exchange-Traded Funds	29,131	-	-	29,131	31,035
Common Stocks	996,382	-	-	996,382	842,676
Corporate Bonds	154,025	-	-	154,024	210,520
U.S. Government Securities	-	-	-	-	25,308
Securities held by LLF	-	-	4,863,028	4,863,028	4,002,663
Securities held by YB	-	-	130,390	130,390	67,898
Total at fair value	<u>\$2,196,181</u>	<u>\$ -</u>	<u>\$4,993,418</u>	<u>\$7,189,599</u>	<u>\$6,008,955</u>

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017 and 2016:

	2017	2016
	<u>Securities held by LLF</u>	<u>Securities held by LLF</u>
Balance, beginning of year	\$ 4,002,663	\$ 3,765,477
Realized gains/(losses)	38,118	(34,758)
Unrealized gains/(losses) relating to instruments still held at the reporting date	612,638	(94,601)
Interest/dividends	81,779	42,625
Investment fees	(44,423)	(37,652)
Purchases, sales, issuances, and settlements (net)	172,253	361,572
Balance, end of year	<u>\$ 4,863,028</u>	<u>\$ 4,002,663</u>

	<u>Securities held by YB</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 67,898	\$ 66,127
Realized gains/(losses)	1,362	157
Unrealized gains/(losses) relating to instruments still held at the reporting date	7,635	(725)
Interest/dividends	2,503	1,363
Investment fees	(581)	(331)
Purchases, sales, issuances, and settlements (net)	51,573	1,307
Balance, end of year	<u>\$ 130,390</u>	<u>\$ 67,898</u>

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2017 and 2016 the following restricted activity balances comprised:

Temporarily Restricted Net Assets	<u>2017</u>	<u>2016</u>
LESA investment endowment		
Restricted for scholarships	\$ 205,000	\$ 290,808
Future operations and programs	<u>157,007</u>	<u>248,032</u>
Total	<u>\$ 362,007</u>	<u>\$ 538,840</u>
Permanently Restricted Net Assets	<u>2017</u>	<u>2016</u>
LESA investment endowment	<u>\$ 3,250,000</u>	<u>\$ 3,250,000</u>

* Permanently restricted net assets in the LESA endowment are comprised of original investments of \$3 million from The Lutheran Foundation and \$250,000 from the Werner Foundation.

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 3, 2017, the date which the financial statements were available for issue, and noted no reportable events.

Note 10 - PRIOR PERIOD ADJUSTMENTS

In previous years certain gains and losses in the LESA Investment Endowment were included in permanently restricted assets. During the fiscal year ended June 30, 2017, those gains and losses were recharacterized to unrestricted net assets.

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

For the years ended June 30, 2017 and 2016

	Program Expenses	Administration	Fundraising	2017 Total	2016 Total
Salaries	\$ 168,748	8,498	34,015	\$ 211,261	\$ 197,075
Payroll taxes	9,715	607	1,426	11,748	11,207
Employee benefits	31,631	1,882	2,767	36,280	32,592
Scholarships	471,193	-	-	471,193	632,612
Fundraising	-	-	58,894	58,894	46,457
Joint marketing expense	26,940	-	-	26,940	29,157
Rent	15,642	2,760	-	18,402	16,143
Office supplies	2,451	433	-	2,884	4,967
Telephone	2,386	421	-	2,807	1,954
Administrative development	17,856	418	-	18,274	7,358
Postage and printing	8,110	1,432	-	9,542	6,380
Professional fees	3,884	686	-	4,570	5,707
Depreciation	514	91	-	605	526
Insurance	3,064	541	-	3,605	1,828
Travel	3,168	559	-	3,727	3,547
Teacher expenses	18,034	-	-	18,034	15,402
Counseling expense	26,125	-	-	26,125	12,240
Investment fees	-	62,056	-	62,056	53,140
Other expenses	3,745	663	-	4,408	2,318
Computer Maintenance	7,416	1,309	-	8,725	4,682
TOTAL	<u>\$ 820,622</u>	<u>\$ 82,356</u>	<u>\$ 97,102</u>	<u>\$ 1,000,080</u>	<u>\$ 1,085,292</u>

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,						2017	2016
	Programs						
	Educational Resources Division	Scholarships	Office, CEO	Endowment Investments	Fund Development Marketing	Total	Total
Support and revenue							
Contributions	\$ 1,900	\$ 160,028	\$ 100	\$ 20,000	\$ 30	\$ 182,058	\$ 266,928
Grants	32,714	-	52,572	-	30,714	116,000	892,430
Grants	-	24,000	23,500	6,250	-	53,750	
Grants	-	35,000	10,000	379,731	-	424,731	
Grants	-	12,500	38,698	-	-	51,198	
Grants	-	20,000	20,262	-	-	40,262	
Dues income	34,913	-	-	-	-	34,913	34,549
Fundraising income	-	277,940	-	-	-	277,940	311,482
Other income	359	-	321	-	-	680	1,392
Total support and revenue	69,886	529,468	145,453	405,981	30,744	1,181,532	1,506,781
Program expenses	349,429	471,193	-	-	-	820,622	743,909
Total program expenses	349,429	471,193	-	-	-	820,622	743,909
Support services							
Administration	-	-	20,300	62,056	-	82,356	191,744
Fundraising	-	-	-	-	97,102	97,102	149,639
Total support services	-	-	20,300	62,056	97,102	179,458	341,383
Total expenses	349,429	471,193	20,300	62,056	97,102	1,000,080	1,085,292
Changes in net assets from operations	(279,543)	58,275	125,153	343,925	(66,358)	181,452	421,489
Investment activities							
Dividend and interest income	-	-	837	138,824	-	139,661	93,895
Realized gain on securities	-	-	-	90,882	-	90,882	54,986
Unrealized gain on securities	-	-	-	818,211	-	818,211	(209,213)
Total investment activity	-	-	837	1,047,917	-	1,048,754	(60,332)
Changes in net assets	(279,543)	58,275	125,990	1,391,842	(66,358)	1,230,206	361,157
Equity recharacterization by management	-	189,400	-	(189,400)	-	-	-
Net assets, beginning of year	(73,444)	278,261	(80,163)	6,694,496	(204,797)	6,614,353	6,253,196
Net assets, end of year	\$ (352,987)	\$ 525,936	\$ 45,827	\$ 7,896,938	\$ (271,155)	\$ 7,844,559	\$ 6,614,353

See accompanying notes and independent auditors' report