



Creating sustainable businesses.
Transforming lives.

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Notes on the Village Enterprise FY18 Audited Financial Statement

During the period covered by the audited financial statements for FY18, Village Enterprise became the service provider on the first Development Impact Bond (DIB) in the poverty alleviation sector. As part of our role in the DIB, we raised \$2.325 million in investment capital to fund DIB project activities through the fall of 2020.

In 2018, we created a supporting vehicle to receive the DIB investor funds and incrementally issue working capital grants to Village Enterprise. This vehicle is composed of two entities: Village Enterprise Capital Connector (VECC) and Village Enterprise Impact Bond (VEIB). Although VECC and VEIB are separate legal entities from Village Enterprise, they are considered affiliates in the following audited financial statements due to their supporting organization status.

The consolidated Statements of Financial Position, Activities, Functional Expenses and Cash Flows are inclusive of the supporting vehicle, VECC and VEIB, and can be found on pages three through seven of the audited financial statements. Pages sixteen through nineteen contain the same statements with individual columns for each organization, Village Enterprise, VECC and VEIB. Activities solely related to Village Enterprise may be found on pages twenty through twenty-three of the Audited Financial Statements. Separate tax returns will be filed for Village Enterprise and Village Enterprise Capital Connector.

If you should have any specific questions regarding the formatting or content of these financial statements please contact Finance Director Kathy Perkes at kathyp@villageenterprise.org.

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**VILLAGE ENTERPRISE FUND, INC.
AND AFFILIATES**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Village Enterprise Fund, Inc. and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Village Enterprise Fund, Inc. (a nonprofit organization) and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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. 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. 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 financial position of Village Enterprise Fund, Inc. and Affiliates as of June 30, 2018, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

An Independent Member of Baker Tilly International

Other Matter

The financial statements of Village Enterprise Fund, Inc. for the year ended June 30, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on October 23, 2017.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2018 supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

The 2017 supplementary summarized comparative information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management. On October 23, 2017, another auditor reported that the 2017 summarized information in the supplementary consolidating statement of activities was fairly stated in all material respects in relation to the financial statements as a whole. We did not perform any procedures on the 2017 supplementary summarized comparative information. Accordingly, we express no opinion or any assurance on such information.

MBAF CPAs, LLC

New York, NY
January 9, 2019

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
Cash and cash equivalents	\$ 2,914,357	\$ 475,737
Accounts receivable	151,368	5,867
Promises to give	1,113,616	980,131
Prepaid expenses	15,178	25,574
Property and equipment, net	42,398	34,179
TOTAL ASSETS	\$ 4,236,917	\$ 1,521,488
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 163,360	\$ 27,841
TOTAL LIABILITIES	163,360	27,841
NET ASSETS		
Unrestricted	2,820,063	382,057
Temporarily restricted	1,253,494	1,111,590
TOTAL NET ASSETS	4,073,557	1,493,647
TOTAL LIABILITIES AND NET ASSETS	\$ 4,236,917	\$ 1,521,488

The accompanying notes are an integral part of these consolidated financial statements.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions from individuals	\$ 1,400,383	\$ -	\$ 1,400,383	\$ 1,664,445	\$ -	\$ 1,664,445
Contributions from foundations	233,024	1,369,836	1,602,860	181,565	1,451,433	1,632,998
Other contributions	298,588	-	298,588	275,681	-	275,681
Recoverable grants	2,325,500	-	2,325,500	-	-	-
Development impact bond revenue	127,281	-	127,281	-	-	-
Fundraising events, net of direct expenses of \$12,543	-	-	-	134	-	134
In-kind contributions	126,046	-	126,046	-	-	-
Net assets released from restrictions	1,227,932	(1,227,932)	-	577,961	(577,961)	-
TOTAL SUPPORT AND REVENUE	5,738,754	141,904	5,880,658	2,699,786	873,472	3,573,258
OPERATING EXPENSES:						
Program services:	2,585,928	-	2,585,928	2,302,495	-	2,302,495
Support services:						
Management and general	291,217	-	291,217	161,519	-	161,519
Fundraising	423,603	-	423,603	305,155	-	305,155
TOTAL OPERATING EXPENSES	3,300,748	-	3,300,748	2,769,169	-	2,769,169
CHANGE IN NET ASSETS	2,438,006	141,904	2,579,910	(69,383)	873,472	804,089
NET ASSETS - BEGINNING OF YEAR	382,057	1,111,590	1,493,647	451,440	238,118	689,558
NET ASSETS - END OF YEAR	\$ 2,820,063	\$ 1,253,494	\$ 4,073,557	\$ 382,057	\$ 1,111,590	\$ 1,493,647

The accompanying notes are an integral part of these consolidated financial statements.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services				Supporting Services		
	Kenya	Uganda	United States	Total Program Services	Management and General	Fundraising	Total
Grants to small businesses	\$ 289,775	\$ 347,779	\$ -	\$ 637,554	\$ -	\$ -	\$ 637,554
Personnel	593,384	461,334	309,314	1,364,032	130,536	287,791	1,782,359
Currency exchange loss	6,369	26,017	-	32,386	-	-	32,386
Depreciation and amortization	-	-	10,155	10,155	666	983	11,804
Field operations	174,880	63,713	11,826	250,419	-	-	250,419
Insurance	-	-	4,148	4,148	5,379	-	9,527
Fellows and interns	1	11,419	4	11,424	-	-	11,424
Meetings, conferences and training	391	-	4,588	4,979	812	2,950	8,741
Occupancy	10,793	9,827	10,729	31,349	4,294	12,292	47,935
Office	411	1,329	8,637	10,377	4,211	9,895	24,483
Other	-	-	-	-	2,890	-	2,890
Postage and shipping	-	-	-	-	999	-	999
Professional fees	5,755	3,980	29,025	38,760	11,570	-	50,330
Professional fees - in-kind	-	-	-	-	126,046	-	126,046
Marketing and communications	64	102	2,713	2,879	-	97,504	100,383
Travel	43,622	72,666	20,317	136,605	2,700	2,700	142,005
Training	9,140	16,232	46	25,418	-	-	25,418
Utilities	6,901	10,480	2,783	20,164	1,114	3,188	24,466
Website	-	-	5,279	5,279	-	6,300	11,579
Total expenses	\$ 1,141,486	\$ 1,024,878	\$ 419,564	\$ 2,585,928	\$ 291,217	\$ 423,603	\$ 3,300,748

The accompanying notes are an integral part of these consolidated financial statements.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Total Program Services	Supporting Services		
	Kenya	Uganda	United States		Management and General	Fundraising	Total
Grants to small businesses	\$ 200,328	\$ 332,940	\$ -	\$ 533,268	\$ -	\$ -	\$ 533,268
Personnel	401,110	470,185	230,660	1,101,955	125,008	215,395	1,442,358
Currency exchange loss	8,530	25,227	-	33,757	-	-	33,757
Depreciation and amortization	-	-	12,984	12,984	997	624	14,605
Field operations	43,531	78,816	-	122,347	-	-	122,347
Insurance	1,441	1,442	5,534	8,417	500	-	8,917
Fellows and interns	5,696	5,696	-	11,392	-	12,542	23,934
Meetings, conferences and training	855	-	10,084	10,939	200	1,185	12,324
Occupancy	6,913	7,636	14,580	29,129	3,645	6,075	38,849
Office	159	1,036	5,538	6,733	10,538	7,210	24,481
Other	-	-	48	48	48	-	96
Postage and shipping	-	-	-	-	1,196	-	1,196
Professional fees	7,205	7,501	10,796	25,502	15,612	-	41,114
Marketing and communications	-	-	-	-	-	56,037	56,037
Special projects	9,241	244,713	-	253,954	-	-	253,954
Travel	19,805	76,144	5,607	101,556	2,804	2,803	107,163
Training	8,802	16,251	-	25,053	-	-	25,053
Utilities	5,493	11,083	3,883	20,459	971	1,617	23,047
Website	-	-	5,002	5,002	-	1,667	6,669
Total expenses	\$ 719,109	\$ 1,278,670	\$ 304,716	\$ 2,302,495	\$ 161,519	\$ 305,155	\$ 2,769,169

The accompanying notes are an integral part of these consolidated financial statements.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,579,910	\$ 804,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,804	14,605
Loss on disposal of property and equipment	557	-
Changes in operating assets and liabilities:		
Accounts receivable	(145,501)	(2,756)
Promise to give	(133,485)	(759,958)
Prepaid expenses	10,396	(9,265)
Accounts payable and accrued expenses	135,519	2,870
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,459,200	49,585
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(20,580)	(7,001)
NET CASH USED IN INVESTING ACTIVITIES	(20,580)	(7,001)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,438,620	42,584
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	475,737	433,153
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,914,357	\$ 475,737

The accompanying notes are an integral part of these consolidated financial statements.

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. NATURE OF ORGANIZATION

Village Enterprise Fund, Inc. was incorporated in the State of California as Christian Self-Development Fund on June 3, 1987. On August 17, 1994 the name was changed to Village Enterprise Fund, Inc. ("Village Enterprise"). The Village Enterprise head office is located in San Carlos, California, with key international offices in the East African countries of Kenya and Uganda.

Village Enterprise's mission is to end extreme poverty in rural Africa through entrepreneurship and innovation, based on the following model:

- Business training empowers groups of three people to select, create and operate a small business.
- Seed capital grants of roughly \$150 are awarded to trained groups with approved grant applications. Typical businesses include: agriculture (beans, tomatoes, peanuts); animal husbandry (goats, chickens, pigs); skilled services and construction (tailoring, carpentry, welding, bicycle repair); and retail (vegetable kiosks, restaurants and cafes, household goods).
- On-going mentoring provides personalized advice and encouragement for at least one year, and helps new entrepreneurs gain confidence, overcome the typical challenges of starting a new venture, become self-sufficient and grow their businesses.
- Business Savings Groups allow groups of 10 businesses (30 people) to save their profits together and loan each other money as needed. The Savings Groups provide a source of capital to help business owners handle a drop in income or emergency expenses.

Village Enterprise Affiliates

Village Enterprise has created a supporting organization, Village Enterprise Capital Connector Corp. ("VECC"), which is a Delaware corporation.

VECC is the managing member of Village Enterprise Impact Bond LLC ("VEIB"), a Delaware nonprofit corporation formed on January 5, 2018, whose mission is to improve income levels of the extreme poor through funding the Village Enterprise micro-enterprise model, known as a Graduation program via the Project set forth in the Outcome Payment Agreement ("OPA") ("the Project").

On November 20, 2017, Village Enterprise entered into the OPA with The Global Development Incubator, Inc. ("GDI" or the "Trustee") to be part of a pay for success agreement in which Village Enterprise is the service provider. Pay for success is an innovative model to fund social programs. As the service provider, Village Enterprise is looking to reduce extreme poverty by providing grants and training to entrepreneurs who will create small businesses. Three Outcome Payers committed to funding an escrow to be held with the Trustee. In accordance with the OPA, the Trustee is responsible for receiving funds from the Outcome Payers and holding them in an escrow during the term of the Project. The Trustee will use the escrow funds to make Type I payments to Village Enterprise throughout the life of the Project. Type II payments will be paid by the Trustee to VEIB for the achievement of results as reported by the Outcomes Evaluator at the conclusion of the Project. It is the Outcomes Evaluator's responsibility to measure, verify, and report on those results to the Trustee. The Trustee commits to disburse payments to Village Enterprise according to the level of results measured and verified by the Outcomes Evaluator for the program.

Operating costs of the Project will be funded by grantors who have funded VEIB to fund Village Enterprise in carrying out its three-year intervention under the Project. There are two different types of outcome payments. Type I Outcome Payments are reimbursements of seed capital grants to Village Enterprise. Type II Outcome Payments, as defined in the OPA, are based on an outcomes formula and other variables that must be met. If VEIB receives any Type II Outcome Payments, the grantors may be refunded a calculated amount of each Type II Outcome Payment.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

All significant intercompany accounts and transactions between Village Enterprise, VECC, and VEIB have been eliminated in consolidation.

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

Village Enterprise's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of Village Enterprise's net assets and its revenue, support, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

These classes are defined as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of Village Enterprise and/or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired. These reclassifications are reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Village Enterprise. Village Enterprise had no permanently restricted net assets as of June 30, 2018 and 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law.

Principles of Foreign Exchange

The financial position and results of operations of the foreign offices are measured using each foreign offices' local currencies as the functional currency. Accordingly, assets and liabilities of the foreign offices have been translated into U.S. dollars at exchange rates in effect on the statement of financial position date. Differences in these exchange rates, which result in cumulative currency translation adjustments, have been recorded as currency exchange loss, which is on the consolidated statement of functional expenses. The related revenues and expenses have been translated at average rates of exchange in effect during the year. Foreign currency transaction gains and losses, which are based on differences between transaction amounts settled in currencies other than the functional currency, are included in operations.

Foreign operations are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange. Village Enterprise does not engage in hedging activities to mitigate its exposure to fluctuations in foreign currency exchange rates.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with a purchased maturity date of three months or less. The value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts Receivable and Promises to Give

Substantially all of Village Enterprise's promises to give are foundation grants that have been pledged or earned in the current year but have not yet been received. Accounts receivable are unconditional promises to give that are expected to be collected within one year and are recorded at net realizable value.

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Securities

Donated securities are measured at fair value on the date of receipt. It is the intention of Village Enterprise to sell all gifts of public securities upon receipt or as soon thereafter as possible. For the years ended June 30, 2018 and 2017, Village Enterprise received donated securities amounting to \$216,758 and \$87,573, respectively.

Property and Equipment and Depreciation

All acquisitions of property and equipment in excess of \$750 and expenditures for repairs, maintenance renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment is recorded at cost or, if donated, the approximate fair value on the date of donation. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight line basis, primarily between three and five years.

Revenue Recognition

Contribution revenue and recoverable grants are recognized when the donor makes a promise to give that is, in substance, unconditional. Grant revenue is recognized as earned and expenses are recognized as incurred. Development impact bond revenue represents reimbursements of recycled grants from the Trustee in accordance with the Agreement. Contributions of assets other than cash are recorded at fair value at the date of donation. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All unconditional promises to give, which are expected to be received beyond one year, are discounted to their net present value.

Recoverable Grant Agreements

VEIB entered into seven recoverable grant agreements with various organizations and individuals with the intent to provide Village Enterprise financial outlays that are directly used in the delivery of services for the Project in accordance with the OPA. When VEIB receives outcome payments in future years, VEIB shall return to the grantor a corresponding share of their respective payment. The maximum recoverable amount is the amount of the grant, plus interest of 7% per annum on the outstanding amount, calculated on the basis of a 365-day year and compounded annually.

For the year ended June 30, 2018, the total amount of recoverable grants committed was \$2,325,000 of which \$2,275,000 had been collected by VEIB.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service with which they relate are charged accordingly. Other expenses that apply to more than one functional category have been allocated between program, management and general, and fundraising, based on the time spent on these functions by specific employees. Other costs are charged directly to the appropriate functional category.

Compensated Absences

Village Enterprise accrues vacation expense as incurred and payable to employees at current rates.

Allowance for Doubtful Accounts

Management periodically evaluates its recorded promises to give for collectability and determines an allowance for any amounts it deems to be uncollectable. Village Enterprise considers all of its receivables to be collectible and, accordingly, has not recorded an allowance for uncollectible amounts.

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

Village Enterprise recognizes contributions of donated services when they create or enhance nonfinancial assets or require specialized skills that would typically need to be purchased if not provided by donation. Such services are recorded as contributions in-kind at an amount based on market values of services donated. Contributions are recorded in the period received. Total contributions in-kind consisting of legal services amounted to \$126,046 for the year ended June 30, 2018. There were no contributions in-kind for the year ended June 30, 2017.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

Village Enterprise maintains cash balances at various banks in the United States, Uganda and Kenya. Cash held at the banks in Africa is not insured by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2018 and 2017, cash balances in African banks amounted to \$55,021 and \$74,349, respectively. Cash balances held in the U.S. banks are insured by the FDIC up to \$250,000 per bank.

Subsequent Events

Village Enterprise has evaluated subsequent events through January 9, 2019, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. Village Enterprise is currently evaluating the effect the update will have on its financial statements.

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. Village Enterprise is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. Village Enterprise is currently evaluating the effect the update will have on its financial statements.

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. Village Enterprise is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This reclassification had no effect on previously reported change in net assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computers and equipment	\$ 32,908	\$ 29,421
Vehicles	75,593	59,482
	108,501	88,903
Less accumulated depreciation	(66,103)	(54,724)
	<u>\$ 42,398</u>	<u>\$ 34,179</u>

Depreciation expense for 2018 and 2017 amounted to \$11,804 and \$14,605, respectively.

4. PROMISES TO GIVE

Village Enterprise records unconditional promises to give from foundations at their net present value.

	<u>2018</u>
Promises to give in less than one year	\$ 991,922
Promises to give in one to five years	121,694
Total promises to give	<u>\$ 1,113,616</u>

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

5. GRANTS TO SMALL BUSINESSES

Village Enterprise awards grants of roughly \$150 each to small startup businesses. The grant amounts are recorded as an expense at the time the grant is approved and awarded.

To qualify for the grant, businesses must submit a Small Business Application Form and other baseline surveys, attend training sessions, attend savings group meetings and begin saving on an individual level. Groups of three can apply for a second grant to either continue their businesses or start a new business. Grant applications and approvals go through the same process and approval before being awarded as the first grant. The businesses must submit a Progress Report form and additional survey data, as well as attend required training sessions. They must be functioning as a business group after being assessed by our spot-checking team and have invested the first grant appropriately.

There were no grants payable at June 30, 2018 or 2017.

6. RELATED PARTY

VEIB entered into a grant agreement with Village Enterprise on June 26, 2018 to provide working capital totaling \$1,000,000 for activities under the Project as set forth in the Agreement. The amount was paid to Village Enterprise in full during the year ended June 30, 2018 and has been eliminated in consolidation.

7. COMMITMENTS

Village Enterprise leases office space in San Carlos, California under an operating lease agreement that expires on December 31, 2019. Rental expense amounted to \$27,315 and \$24,300 for June 30, 2018 and 2017, respectively.

Village Enterprise leases its Field Offices in Kitale (Kenya), Soroti (Uganda), Nwoya (Uganda) and Hoima (Uganda) under lease agreements varying from three months to two years. The leases in Nwoya (Uganda) and Hoima (Uganda) expired during the year ended June 30, 2018 and were not renewed. Total rent expense for the field offices in 2018 and 2017 amounted to \$20,620 and \$14,549, respectively, and is categorized under "Field Operations Expenses" in the statement of functional expenses.

Total future minimum lease payments amount to at June 30:

2019	\$	46,637
2020		24,507
	\$	<u>71,144</u>

8. TEMPORARILY RESTRICTED NET ASSETS

Contributions that are restricted by a grantor agency or a donor are reported as an increase in temporarily restricted net assets and once the restriction expires, or the conditions are met in the reporting period in which the support is recognized, reclassified to unrestricted net assets. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. As of June 30, temporarily restricted net assets consist of:

	2018	2017
Uganda seed capital	\$ 196,538	\$ -
Uganda program expenses	448,094	667,212
Dynamic Uganda youth	87,871	-
Uganda illegal wildlife trade	83,699	-
Kenya program expenses	181,802	90,708
Accelerator	122,289	353,670
Extend DRC program	133,201	-
Total	\$ 1,253,494	\$ 1,111,590

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions during the year by incurring expenses satisfying the restricted purposes were as follows:

	<u>2018</u>	<u>2017</u>
Evaluation funds	\$ -	\$ 145,747
Uganda seed capital	28,462	-
Uganda program expenses	354,917	231,778
Dynamic Uganda youth	138,283	-
Uganda illegal wildlife trade	33,183	-
Uganda refugee feasibility	23,000	-
Kenya program expenses	281,906	74,174
Accelerator	231,382	121,329
Innovation summit	-	4,933
Extend DRC program	136,799	-
Total	<u>\$ 1,227,932</u>	<u>\$ 577,961</u>

10. FUNDRAISING EVENTS

Village Enterprise conducts various fundraising events each year. The most recent event was held during the year ended June 30, 2017, which was an Akina Mama event on June 21, 2017. As of June 30, 2017, the Village Enterprise Development Committee has made the decision to discontinue galas.

11. LINE OF CREDIT

On October 21, 2015, Village Enterprise signed a revolving line of credit (“the line”) agreement with Wells Fargo Bank. The amount of the line is \$200,000. The line matured on April 10, 2018. The line was collateralized by the assets of Village Enterprise. There were no advances or repayments made under the line during the years ended June 30, 2018 and 2017. The line was not renewed.

12. TAX EXEMPT STATUS

Village Enterprise and VECC are not-for-profit organizations, exempt from federal income taxes under Section 501(c)(3) of the U.S Internal Revenue Code (the Code), and contributions to them are tax deductible as prescribed by the Code. Village Enterprise and VECC are also exempt from California income taxes under Section 23701d of the California Revenue and Taxation Code. Village Enterprise and VECC are generally no longer subject to tax examinations relating to federal and state tax returns for years prior to 2015.

Village Enterprise and VECC have been classified as organizations that are not private foundations under Section 509(a)(1) and have been designated as “publicly supported” organizations under Section 170(b)(1)(A)(vi) of the Code.

Village Enterprise and VECC assess their accounting for uncertainty in income taxes recognized in their financial statements and prescribe a threshold of “more likely than not” for recognition and derecognition of tax positions taken or expected to be taken in their tax returns. Management believes that their not-for-profit statuses would be sustained upon examination.

VEIB is treated as a disregarded entity, and is included in the tax filings of VECC.

VILLAGE ENTERPRISE FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

13. RETIREMENT PLAN

Village Enterprise maintains a Simple IRA retirement plan for employees who have earned more than \$5,000 in the prior or current fiscal year. Village Enterprise will make matching contributions to employee pre-tax deferrals on a dollar-for-dollar basis of up to 1%, increasing to 3% during fiscal year 2018, of the employee's total annual compensation. Village Enterprise may contribute less than a 3% match (but not less than 1%) in no more than two out of every five years. During the years ended June 30, 2018 and 2017, employer contributions totaled \$8,717 and \$1,552, respectively.

Village Enterprise team members (Class A only), who are located in Kenya and Uganda, and are employed under fixed contracts of at least one year, shall be enrolled in an Independent Pension Plan ("IPP") of their choice. Each quarter, Village Enterprise will match the employee's contribution up to 5% of their gross salary. The employee contribution, together with the matching Village Enterprise contribution, will be sent to the IPP designated by the employee.

SUPPLEMENTARY INFORMATION

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	Village Enterprise	VEIB	VECC	Eliminations	2018 Total	2017 Total
Cash and cash equivalents	\$ 1,638,512	\$ 1,275,405	\$ 440	\$ -	\$ 2,914,357	\$ 475,737
Accounts receivable	101,368	50,000	-	-	151,368	5,867
Promises to give	1,113,616	-	-	-	1,113,616	980,131
Prepaid expenses	15,178	-	-	-	15,178	25,574
Property and equipment, net	42,398	-	-	-	42,398	34,179
TOTAL ASSETS	\$ 2,911,072	\$ 1,325,405	\$ 440	\$ -	\$ 4,236,917	\$ 1,521,488
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable and accrued expenses	\$ 163,360	\$ -	\$ -	\$ -	\$ 163,360	\$ 27,841
TOTAL LIABILITIES	163,360	-	-	-	163,360	27,841
NET ASSETS						
Unrestricted	1,494,218	1,325,405	440	-	2,820,063	382,057
Temporarily restricted	1,253,494	-	-	-	1,253,494	1,111,590
TOTAL NET ASSETS	2,747,712	1,325,405	440	-	4,073,557	1,493,647
TOTAL LIABILITIES AND NET ASSETS	\$ 2,911,072	\$ 1,325,405	\$ 440	\$ -	\$ 4,236,917	\$ 1,521,488

See independent auditor's report.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Village Enterprise			VEIB	VECC	Eliminations	2018	2017
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Unrestricted		Total	Total
SUPPORT AND REVENUE:								
Contributions from individuals	\$ 1,400,383	\$ -	\$ 1,400,383	\$ -	\$ -	\$ -	\$ 1,400,383	\$ 1,664,445
Contributions from foundations	233,024	1,369,836	1,602,860	-	-	-	1,602,860	1,632,998
Other contributions	296,257	-	296,257	-	2,331	-	298,588	275,681
Recoverable grants	-	-	-	2,325,500	-	-	2,325,500	-
Development impact bond revenue	1,127,281	-	1,127,281	-	-	(1,000,000)	127,281	-
Fundraising events, net of direct expenses of \$12,543	-	-	-	-	-	-	-	134
In-kind contributions	-	-	-	126,046	-	-	126,046	-
Net assets released from restrictions	1,227,932	(1,227,932)	-	-	-	-	-	-
TOTAL SUPPORT AND REVENUE	4,284,877	141,904	4,426,781	2,451,546	2,331	(1,000,000)	5,880,658	3,573,258
OPERATING EXPENSES:								
Program services:	2,585,928	-	2,585,928	1,000,000	-	(1,000,000)	2,585,928	2,302,495
Support services:								
Management and general	163,185	-	163,185	126,141	1,891	-	291,217	161,519
Fundraising	423,603	-	423,603	-	-	-	423,603	305,155
TOTAL OPERATING EXPENSES	3,172,716	-	3,172,716	1,126,141	1,891	(1,000,000)	3,300,748	2,769,169
CHANGE IN NET ASSETS	1,112,161	141,904	1,254,065	1,325,405	440	-	2,579,910	804,089
NET ASSETS - BEGINNING OF YEAR	382,057	1,111,590	1,493,647	-	-	-	1,493,647	689,558
NET ASSETS - END OF YEAR	\$ 1,494,218	\$ 1,253,494	\$ 2,747,712	\$ 1,325,405	\$ 440	\$ -	\$ 4,073,557	\$ 1,493,647

See independent auditor's report.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Village Enterprise						VEIB			VECC		2018 Total	2017 Total	
	Program Services			Supporting Services			Program Services	Supporting Services		Supporting Services				
	Kenya	Uganda	United States	Total Program Services	Management and General	Fundraising	Total	Development Impact Bond	Management and General	Total	Management and General			Eliminations
Grants to small businesses	\$ 289,775	\$ 347,779	\$ -	\$ 637,554	\$ -	\$ -	\$ 637,554	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 637,554	\$ 533,268
Personnel	593,384	461,334	309,314	1,364,032	130,536	287,791	1,782,359	-	-	-	-	-	1,782,359	1,442,358
Currency exchange loss	6,369	26,017	-	32,386	-	-	32,386	-	-	-	-	-	32,386	33,757
Depreciation and amortization	-	-	10,155	10,155	666	983	11,804	-	-	-	-	-	11,804	14,605
Field operations	174,880	63,713	11,826	250,419	-	-	250,419	1,000,000	-	-	-	(1,000,000)	250,419	122,347
Insurance	-	-	4,148	4,148	4,148	-	8,296	-	-	-	-	-	9,527	8,917
Fellows and interns	1	11,419	4	11,424	-	-	11,424	-	-	-	1,231	-	11,424	23,934
Meetings, conferences and training	391	-	4,588	4,979	812	2,950	8,741	-	-	-	-	-	8,741	12,324
Occupancy	10,793	9,827	10,729	31,349	4,294	12,292	47,935	-	-	-	-	-	47,935	38,849
Office	411	1,329	8,637	10,377	3,456	9,895	23,728	-	95	95	660	-	24,483	24,481
Other	-	-	-	-	2,890	-	2,890	-	-	-	-	-	2,890	96
Postage and shipping	-	-	-	-	999	-	999	-	-	-	-	-	999	1,196
Professional fees	5,755	3,980	29,025	38,760	11,570	-	50,330	-	-	-	-	-	50,330	41,114
Professional fees - in-kind	-	-	-	-	-	-	-	-	126,046	126,046	-	-	126,046	-
Marketing and communications	64	102	2,713	2,879	-	97,504	100,383	-	-	-	-	-	100,383	56,037
Special projects	-	-	-	-	-	-	-	-	-	-	-	-	-	253,954
Travel	43,622	72,666	20,317	136,605	2,700	2,700	142,005	-	-	-	-	-	142,005	107,163
Training	9,140	16,232	46	25,418	-	-	25,418	-	-	-	-	-	25,418	25,053
Utilities	6,901	10,480	2,783	20,164	1,114	3,188	24,466	-	-	-	-	-	24,466	23,047
Website	-	-	5,279	5,279	-	6,300	11,579	-	-	-	-	-	11,579	6,669
Total expenses	\$ 1,141,486	\$ 1,024,878	\$ 419,564	\$ 2,585,928	\$ 163,185	\$ 423,603	\$ 3,172,716	\$ 1,000,000	\$ 126,141	\$ 1,126,141	\$ 1,891	\$ (1,000,000)	\$ 3,300,748	\$ 2,769,169

See independent auditor's report.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Village Enterprise	VEIB	VECC	Eliminations	2018 Total	2017 Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Change in net assets	\$ 1,254,065	\$ 1,325,405	\$ 440	\$ -	\$ 2,579,910	\$ 804,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:						
Depreciation and amortization	11,804	-	-	-	11,804	14,605
Loss on disposal of property and equipment	557	-	-	-	557	-
Changes in operating assets and liabilities:						
Accounts receivable	(95,501)	(50,000)	-	-	(145,501)	(2,756)
Promise to give	(133,485)	-	-	-	(133,485)	(759,958)
Prepaid expenses	10,396	-	-	-	10,396	(9,265)
Accounts payable and accrued expenses	135,519	-	-	-	135,519	2,870
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,183,355	1,275,405	440	-	2,459,200	49,585
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of property and equipment	(20,580)	-	-	-	(20,580)	(7,001)
NET CASH USED IN INVESTING ACTIVITIES	(20,580)	-	-	-	(20,580)	(7,001)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,162,775	1,275,405	440	-	2,438,620	42,584
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	475,737	-	-	-	475,737	433,153
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,638,512	\$ 1,275,405	\$ 440	\$ -	\$ 2,914,357	\$ 475,737

See independent auditor's report.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

VILLAGE ENTERPRISE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
Cash and cash equivalents	\$ 1,638,512	\$ 475,737
Accounts receivable	101,368	5,867
Promises to give	1,113,616	980,131
Prepaid expenses	15,178	25,574
Property and equipment, net	42,398	34,179
TOTAL ASSETS	\$ 2,911,072	\$ 1,521,488
<hr/> LIABILITIES AND NET ASSETS <hr/>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 163,360	\$ 27,841
TOTAL LIABILITIES	163,360	27,841
NET ASSETS		
Unrestricted	1,494,218	382,057
Temporarily restricted	1,253,494	1,111,590
TOTAL NET ASSETS	2,747,712	1,493,647
TOTAL LIABILITIES AND NET ASSETS	\$ 2,911,072	\$ 1,521,488

See independent auditor's report.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

VILLAGE ENTERPRISE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
SUPPORT AND REVENUE:				
Contributions from individuals	\$ 1,400,383	\$ -	\$ 1,400,383	\$ 1,664,445
Contributions from foundations	233,024	1,369,836	1,602,860	1,632,998
Other contributions	296,257	-	296,257	275,681
Development impact bond revenue	1,127,281	-	1,127,281	-
Fundraising events, net of direct expenses of \$12,543	-	-	-	134
Net assets released from restrictions	1,227,932	(1,227,932)	-	-
TOTAL SUPPORT AND REVENUE	4,284,877	141,904	4,426,781	3,573,258
OPERATING EXPENSES:				
Program services:	2,585,928	-	2,585,928	2,302,495
Support services:				
Management and general	163,185	-	163,185	161,519
Fundraising	423,603	-	423,603	305,155
TOTAL OPERATING EXPENSES	3,172,716	-	3,172,716	2,769,169
CHANGE IN NET ASSETS	1,112,161	141,904	1,254,065	804,089
NET ASSETS - BEGINNING OF YEAR	382,057	1,111,590	1,493,647	689,558
NET ASSETS - END OF YEAR	\$ 1,494,218	\$ 1,253,494	\$ 2,747,712	\$ 1,493,647

See independent auditor's report.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

VILLAGE ENTERPRISE STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Program Services				Supporting Services		2018 Total	2017 Total
	Kenya	Uganda	United States	Total Program Services	Management and General	Fundraising		
Grants to small businesses	\$ 289,775	\$ 347,779	\$ -	\$ 637,554	\$ -	\$ -	\$ 637,554	\$ 533,268
Personnel	593,384	461,334	309,314	1,364,032	130,536	287,791	1,782,359	1,442,358
Currency exchange loss	6,369	26,017	-	32,386	-	-	32,386	33,757
Depreciation and amortization	-	-	10,155	10,155	666	983	11,804	14,605
Field operations	174,880	63,713	11,826	250,419	-	-	250,419	122,347
Insurance	-	-	4,148	4,148	4,148	-	8,296	8,917
Fellows and interns	1	11,419	4	11,424	-	-	11,424	23,934
Meetings, conferences and training	391	-	4,588	4,979	812	2,950	8,741	12,324
Occupancy	10,793	9,827	10,729	31,349	4,294	12,292	47,935	38,849
Office	411	1,329	8,637	10,377	3,456	9,895	23,728	24,481
Other	-	-	-	-	2,890	-	2,890	96
Postage and shipping	-	-	-	-	999	-	999	1,196
Professional fees	5,755	3,980	29,025	38,760	11,570	-	50,330	41,114
Marketing and communications	64	102	2,713	2,879	-	97,504	100,383	56,037
Special projects	-	-	-	-	-	-	-	253,954
Travel	43,622	72,666	20,317	136,605	2,700	2,700	142,005	107,163
Training	9,140	16,232	46	25,418	-	-	25,418	25,053
Utilities	6,901	10,480	2,783	20,164	1,114	3,188	24,466	23,047
Website	-	-	5,279	5,279	-	6,300	11,579	6,669
Total expenses	\$ 1,141,486	\$ 1,024,878	\$ 419,564	\$ 2,585,928	\$ 163,185	\$ 423,603	\$ 3,172,716	\$ 2,769,169

See independent auditor's report.

VILLAGE ENTERPRISE FUND, INC. AND SUBSIDIARIES

**VILLAGE ENTERPRISE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,254,065	\$ 804,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,804	14,605
Loss on disposal of property and equipment	557	-
Changes in operating assets and liabilities:		
Accounts receivable	(95,501)	(2,756)
Promise to give	(133,485)	(759,958)
Prepaid expenses	10,396	(9,265)
Accounts payable and accrued expenses	135,519	2,870
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,183,355	49,585
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(20,580)	(7,001)
NET CASH USED IN INVESTING ACTIVITIES	(20,580)	(7,001)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,162,775	42,584
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	475,737	433,153
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,638,512	\$ 475,737

See independent auditor's report.