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Village Enterprise Fund, Inc.

Financial Statements
With Independent Auditors' Report

June 30, 2016

VILLAGE ENTERPRISE FUND, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Village Enterprise Fund, Inc.
San Carlos, California

Report on the Financial Statements

We have audited the accompanying financial statements of Village Enterprise Fund, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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 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 auditor 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.



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INDEPENDENT AUDITORS' REPORT-continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Village Enterprise Fund, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Village Enterprise Fund, Inc. has restated beginning net assets to reflect an adjustment to certain conditional liabilities that should not have been recorded in the fiscal year ended on June 30, 2015. Conditional liabilities are recorded once the conditions have been satisfied in accordance with accounting principles generally accepted in the United States of America. This change resulted in restating the beginning balance of net assets at July 1, 2015. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating schedule of activities on page 15 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.

SD Mayer & Associates, LLP

SD Mayer & Associates, LLP

San Francisco, California
January 19, 2017

VILLAGE ENTERPRISE FUND, INC.
STATEMENT OF FINANCIAL POSITION
As of June 30, 2016

	<u>2016</u>
ASSETS	
Assets	
Cash and cash equivalents	\$ 433,153
Accounts Receivable	3,111
Promises to give	220,172
Prepaid expenses	16,309
Property and equipment, net	<u>41,783</u>
Total assets	<u><u>\$ 714,528</u></u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	<u>\$ 24,971</u>
Total liabilities	<u>24,971</u>
Net Assets	
Unrestricted	451,439
Temporarily restricted	<u>238,118</u>
Total net assets	<u>689,557</u>
Total liabilities and net assets	<u><u>\$ 714,528</u></u>

The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions from individuals	\$ 1,151,399	\$ -	\$1,151,399
Contributions from foundations	253,411	264,389	517,800
Other contributions	359,159	-	359,159
Fundraising events, net of direct expenses of \$12,543	10,716	-	10,716
In-kind contributions	9,967	-	9,967
Net assets released from restrictions	481,365	(481,365)	-
Total support and revenue	2,266,017	(216,976)	2,049,041
Operating Expenses			
Program services	1,612,032	-	1,612,032
Supporting services			
Management and general	124,456	-	124,456
Fundraising	346,361	-	346,361
Total operating expenses	2,082,849	-	2,082,849
Changes in net assets	183,168	(216,976)	(33,808)
Net Assets			
Beginning of year (as restated)	268,271	455,094	723,365
End of year	<u>\$ 451,439</u>	<u>\$ 238,118</u>	<u>\$ 689,557</u>

The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016

	2016
Cash Flows from Operating Activities	
Changes in net assets	\$ (33,808)
Adjustments to reconcile changes in net assets to net cash provided by (used) in operating activities	
Depreciation	12,715
Loss on disposal of property and equipment	1,972
(Increase) decrease in operating assets	
Accounts receivable	7,851
Promise to give	26,295
Prepaid expenses	(9,381)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	(59,715)
Net cash used in operating activities	(54,071)
Cash Flows from Investing Activities	
Purchase of property and equipment	(19,777)
Proceeds from disposal of property and equipment	4,410
Net cash used in investing activities	(15,367)
Net change in cash and cash equivalents	(69,438)
Cash and Cash Equivalents	
Beginning of year	502,591
End of year	\$ 433,153
Supplemental Data	
In-kind contributions	\$ 9,967

The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	<u>Program Services</u>			<u>Total Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Kenya</u>	<u>Uganda</u>	<u>United States</u>		<u>Management and General</u>	<u>Fundraising</u>	
Grants to small businesses	\$ 140,517	\$ 190,136	\$ (2,961)	\$ 327,692	\$ -	\$ -	\$ 327,692
Personnel	148,282	189,097	352,792	690,171	88,198	259,656	1,038,025
Currency exchange loss	4,395	4,964	4,037	13,396	-	-	13,396
Depreciation	150	-	11,188	11,338	1,050	327	12,715
Field operations	32,291	91,718	16,535	140,544	-	-	140,544
Insurance	-	-	-	-	526	-	526
Fellows and interns	10,142	11,762	3,597	25,501	250	-	25,751
Meetings, conferences and training	7,626	1,517	166	9,309	166	1,330	10,805
Occupancy	6,954	7,244	14,900	29,098	3,725	6,208	39,031
Office	-	-	16,855	16,855	4,214	7,023	28,092
Other	3,717	(1,695)	-	2,022	427	427	2,876
Postage and shipping	-	-	-	-	910	1,365	2,275
Professional fees	1,045	25	-	1,070	18,388	18,388	37,846
Marketing and communications	-	-	-	-	-	41,578	41,578
Special projects	1,098	208,908	44,816	254,822	-	-	254,822
Travel	5,717	15,391	15,876	36,984	4,089	4,089	45,162
Training	7,840	9,784	-	17,624	-	-	17,624
Utilities	3,509	7,765	3,674	14,948	918	1,531	17,397
Website	-	-	20,658	20,658	1,595	4,439	26,692
Total expenses	<u>\$ 373,283</u>	<u>\$ 736,616</u>	<u>\$ 502,133</u>	<u>\$ 1,612,032</u>	<u>\$ 124,456</u>	<u>\$ 346,361</u>	<u>\$ 2,082,849</u>

The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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”). Since May 2011, Village Enterprise Fund, Inc. has been operating as 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 helps people break the cycle of poverty through its mission to equip people living in extreme poverty with the resources to create sustainable businesses:

- Business training empowers groups of three people to select, create and operate a small business.
- Seed capital grants of up to \$150 are awarded to trained groups with approved grant applications. Typical businesses include: Agriculture (beans, tomatoes, peanuts); Animal husbandry (goats, chickens, pigs); Skilled service 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 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.

Basis of Accounting

The financial statements of Village Enterprise have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, under which revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

Description of Net Assets

Village Enterprise reports information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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 statement of activities and changes in net assets 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 may use the earnings from these funds. Village Enterprise had no permanently restricted net assets as of June 30, 2016.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support in the statement of activities and changes in net assets. 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.

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.

Property and Equipment and Depreciation

All acquisitions of property and equipment in excess of \$500 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.

Contributions

Contribution revenue is 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. Contributions of assets other than cash are recorded at fair value at the date of donation. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. 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.

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Permanently restricted net assets are contributions required to be maintained in perpetuity by the donor. Village Enterprise had no permanently restricted net assets at June 30, 2016.

Functional Allocation of Expenses

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 at June 30, 2016.

Estimates

The preparation of financial statements in conformity with U.S. 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. Such estimates include the useful life of depreciable assets and estimates of uncollectible accounts receivable, donated items, and functional allocation of expenses. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

Village Enterprise's financial instruments, including cash and cash equivalents, prepaid expenses, accounts receivable, and accounts payable and accrued expenses are stated at cost as the carrying amounts approximate fair value due to their short maturities.

Conditional Grants Payable

Conditional grants payable are recorded when the conditions have been substantially met.

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 2 – BEGINNING NET ASSETS

In previous years, Village Enterprise recorded certain conditional grants payable that should not have been accrued for under Generally Accepted Accounting Principles in the United States of America. The financial statements for 2015 have been retroactively restated for the change, which resulted in an increase in net assets for 2015 in the amount of \$126,238. Accordingly, beginning net assets has increased by \$126,238 as of July 1, 2015, as follows:

		Net assets as of July 1, 2015
Net assets at beginning of fiscal year (as originally reported)	\$	597,127
Adjustment to reverse the recording of conditional grants payable		126,238
Net assets at beginning of fiscal year (as restated)	\$	723,365

NOTE 3 – CONCENTRATION 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, 2016, cash balances in African banks amounted to \$166,691. Cash balances held in the U.S. banks are insured by the FDIC up to \$250,000 per bank. Village Enterprise had no uninsured U.S. bank balances at June 30, 2016.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is valued as stated in Note 1 and is summarized as follows at June 30:

		2016
Computers and equipment	\$	35,386
Vehicles		120,982
Accumulated depreciation		(114,585)
Property and equipment, net	\$	41,783

Property and equipment at June 30, 2016 includes capitalized leased equipment of \$8,275 which has been fully amortized. Depreciation expense, including amortization of equipment under capital leases, amounted to \$12,715 for the year ended June 30, 2016.

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 5 – PROMISES TO GIVE

Promises to give at June 30, 2016 are summarized as follows:

Expected receipt of contribution in the year ended June 30		
2017	\$	190,172
2018		30,000
Promises to give	\$	220,172

Long-term promises to give are not discounted because the discount is deemed to be insignificant.

NOTE 6 – GRANTS PAYABLE

Village Enterprise awards grants of \$150 each to small startup businesses. The grant amounts are recorded as an expense at the time they are paid.

The start up businesses receive the grant in two stages:

- An initial payment of \$100
- A second payment of \$50, upon delivery of a progress report (typically submitted six months after receipt of the initial payment).

To qualify for the first part of 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. In order to receive the second half of the grant, 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. Conditional grants payable at June 30, 2016 amounted to approximately \$86,000.

NOTE 7 – COMMITMENTS

Village Enterprise leases office space in San Carlos, California under an operating lease agreement that expires on December 31, 2018. Rental expense was \$23,400 for 2016.

Village Enterprise currently leases its Field Offices in Kitale (Kenya), Soroti (Uganda), Nwoya (Uganda) and Hoima (Uganda) under lease agreements varying from six months to one year. Total rent expense for the field offices in 2016 amounted to \$14,198 and is categorized under "Field Operations Expenses" in the statement of functional expenses.

Total future minimum lease payments amount to at June 30:

2017	\$	32,334
2018		25,200
2019		12,600
Total	\$	70,134

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 8 – IN-KIND CONTRIBUTIONS

Contributed goods and services for the year ended June 30, 2016 consisted of the following:

Computer Equipment	\$	1,549
Photographs		2,700
Catering & Entertainment		3,336
Airfare		1,167
Technical Support		415
Handbags		<u>800</u>
Total	\$	<u><u>9,967</u></u>

Village Enterprise has received donated services in the form of time donated by interns and volunteers. Activities for interns and volunteers include work both in the head office and in African field offices. Contributions of services are recognized if the services received (1) create or enhance non-financial assets or, (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended June 30, 2016, interns and volunteers donated approximately 1,968 hours. No amounts have been recognized in the accompanying statement of activities for these services as they do not meet the criteria for recognition.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Contributions that are restricted by a grantor agency or a donor are reported as an increase in unrestricted net assets if the restriction expires, or the conditions are met in the reporting period in which the support is recognized. 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.

At June 30, temporarily restricted net assets consist of:

		<u>2016</u>
Evaluation funds	\$	<u>145,747</u>
Uganda program expenses		77,489
Kenya program expenses		<u>14,882</u>
Total	\$	<u><u>238,118</u></u>

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS

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

		<u>2016</u>
Evaluation funds	\$	347,456
Uganda program expenses		56,291
Other		22,500
Kenya program expenses		<u>55,118</u>
Total	\$	<u><u>481,365</u></u>

NOTE 11 – FUNDRAISING EVENTS

Village Enterprise conducts various fundraising events each year. The most recent event during the year ended June 30, 2016 was a Casino Night on March 4, 2016. The revenue and related expenses are disclosed in the accompanying statement of activities.

NOTE 12 – 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 and bears interest rate equal to the greater of a floating rate equal to the index plus 0.750% or the floor rate of 4.0%. The index is the prime rate that is set by the lender. The line matured on November 5, 2016 and was not renewed. The line was collateralized by the assets of Village Enterprise. There were no advances or repayments made under the line during the year ended June 30, 2016. The outstanding balance on the line was \$0 at June 30, 2016.

NOTE 13 – TAX EXEMPT STATUS

Village Enterprise is a not-for-profit organization, exempt from federal income tax under Section 501(c)(3) of the U.S Internal Revenue Code (the Code), and contributions to it are tax deductible as prescribed by the Code. Village Enterprise is also exempt from California income tax under Section 23701d of the California Revenue and Taxation Code. Village Enterprise is generally no longer subject to tax examinations relating to federal and state tax returns for years prior to 2012. Village Enterprise has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated as a “publicly supported” organization under Section 170(b)(1)(A)(vi) of the Code.

Village Enterprise assesses its accounting for uncertainty in income taxes recognized in its financial statements and prescribes a threshold of “more likely than not” for recognition and derecognition of tax positions taken or expected to be taken in its tax returns.

VILLAGE ENTERPRISE FUND, INC.
Notes to Financial Statements
June 30, 2016

NOTE 14 – SUBSEQUENT EVENTS

Village Enterprise has evaluated subsequent events through January 19, 2017, the date the financial statements were available to be issued. Village Enterprise noted that there were no material subsequent events that required recording or disclosure.

SUPPLEMENTARY INFORMATION

VILLAGE ENTERPRISE FUND, INC.
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the year ended June 30, 2016

	<u>Kenya</u>	<u>Uganda</u>	<u>United States</u>	<u>Total</u>
Support and Revenue				
Contributions from individuals	\$ -	\$ -	\$ 1,151,399	\$ 1,151,399
Contributions from foundations	-	-	517,800	517,800
Other contributions	14	1,717	357,428	359,159
Fundraising events, net of direct expense	-	-	10,716	10,716
In-kind contributions	-	-	9,967	9,967
	-	-	-	-
Total revenue and support	<u>14</u>	<u>1,717</u>	<u>2,047,310</u>	<u>2,049,041</u>
Expenses				
Grants to small businesses	140,517	190,136	(2,961)	327,692
Personnel	148,282	189,097	700,646	1,038,025
Currency exchange loss	4,395	4,964	4,037	13,396
Depreciation	150	-	12,565	12,715
Field operations	32,291	91,718	16,535	140,544
Insurance	-	-	526	526
Fellows and interns	10,142	11,762	3,847	25,751
Meetings, conferences and training	7,626	1,517	1,662	10,805
Occupancy	6,954	7,244	24,833	39,031
Office	-	-	28,092	28,092
Other	3,717	(1,695)	854	2,876
Postage and shipping	-	-	2,275	2,275
Professional fees	1,045	25	36,776	37,846
Marketing and communications	-	-	41,578	41,578
Special projects	1,098	208,908	44,816	254,822
Travel and conferences	5,717	15,391	24,054	45,162
Training	7,840	9,784	-	17,624
Utilities	3,509	7,765	6,123	17,397
Website	-	-	26,692	26,692
	-	-	-	-
Total expenses	<u>\$ 373,283</u>	<u>\$ 736,616</u>	<u>\$ 972,950</u>	<u>\$ 2,082,849</u>
Changes in net assets				(33,808)
Net Assets				
Beginning of year (as restated)				<u>723,365</u>
End of year				<u>\$ 689,557</u>

The accompanying notes are an integral part of these financial statements