

**MARINE CONSERVATION BIOLOGY INSTITUTE**

Financial Statements

For the Years Ended December 31, 2016 and 2015

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## **Independent Auditor's Report**

**To the Board of Directors  
Marine Conservation Biology Institute  
Db a Marine Conservation Institute  
Seattle, Washington**

We have audited the accompanying financial statements of Marine Conservation Biology Institute (the Organization), which comprise the statements of financial position as of December 31, 2016 and 2015, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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## 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, 2016 and 2015, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Clark Nuber P.S.

Certified Public Accountants  
July 13, 2017

**MARINE CONSERVATION BIOLOGY INSTITUTE  
DBA MARINE CONSERVATION INSTITUTE**

**Statements of Financial Position  
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 429,003	\$ 465,768
Investments	91,075	85,757
Promises to give, current	164,862	19,978
Prepays and deposits	<u>18,391</u>	<u>20,020</u>
<b>Total Current Assets</b>	<b>703,331</b>	<b>591,523</b>
Long term security deposit	2,000	
Property and equipment, net	<u>21,111</u>	<u>34,444</u>
<b>Total Assets</b>	<b><u>\$ 726,442</u></b>	<b><u>\$ 625,967</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 7,646	\$ 6,449
Accrued vacation	<u>37,261</u>	<u>43,384</u>
<b>Total Liabilities</b>	<b>44,907</b>	<b>49,833</b>
<b>Net Assets:</b>		
Unrestricted	356,211	506,963
Temporarily restricted	<u>325,324</u>	<u>69,171</u>
<b>Total Net Assets</b>	<b><u>681,535</u></b>	<b><u>576,134</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 726,442</u></b>	<b><u>\$ 625,967</u></b>

See accompanying notes.

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**Statement of Activities  
For the Year Ended December 31, 2016**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>Support and Revenue:</b>			
Grants and contracts	\$ 124,909	\$ 795,055	\$ 919,964
Contributions	87,080	65,000	152,080
Investment income	6,570		6,570
Special event revenue, net	14,175		14,175
Other revenue	4,343		4,343
Net assets released from restriction	603,902	(603,902)	
<b>Total Support and Revenue</b>	<b>840,979</b>	<b>256,153</b>	<b>1,097,132</b>
<b>Expenses:</b>			
Program services	680,387		680,387
Management and general	156,223		156,223
Fundraising	155,121		155,121
<b>Total Expenses</b>	<b>991,731</b>		<b>991,731</b>
<b>Change in Net Assets</b>	<b>(150,752)</b>	<b>256,153</b>	<b>105,401</b>
Net assets, beginning of year	506,963	69,171	576,134
<b>Net Assets, End of Year</b>	<b>\$ 356,211</b>	<b>\$ 325,324</b>	<b>\$ 681,535</b>

See accompanying notes.

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**Statement of Activities  
For the Year Ended December 31, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>			
Grants and contracts	\$ 485,510	\$ 267,775	\$ 753,285
Contributions	139,271		139,271
In-kind contributions	40,000		40,000
Investment income	352		352
Other revenue	1,214		1,214
Net assets released from restriction	572,135	(572,135)	
<b>Total Support and Revenue</b>	<b>1,238,482</b>	<b>(304,360)</b>	<b>934,122</b>
<b>Expenses:</b>			
Program services	892,689		892,689
Management and general	150,926		150,926
Fundraising	126,923		126,923
<b>Total Expenses</b>	<b>1,170,538</b>		<b>1,170,538</b>
<b>Change in Net Assets</b>	<b>67,944</b>	<b>(304,360)</b>	<b>(236,416)</b>
Net assets, beginning of year	439,019	373,531	812,550
<b>Net Assets, End of Year</b>	<b>\$ 506,963</b>	<b>\$ 69,171</b>	<b>\$ 576,134</b>

See accompanying notes.

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**Statement of Functional Expenses  
For the Year Ended December 31, 2016**

	Establishing a Global Ocean Refuge System (GLORES)	Conserving Marine Life and Ecosystems	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 379,979	\$ 28,718	\$ 408,697	\$ 88,347	\$ 94,402	\$ 591,446
Payroll taxes	36,963	2,949	39,912	2,285	9,826	52,023
Employee benefits	66,998	3,672	70,670	17,719	17,843	106,232
<b>Total Salaries and Related Expenses</b>	<b>483,940</b>	<b>35,339</b>	<b>519,279</b>	<b>108,351</b>	<b>122,071</b>	<b>749,701</b>
Professional fees	37,336	125	37,461	23,812	277	61,550
Occupancy	35,161	2,897	38,058	8,733	9,744	56,535
Travel	32,454	835	33,289	8,694		41,983
Communications	17,632	833	18,465	3,061	4,460	25,986
Special events - direct benefit to donors					19,728	19,728
Depreciation	13,333		13,333			13,333
Special events					12,760	12,760
Supplies	4,709	185	4,894	(170)	2,492	7,216
Insurance	2,577	218	2,795	3,353	862	7,010
Conferences and meetings	6,641		6,641			6,641
Miscellaneous	3,420	71	3,491	144	1,912	5,547
Equipment and maintenance	1,505		1,505	223	140	1,868
Printing and postage	1,109	67	1,176	22	403	1,601
	639,817	40,570	680,387	156,223	174,849	1,011,459
Less special event expenses netted with revenue					(19,728)	(19,728)
<b>Total Expenses</b>	<b>\$ 639,817</b>	<b>\$ 40,570</b>	<b>\$ 680,387</b>	<b>\$ 156,223</b>	<b>\$ 155,121</b>	<b>\$ 991,731</b>

See accompanying notes.



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**Statement of Functional Expenses  
For the Year Ended December 31, 2015**

	Establishing a Global Ocean Refuge System (GLORES)	Conserving Marine Life and Ecosystems	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 460,992	\$ 38,328	\$ 499,320	\$ 84,668	\$ 87,357	\$ 671,345
Payroll taxes	41,536	4,795	46,331	3,101	7,894	57,326
Employee benefits	106,186	10,341	116,527	19,658	13,789	149,974
<b>Total Salaries and Related Expenses</b>	<b>608,714</b>	<b>53,464</b>	<b>662,178</b>	<b>107,427</b>	<b>109,040</b>	<b>878,645</b>
Professional fees	59,617	27,121	86,738	23,917	207	110,862
Occupancy	44,476	9,232	53,708	8,503	8,358	70,569
Travel	25,068	9,337	34,405	6,757	1,322	42,484
Communications	22,069	3,738	25,807	2,329	2,874	31,010
Miscellaneous	7,304	95	7,399	51	1,544	8,994
Insurance	3,433	272	3,705	3,390	670	7,765
Depreciation	5,783	1,324	7,107			7,107
Conferences and meetings	3,788	442	4,230			4,230
Supplies	2,621	94	2,715	(1,655)	2,477	3,537
Equipment and maintenance	1,550	1,300	2,850	156	122	3,128
Printing and postage	994	853	1,847	51	309	2,207
<b>Total Expenses</b>	<b>\$ 785,417</b>	<b>\$ 107,272</b>	<b>\$ 892,689</b>	<b>\$ 150,926</b>	<b>\$ 126,923</b>	<b>\$ 1,170,538</b>

See accompanying notes.

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**Statements of Cash Flows  
For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 105,401	\$ (236,416)
Adjustments to reconcile change in net assets to cash used in operating activities-		
Depreciation	13,333	7,107
(Gain)/loss on investments	(5,318)	611
Loss on disposal of assets		4,883
Donated software		(40,000)
Changes in assets and liabilities:		
Promises to give	(144,884)	190,011
Prepays and deposits	(371)	4,613
Accounts payable	1,197	(16,156)
Accrued vacation	(6,123)	(11,347)
<b>Net Cash Used in Operating Activities</b>	<u><b>(36,765)</b></u>	<u><b>(96,694)</b></u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(36,765)</b>	<b>(96,694)</b>
Cash and cash equivalents, beginning of year	<u>465,768</u>	<u>562,462</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><b>\$ 429,003</b></u>	<u><b>\$ 465,768</b></u>

See accompanying notes.

**MARINE CONSERVATION BIOLOGY INSTITUTE  
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**Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015**

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**Note 1 - Organization**

Marine Conservation Biology Institute dba Marine Conservation Institute (the Organization) is a nonprofit organization founded in 1996 to advance the science of marine conservation biology and secure protection for ocean ecosystems. The Organization's program activities include doing original field research, capacity building in marine conservation biology, and national and international conservation advocacy to protect biodiversity in the oceans. The Organization brings scientists together to address important questions and synthesize the results. Science is central to all the Organization does.

The Organization is registered as a nonprofit corporation in the State of Washington. The Organization's Board of Directors is made up primarily of independent directors and officers. Dr. Lance E. Morgan, President, is the only non-independent director presently sitting on the Board of Directors, and he serves at the will of the Board. Dr. Elliott A. Norse, the Organization's founder and former chief scientist, retired as an employee of the Organization as of December 31, 2015. Dr. Norse continues to serve on the Organization's Board of Directors.

The Organization receives operational program grants, contracts and gifts from foundations, corporations and individuals, as well as from multilateral institutions (such as agencies of the United Nations), foreign governments and foundations, and the U.S. government.

**Note 2 - Significant Accounting Policies**

**Basis of Presentation** - The Organization's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Donor restrictions can be for specific purposes or for a specific time period. Support that is not restricted by the donor is reported as an increase in 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, 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.

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. The Organization had no permanently restricted net assets as of December 31, 2016 and 2015.

**Cash and Cash Equivalents** - Short-term deposits and investments with original maturities of three months or less are reported as cash equivalents.

**Investments** - Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value based on published market quotations. Investment income is recorded when earned and considered available for unrestricted use unless otherwise restricted by the donor.

**Use of 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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015**

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**Note 2 - Continued**

**Promises to Give** - In accordance with U.S. GAAP, unconditional promises to give are recognized as revenues in the period received and as assets or decreases in liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met or when the likelihood of not meeting the condition becomes remote.

At December 31, 2016 and 2015, there were no unrecognized conditional promises to give.

**Grants and Contracts** - Grants and contracts revenue on the statements of activities consists of contributions, cost reimbursable government grants, and program service fees. Grants and contracts revenue consisted of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Contributions	\$ 795,055	\$ 587,775
Cost reimbursable government grants		31,680
Program service fees	<u>124,909</u>	<u>133,830</u>
	<u><b>\$ 919,964</b></u>	<u><b>\$ 753,285</b></u>

**In-Kind Goods and Services** - Contributed goods have been recorded on the basis of rates that otherwise would have been paid for similar goods.

Donated services are recorded as in-kind contributions and are recognized as revenue at estimated values at the date of receipt if they (a) create or enhance nonfinancial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized. For the year ended December 31, 2016, donated goods and services totaled \$18,184, which is included in net special event revenue on the statements of activities. There were no donated goods and services during the year ended December 31, 2015.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. For the year ended December 31, 2015, in-kind contributions included donated software of \$40,000. There were no donated assets for the year ended December 31, 2016.

**Concentration of Credit Risk** - The Organization maintains cash and cash equivalents in accounts that may exceed federally insured limits at times during the year. The cash reserves for years ended December 31, 2016, and 2015 are \$249,281, and \$248,111, respectively.

**Property and Equipment** - Property and equipment are stated at cost or, if donated, at fair value at dates of donation. Property and equipment with an original cost of \$5,000 or greater are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, principally three to seven years.

**MARINE CONSERVATION BIOLOGY INSTITUTE  
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**Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015**

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**Note 2 - Continued**

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

**Federal Income Taxes** - The Internal Revenue Service (IRS) has determined that the Organization is exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRC Section 501(c)(3). Further, the Organization has been classified as an organization that is not a private foundation under IRC Section 509(a).

Contributions to the Organization qualify for deduction as charitable contributions to the extent allowed by law. However, income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511.

The Organization did not have any material unrelated business income tax liability for the years ended December 31, 2016 and 2015.

**Note 3 - Promises to Give**

U.S. GAAP require promises to give to be reported at fair value at the date of donation. Promises to give that are expected to be received in one year or more are initially recorded at fair value.

The Organization uses the income approach to initially value its long-term receivables. The resulting discount is amortized over the collection period. Management periodically evaluates its long-term contributions receivable for collectability. At December 31, 2016 and 2015, management believes that the promises to give are fully collectible.

Promises to give at December 31, 2016 and 2015 of \$164,862 and \$19,978, respectively, were scheduled to be paid in 2017 and 2016, respectively.

**Note 4 - Property and Equipment**

Property and equipment is summarized as follows at December 31:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 111,843	\$ 111,843
Less accumulated depreciation	<u>(90,732)</u>	<u>(77,399)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 21,111</u></b>	<b><u>\$ 34,444</u></b>

Depreciation expense for the years ended December 31, 2016 and 2015, was \$13,333 and \$7,107, respectively.

**MARINE CONSERVATION BIOLOGY INSTITUTE  
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**Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015**

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**Note 5 - Investments**

Investments are summarized as follows at December 31:

	<u>2016</u>	<u>2015</u>
Trading securities-		
Equity securities - materials	\$ 10,635	\$ 10,036
Equity securities - financial services	8,080	6,663
Equity securities - communications	7,129	6,585
Equity securities - social	27,350	25,136
Fixed income securities - short term bond fund	<u>37,881</u>	<u>37,337</u>
<b>Total Investments</b>	<b><u>\$ 91,075</u></b>	<b><u>\$ 85,757</u></b>

U.S. GAAP establish a three-level fair value hierarchy for inputs used in measuring fair value that described the inputs that are used to measure the fair values of the Organization's assets and liabilities required to be reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly market under current market conditions.

Level 1 - Fair values are based on quoted prices in active markets for identical assets and liabilities. The Organization's Level 1 assets include equity securities and fixed income securities.

Level 2 - Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3 - Fair values are based on unobservable inputs and are valued using pricing models and/or discounted cash flow methodologies. They may require significant management judgment or estimation.

All of the Organization's investments are based on quoted market prices for identical assets and accordingly are classified as Level 1. The Organization has no assets or liabilities required to be categorized as Levels 2 or 3.

Corresponding investment income consisted of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 1,252	\$ 963
Net realized and unrealized gains (losses)	<u>5,318</u>	<u>(611)</u>
<b>Total Investment Income</b>	<b><u>\$ 6,570</u></b>	<b><u>\$ 352</u></b>

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**Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015**

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**Note 6 - Retirement Plan**

The Organization has a 401(k) plan (the plan) to provide retirement benefits for its eligible employees. All employees working 20 or more hours per week are eligible to make elective deferrals under the plan. After one year of service, the Organization provides a 20% matching contribution of gross pay, contingent on an elective deferral of 5% of gross pay. Elective deferrals of less than 5% of gross pay receive a pro-rated matching contribution. In the 3<sup>rd</sup> quarter of 2015, the Organization reduced its matching contribution from 20% to 5%. Effective January 1, 2016, the Organization increased its discretionary match from 5% to 10%.

Employees are fully vested in the employer contribution after working 1000 hours or more per calendar year for four years of service. For the years ended December 31, 2016 and 2015, the Organization contributed \$55,712 and \$84,189, respectively, to the plan which is included in employee benefits expense.

**Note 7 - Lease Commitments**

The Organization leases certain office space under various operating leases including one noncancelable operating lease expiring in 2018. Rental expense incurred for operating leases for the years ended December 31, 2016 and 2015, was \$56,535 and \$70,568, respectively, which is included in occupancy expense.

Future minimum payments required under operating leases, are as follows:

For the Year Ending December 31,

2017	\$ 35,933
2018	<u>24,267</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 60,200</u></b>

**Note 8 - Concentrations**

During the years ended December 31, 2016 and 2015, the Organization received two significant grants from two funders, which represented 37% and 27% of total support and revenue recognized, respectively. At December 31, 2016, 73% of total promises to give are due from one donor. At December 31, 2015, 56% of total promises to give were due from one donor.

**Note 9 - Special Events**

The Organization hosted a 20<sup>th</sup> anniversary fundraising gala during the year ended December 31, 2016. Total gross revenue and direct expenses were as follows for the year ended December 31, 2016:

Gross proceeds and support	\$ 33,903
Direct benefit to donors	<u>(19,728)</u>
<b>Special Event Revenue, Net</b>	<b><u>\$ 14,175</u></b>

**MARINE CONSERVATION BIOLOGY INSTITUTE  
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**Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015**

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**Note 10 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods. The Organization had temporarily restricted net assets as follows at December 31:

	<u>2016</u>	<u>2015</u>
Subsequent years' operations	\$ -	\$ 16,952
Protecting marine ecosystems	<u>325,324</u>	<u>52,219</u>
	<u><b>\$ 325,324</b></u>	<u><b>\$ 69,171</b></u>

Temporarily restricted net assets were released from restrictions for the following purposes during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 245,007	\$ 191,323
Program restrictions	<u>358,895</u>	<u>380,812</u>
	<u><b>\$ 603,902</b></u>	<u><b>\$ 572,135</b></u>

**Note 11 - Subsequent Events**

Management has evaluated events occurring subsequent to December 31, 2016 through July 13, 2017, which is the date the financial statements were available to be issued, for potential recognition and/or disclosure. No events occurred subsequent to December 31, 2016, that are required to be recognized or disclosed in these financial statements.