

# **JACKSON COUNTY UNITED WAY, INC.**

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015 AND 2014**

*CPAs / ADVISORS*



**JACKSON COUNTY UNITED WAY, INC.**

TABLE OF CONTENTS  
DECEMBER 31, 2015 AND 2014

---

	Page
<b>Report of Independent Auditors</b> .....	1
 <b>Financial Statements</b>	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Functional Expenses.....	6
Statements of Cash Flows .....	7
Notes to Financial Statements.....	8
 <b>Supplementary Information</b>	
Schedules of Allocations to Agencies.....	15

---



Blue & Co., LLC / 106 Community Drive / Seymour, IN 47274  
main 812.522.8416 fax 812.523.8615 email blue@blueandco.com

[blueandco.com](http://blueandco.com)

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Jackson County United Way, Inc.  
Seymour, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of the Jackson County United Way, Inc. (the "Organization") which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the Organization as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information on page 15 is presented for the 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 audits 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.

*Blue & Co., LLC*

Seymour, Indiana

June 17, 2016

# JACKSON COUNTY UNITED WAY, INC.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

### ASSETS

	2015	2014
Cash	\$ 398,260	\$ 364,896
Certificates of deposit	226,514	155,339
Board designated investments	20,747	22,899
Pledges receivable, net	240,526	349,663
Prepaid expenses	3,071	3,887
Office furniture and equipment, net	5,194	4,086
	<u>\$ 894,312</u>	<u>\$ 900,770</u>

### LIABILITIES AND NET ASSETS

#### Liabilities

Accounts payable	\$ 9,324	\$ 10,875
Designations payable	28,178	18,062
Agency liability	16,756	7,593
Deferred revenue	92,093	41,168
Total liabilities	146,351	77,698

#### Net assets

Unrestricted		
Board designated reserve	158,750	158,750
Undesignated	49,511	6,680
Total unrestricted net assets	208,261	165,430
Temporarily restricted	539,700	657,642
Total net assets	747,961	823,072
	<u>\$ 894,312</u>	<u>\$ 900,770</u>

*See accompanying notes to financial statements.*

# JACKSON COUNTY UNITED WAY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
<b>Support and revenues</b>				
Gross campaign results	\$ 140,353	\$ 540,907	\$ 681,260	\$ 924,520
Less donor designations	6,296	9,296	15,592	12,586
Less provision for uncollectible accounts	<u>19,688</u>	<u>-0-</u>	<u>19,688</u>	<u>31,739</u>
Net campaign results	114,369	531,611	645,980	880,195
Grant revenue	47,470	-0-	47,470	99,233
In-kind services	9,759	-0-	9,759	2,940
Investment return	112	-0-	112	2,138
Day of Caring	5,900	-0-	5,900	3,245
Miscellaneous	5,561	-0-	5,561	5,710
Net assets released from time restrictions	<u>649,553</u>	<u>(649,553)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	832,724	(117,942)	714,782	993,461
<b>Expenses</b>				
Program services	607,080	-0-	607,080	680,315
Management and general	79,764	-0-	79,764	74,854
Fundraising	<u>103,049</u>	<u>-0-</u>	<u>103,049</u>	<u>91,665</u>
Total expenses	<u>789,893</u>	<u>-0-</u>	<u>789,893</u>	<u>846,834</u>
Change in net assets	42,831	(117,942)	(75,111)	146,627
<b>Net assets, beginning of year</b>	<u>165,430</u>	<u>657,642</u>	<u>823,072</u>	<u>676,445</u>
<b>Net assets, end of year</b>	<u>\$ 208,261</u>	<u>\$ 539,700</u>	<u>\$ 747,961</u>	<u>\$ 823,072</u>

*See accompanying notes to financial statements.*

**JACKSON COUNTY UNITED WAY, INC.**

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
<b>Support and revenues</b>			
Gross campaign results	\$ 252,917	\$ 671,603	\$ 924,520
Less donor designations	-0-	12,586	12,586
Less provision for uncollectible accounts	<u>30,364</u>	<u>1,375</u>	<u>31,739</u>
Net campaign results	222,553	657,642	880,195
Grant revenue	99,233	-0-	99,233
In-kind services	2,940	-0-	2,940
Investment return	2,138	-0-	2,138
Day of Caring	3,245	-0-	3,245
Miscellaneous	5,710	-0-	5,710
Net assets released from time restrictions	<u>477,041</u>	<u>(477,041)</u>	<u>-0-</u>
Total support and revenues	812,860	180,601	993,461
<b>Expenses</b>			
Program services	680,315	-0-	680,315
Management and general	74,854	-0-	74,854
Fundraising	<u>91,665</u>	<u>-0-</u>	<u>91,665</u>
Total expenses	<u>846,834</u>	<u>-0-</u>	<u>846,834</u>
Change in net assets	(33,974)	180,601	146,627
<b>Net assets, beginning of year</b>	<u>199,404</u>	<u>477,041</u>	<u>676,445</u>
<b>Net assets, end of year</b>	<u>\$ 165,430</u>	<u>\$ 657,642</u>	<u>\$ 823,072</u>

*See accompanying notes to financial statements.*

**JACKSON COUNTY UNITED WAY, INC.**

STATEMENTS OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

	2015				2014
	Program Services	Management and General	Fundraising	Total	Total
Agency allocations	\$ 498,227	\$ -0-	\$ -0-	\$ 498,227	\$ 523,667
Salaries	36,405	27,618	61,513	125,536	116,318
Payroll taxes	3,046	2,310	5,146	10,502	8,457
Professional services	1,145	15,650	4,580	21,375	24,986
2-1-1 program expense	8,465	-0-	-0-	8,465	12,562
1213 grant	12,750	-0-	-0-	12,750	72,262
Occupancy	5,760	5,760	7,680	19,200	19,200
In-kind expense	976	3,220	5,563	9,759	2,940
1010 grant	18,219	-0-	-0-	18,219	4,848
VITA grant	3,701	-0-	-0-	3,701	8,173
Insurance	4,002	9,340	-0-	13,342	12,635
NAUW fee	1,999	4,205	689	6,893	7,824
Dues and subscriptions	682	516	1,149	2,347	1,605
Campaign supplies	-0-	-0-	6,760	6,760	4,619
Employee benefits	1,077	817	1,821	3,715	2,834
Day of Caring	4,244	-0-	-0-	4,244	3,352
Marketing and special events	1,635	-0-	1,635	3,270	3,417
Repairs and maintenance	675	675	696	2,046	4,195
Telephone	769	769	1,024	2,562	2,523
Supplies	551	394	631	1,576	3,479
Postage	502	753	1,255	2,510	1,930
Miscellaneous	2,250	2,547	2,907	7,704	2,564
Depreciation	-0-	5,190	-0-	5,190	2,444
	<u>\$ 607,080</u>	<u>\$ 79,764</u>	<u>\$ 103,049</u>	<u>\$ 789,893</u>	<u>\$ 846,834</u>

*See accompanying notes to financial statements.*



# JACKSON COUNTY UNITED WAY, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Operating activities</b>		
Change in net assets	\$ (75,111)	\$ 146,627
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	5,190	2,444
Provision for uncollectible accounts	19,688	31,739
Interest earned on certificates of deposit	(1,038)	(339)
Investment income earned on board designated investments	1,165	(502)
Changes in assets and liabilities:		
Pledges receivable	89,449	(212,301)
Prepaid expenses	816	(1,581)
Accounts payable	(1,551)	6,798
Designations payable	10,116	9,219
Agency liability	9,163	1,617
Deferred revenue	50,925	5,777
Net cash flows from operating activities	108,812	(10,502)
<b>Investing activities</b>		
Purchase of equipment	(6,298)	-0-
Purchase of certificates of deposit	(145,276)	(200,000)
Maturities of certificates of deposit	75,139	416,385
Distributions received from board designated investments	987	949
Net cash flows from investing activities	(75,448)	217,334
Net change in cash	33,364	206,832
<b>Cash, beginning of year</b>	364,896	158,064
<b>Cash, end of year</b>	\$ 398,260	\$ 364,896
<b>Supplemental disclosure of non-cash investing activity</b>		
Property and equipment purchased in accounts payable	\$ -0-	\$ 1,950

*See accompanying notes to financial statements.*

# JACKSON COUNTY UNITED WAY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Jackson County United Way, Inc. (the "Organization") was formed in 1962 to continually assess the needs of the people of Jackson County and improve their quality of life by raising and allocating funds for human care and developmental programs. Substantially all support is received from various individuals and businesses in Jackson County and surrounding areas.

#### Management's Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

#### Basis of Presentation

Net assets, support, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. Also included in unrestricted net assets are amounts designated by the Organization's board of directors.

Temporarily restricted net assets – Net assets that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

#### Certificates of Deposit

Certificates of deposit consist of multiple certificates from various financial institutions with maturity dates from May 2016 to November 2019 and interest rates ranging from 0.15 percent to 1.00 percent. Certificates of deposit are valued at the original cost plus accrued interest.

#### Board Designated Investments

The Board of Directors has designated certain amounts for future expenditures and investment in operations and placed it in a custodial fund with Community Foundation of Jackson County, Inc.

These investments are measured at fair value in the Statements of Financial Position. Investment

---

# JACKSON COUNTY UNITED WAY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

income or loss, including realized and unrealized gains and losses on investments, interest, and dividends is included in investment return in the Statements of Activities. The funds are invested in accordance with the Community Foundation of Jackson County, Inc.'s investment policy.

### Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Pledges and contributions received and committed for subsequent years from the annual fund drive held late in the calendar year are recorded as temporarily restricted net assets. These amounts are reflected as net assets released from restrictions during the program year for which the funds were designated.

The Organization uses the allowance method to determine the uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Receivables are considered uncollectible if (1) over two years outstanding or (2) management has reasons to believe specified amounts will not be collected, usually based on confirmation from donors.

### Office Furniture and Equipment

Office furniture and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at fair value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred.

Office furniture and equipment of the Organization are being depreciated over their estimated useful lives ranging from three to five years using the straight-line method.

### Agency Liability

The Organization serves as fiscal agent of funds for certain organizations. The amounts are reported as an agency liability in the Statements of Financial Position.

### Support, Revenues and Expense Recognition

Contributions are recognized as support in the period the promise is made.

Support and 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 on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

# JACKSON COUNTY UNITED WAY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

The Organization recognizes grant revenue in the period the related expenses are incurred.

All other revenues are recorded when earned.

### In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of services from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the years ended December 31, 2015 and 2014, revenue recognized as in-kind contributions and contributed services totaled \$9,759 and \$2,940, respectively.

### Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

### Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, the Organization is generally exempt from income taxes. However, the Organization is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

# JACKSON COUNTY UNITED WAY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is June 17, 2016.

## **2. BOARD DESIGNATED INVESTMENTS**

The Organization has transferred assets to the Community Foundation of Jackson County, Inc. and retained a beneficial interest in those assets. The Organization is to receive a grant annually based upon the Community Foundation of Jackson County, Inc.'s spending policy. The Organization has granted variance power to the community foundation to carry out the purpose of the designated endowment created by the initial transfer.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

**JACKSON COUNTY UNITED WAY, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

---

- *Board designated investments:* Valued at fair value as reported by Community Foundation of Jackson County (the "Foundation"), which represents the Organization's pro-rata interest in the Foundation's investment pool, substantially all of which are valued on a mark-to-market basis.

The fair value of these assets is measured on a recurring basis using significant unobservable inputs (Level 3) and included in the Statements of Financial Position at \$20,747 and \$22,899 at December 31, 2015 and 2014, respectively. The Organization's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. There were no transfers during 2015 or 2014.

The progression of this endowment fund is as follows:

	2015	2014
Beginning balance	\$ 22,899	\$ 23,346
Investment return, net	(775)	826
Grants expense	(987)	(949)
Administrative fees	(390)	(324)
	\$ 20,747	\$ 22,899

**3. PLEDGES RECEIVABLE, NET**

An analysis of pledges receivable at December 31, 2015 and 2014 are as follows:

	2015	2014
2013 Campaign due during the year ended December 31, 2014	\$ -0-	\$ 82,903
2014 Campaign due during the year ended December 31, 2015	62,012	380,080
2015 Campaign due during the year ended December 31, 2016	292,158	-0-
Totals	354,170	462,983
Less allowance for uncollectible pledges	113,644	113,320
	\$ 240,526	\$ 349,663

---

**JACKSON COUNTY UNITED WAY, INC.**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

---

The campaign conducted during the fall of 2014 with pledges due in 2015 is referred to as the 2014 campaign, and the campaign conducted during the fall of 2015 with pledges due in 2016 is referred to as the 2015 campaign.

**4. OFFICE FURNITURE AND EQUIPMENT**

A summary of office furniture and equipment at December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Office furniture and equipment	\$ 41,517	\$ 37,858
Less accumulated depreciation	<u>36,323</u>	<u>33,772</u>
	<u>\$ 5,194</u>	<u>\$ 4,086</u>

**5. TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted net assets consist of contributions from the annual fund drive at December 31, 2015 and 2014 restricted to the following year totaling \$539,700 and \$657,642, respectively.

Temporarily restricted net assets released from time restrictions during the years ended December 31, 2015 and 2014 totaled \$649,553 and \$477,041, respectively.

**6. BOARD DESIGNATED RESERVE**

The Organization maintains a reserve in an amount equal to at least 25 percent of the amount due to or anticipated to be paid to agencies in the subsequent year in order to preserve funds for payout to agencies in times of financial distress.

**7. OPERATING LEASES**

The Organization leases office space under a five year lease agreement through 2020. Monthly payments include rent and utilities and totaled \$19,200 for the years ended December 31, 2015 and 2014.

# JACKSON COUNTY UNITED WAY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

The future minimum lease payments at December 31, 2015 are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 21,029
2017	21,029
2018	21,029
2019	21,029
2020	<u>15,771</u>
	<u>\$ 99,887</u>

### 8. RELATED PARTY TRANSACTIONS

The Organization received \$19,715 and \$15,764 in contributions from members of the Organization's board of directors and employees during the years ended December 31, 2015 and 2014, respectively.

### 9. CONCENTRATIONS

The Organization is exposed to concentrations of credit risk for pledge amounts due to the vast majority of donors residing in Jackson County, Indiana. Although the Organization is directly affected by the well-being of the economy of Jackson County, management does not believe significant credit risk exists at December 31, 2015.

The Organization maintains its cash and certificates of deposit in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and certificates of deposit.



SUPPLEMENTARY INFORMATION

**JACKSON COUNTY UNITED WAY, INC.**

SCHEDULES OF ALLOCATIONS TO AGENCIES  
YEARS ENDED DECEMBER 31, 2015 AND 2014

---

Agency	2015	2014
American Red Cross	\$ 52,676	\$ 58,367
Hoosier Trails Boy Scouts	15,517	15,556
Kentuckiana Girl Scouts	17,833	17,878
Mental Health America	9,386	11,623
ARC	10,236	10,775
Salvation Army	4,438	4,917
Boys & Girls Club	102,339	107,725
Girls, Inc.	127,187	133,881
Meals on Wheels	1,200	1,200
Brownstown Senior Citizens	3,500	3,500
Medora Senior Citizens	1,700	1,700
Big Brothers Big Sisters	51,806	54,533
Crothersville Senior Citizens	3,500	3,500
Head Start	5,390	5,673
Turning Point	25,676	25,741
Literacy Coalition	21,939	23,094
Seymour Senior Citizens	2,700	2,700
Child Care Network	15,141	15,179
Anchor House	24,763	24,825
Freetown Senior Citizens	1,300	1,300
	<u>\$ 498,227</u>	<u>\$ 523,667</u>

---

*See report of independent auditors on pages 1 and 2.*