GALAPAGOS CONSERVANCY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016

CALIBRE CPA GROUP
Bethesda, MD

GALAPAGOS CONSERVANCY, INC.

FINANCIAL STATEMENTS

NINE MONTHS ENDED DECEMBER 31, 2016

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CALIBRE
CPA GROUP
Bethesda, MD

Report of Independent Auditors

Board of Directors
Galapagos Conservancy, Inc.

We have audited the accompanying financial statements of Galapagos Conservancy, Inc. (the Conservancy), which comprise the statements of financial position as of December 31, 2016 and March 31, 2016, and the related statements of activities, functional expenses, and cash flows for the nine months ended December 31, 2016, 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 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 auditors' 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 auditors consider 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.

7501 Wisconsin Avenue | Suite 1200 West | Bethesda, MD 20814 | T: 202.331.9880 | F: 202.331.9890 | calibrecpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galapagos Conservancy, Inc. as of December 31, 2016 and March 31, 2016, and the changes in its net assets and its cash flows for the nine months ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 11 to the financial statements, during 2016 management restated certain net assets amounts previously reported as of March 31, 2016, to properly account for the unrestricted portion of the Conservancy's endowment funds. Our opinion is not modified with respect to this matter.

Calibre CPA Group, PLLC

Bethesda, MD
May 25, 2017

Galapagos Conservancy, Inc.

Statements of Financial Position

December 31, 2016 and March 31, 2016

	December 31, 2016	(Restated) March 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 1,187,671	$ 755,039
Grants and contributions receivable	186,494	230,000
Prepaid expenses	14,261	19,253
Inventory	8,474	5,766
Total current assets	1,396,900	1,010,058
Net property and equipment	25,230	26,699
Investments	4,811,787	4,860,896
Total assets	$ 6,233,917	$ 5,897,653
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 122,117	64,432
Grants payable	527,476	639,729
Deferred lease incentives	5,714	7,235
Total liabilities	655,307	711,396
Net assets		
Unrestricted	1,526,523	1,077,045
Temporarily restricted	1,524,169	1,614,649
Permanently restricted	2,527,918	2,494,563
Total net assets	5,578,610	5,186,257
Total liabilities and net assets	$ 6,233,917	$ 5,897,653

See accompanying notes to financial statements.

Galapagos Conservancy, Inc.

Statement of Activities

Nine Months Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Grants and contributions	$ 2,205,500	$ 492,425	$ 33,355	$ 2,731,280
Investment income	194,473	67,234	-	261,707
Sales	13,919	-	-	13,919
Net assets released from restriction	650,139	(650,139)	-	-
Total revenue	3,064,031	(90,480)	33,355	3,006,906
Expenses				
Program services				
Environmental programs				
Ecosystem restoration	467,845	-	-	467,845
Sustainable society	681,654	-	-	681,654
Strategic partnerships	832,446	-	-	832,446
Outreach	128,376	-	-	128,376
Total program services	2,110,321	-	-	2,110,321
Supporting services				
Management and general	150,527	-	-	150,527
Fundraising	353,705	-	-	353,705
Total expenses	2,614,553	-	-	2,614,553
Change in net assets	449,478	(90,480)	33,355	392,353
Net assets				
Beginning of period, restated	1,077,045	1,614,649	2,494,563	5,186,257
End of period	$ 1,526,523	$ 1,524,169	$ 2,527,918	$ 5,578,610

See accompanying notes to financial statements.

Galapagos Conservancy, Inc.

Statement of Functional Expenses

Nine Months Ended December 31, 2016

	Program Services					Supporting Services		
	Environmental Programs							
	Ecosystem Restoration	Sustainable Society	Strategic Partnerships	Outreach	Total Programs	Management and General	Fundraising	Total
Grants	$ 377,393	$ 549,860	$ 664,163	$ -	$ 1,591,416	$ -	$ -	$ 1,591,416
Salaries, benefits and payroll taxes	56,945	82,973	100,221	-	240,139	93,892	98,651	432,682
Accounting fees	7,078	10,313	12,457	-	29,848	11,669	12,261	53,778
Consulting fees	-	-	-	14,400	14,400	-	57,600	72,000
Copywriting charges	2,514	3,662	4,424	-	10,600	-	2,650	13,250
Cost of goods sold	-	-	4,589	-	4,589	-	-	4,589
Depreciation expense	1,676	2,441	2,949	-	7,066	2,762	2,903	12,731
Insurance expense	506	738	891	-	2,135	835	877	3,847
Legal fees	411	598	723	-	1,732	677	712	3,121
List rental	-	-	-	-	-	-	10,727	10,727
Mail house	-	-	-	14,718	14,718	-	36,203	50,921
Member email program	-	-	-	30,685	30,685	-	-	30,685
Occupancy	5,967	8,695	10,502	-	25,164	9,839	10,337	45,340
Office expenses	7,014	10,220	13,722	-	30,956	15,838	12,151	58,945
Other professional fees	6,908	10,066	12,158	-	29,132	11,390	19,952	60,474
Permits, fees and licenses	1,433	2,088	2,522	-	6,043	2,363	2,483	10,889
Postage and shipping	-	-	-	27,262	27,262	506	38,111	65,879
Premiums on member development	-	-	-	-	-	-	8,472	8,472
Printing and design	-	-	-	30,379	30,379	-	38,160	68,539
Travel and meetings	-	-	3,125	6,529	9,654	756	1,455	11,865
Web expense	-	-	-	4,403	4,403	-	-	4,403
Total expenses	$ 467,845	$ 681,654	$ 832,446	$ 128,376	$ 2,110,321	$ 150,527	$ 353,705	$ 2,614,553

See accompanying notes to financial statements.

Galapagos Conservancy, Inc.

Statement of Cash Flows

Nine Months Ended December 31, 2016

Cash flows from operating activities	
Grants and contributions received	$ 2,734,196
Investment income received	149,554
Sales revenue received	13,919
Grants disbursed	(1,703,669)
Payment to vendors, suppliers and employees	(944,723)
Net cash provided by operating activities	249,277
Cash flows from investing activities	
Purchases of equipment	(11,262)
Purchases of investments	(167,665)
Proceeds from sales of investments	328,927
Net cash provided by investing activities	150,000
Cash flows from financing activities	
Endowment contributions received	33,355
Net change in cash	432,632
Cash	
Beginning of period	755,039
End of period	$ 1,187,671
Reconciliation of change in net assets to net cash provided by operating activities	
Change in net assets	$ 392,353
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation expense	12,731
Endowment contributions received	(33,355)
Net appreciation in fair value of investments	(112,153)
Changes in assets and liabilities	
Grants and contributions receivable	43,506
Prepaid expenses	4,992
Inventory	(2,708)
Accounts payable and accrued expenses	57,685
Grants payable	(112,253)
Deferred lease incentives	(1,521)
Net cash provided by operating activities	$ 249,277

See accompanying notes to financial statements.

NOTE 1. ORGANIZATION

Galapagos Conservancy, Inc. (the Conservancy) is a not-for-profit organization incorporated under the laws of Delaware in 1985. The scientific purposes of the Conservancy include the advancement of scientific research and conservation, principally in the Galapagos Islands. The Conservancy is a tax-exempt organization under Internal Revenue Code section 501(c)(3). The Conservancy's major sources of income are donor contributions and investment income.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting, in accordance with U.S generally accepted accounting principles, whereby revenue is recognized when earned and expenses are recognized when incurred.

Change in Fiscal Year-End - During 2016, the Conservancy decided to change the fiscal year-end from March, 31 to December 31.

Financial Statement Presentation - The Conservancy's financial statements have been prepared in accordance with guidance which requires that the financial statements of a not-for-profit organization report the amounts for each of three distinct classes of net assets and changes therein - unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets - based on the existence or absence of donor-imposed restrictions.

Net Asset Classification - Net assets are reported as follows:

> ***Unrestricted Net Assets*** - Unrestricted net assets are not subject to donor-imposed stipulations. These net assets are available for the overall operations of the Conservancy, and certain amounts have been designated for use by the Board of Directors.
>
> ***Temporarily Restricted Net Assets*** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Conservancy and/or the passage of time.
>
> ***Permanently Restricted Net Assets*** - The Conservancy reports contributions which require that the amounts be maintained in perpetuity as permanently restricted.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash and Cash Equivalents - For the purpose of reporting cash flows, the Conservancy considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, except for those securities held in the Conservancy's investment portfolio.

Inventory - Inventory is available for sale to members and the general public and is recorded at the lower of cost or market. Cost is determined using the first-in, first-out method.

Investments - Investments are reported at fair value. Unrealized gains and losses are reported in the statement of activities as part of investment income.

The Conservancy invests in shares of equity mutual funds. Such investments are exposed to various risks, such as market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

The Conservancy has adopted the provisions of the Fair Value Measurements and Disclosure Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) as its valuation methodology. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. A hierarchy exists to help maximize the use of observable inputs when measuring fair value. Fair value measurements are then classified by how observable or unobservable the inputs are that are used to determine fair value. The three levels of the fair value hierarchy used to determine the fair value of the Conservancy's investments are:

> Level 1 - Inputs to the valuation methodology are quoted prices available in actively traded markets for identical investments as of the reporting date.
>
> Level 2 - Inputs to the valuation methodology are quoted prices outside of active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.
>
> Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates or assumptions related to the pricing of the asset or liability including assumptions regarding risk.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the Conservancy's valuation methodologies used for financial instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Mutual funds - These investments are valued at the closing price reported on the New York Stock Exchange Composite Listing or other active market on which these securities are traded. These securities are classified within Level 1 of the valuation hierarchy.

Corporate bonds, government obligations and mortgage backed securities - These are classified as Level 2 instruments because there are quoted market prices for similar, but not identical, assets in active markets. These are valued using a market approach based on interest rates and maturity periods.

Property and Equipment - Property and equipment purchases are recorded at cost if purchased and at fair value if donated; depreciation is computed on the straight-line basis over their estimated useful lives ranging from three to seven years. All property and equipment purchases with an estimated useful life over one year and cost greater than $500 are capitalized. Depreciation expense for the nine months ended December 31, 2016 was $12,731.

Deferred Revenue - Deferred revenue consists of deferred cruise payments that will be recognized when the cruise occurs.

Restricted and Unrestricted Revenue - Contributions received are reported as unrestricted, temporarily restricted or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue, including endowment investment income, 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 statement of activities as net assets released from restrictions

Unconditional promises to give are measured at fair value and reported as increases in net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses which could be directly identified with a specific program were charged to that program, but expenses for general use or not directly identifiable were allocated to each program based on direct labor hours.

Note 2. Summary of Significant Accounting Policies (continued)

Income Taxes - The Conservancy is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Conservancy qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Unrelated business income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Conservancy has not engaged in any unrelated business income activities to date.

The Conservancy accounts for income taxes in accordance with the Accounting Standards Codification (ASC) Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's 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 a tax return. The Conservancy performed an evaluation of uncertain tax positions for the nine months ended December 31, 2016, and determined that there were no matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of December 31, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. Federal jurisdiction and the various states and local jurisdictions in which the Conservancy files returns. It is the Conservancy's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in unrelated business income tax expense.

Note 3. Grants and Contributions Receivable

As of December 31, 2016, grants and contributions receivable is comprised of amounts due to the Conservancy within one year or less. The Conservancy had grants and contributions receivable in the amounts of $186,494 and $230,000 as of December 31, 2016 and March 31, 2016, respectively. No allowance for uncollectible accounts has been reported since management expects these to be collected in full.

Note 4. Concentration of Cash

The Conservancy places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. The Conservancy from time to time may have amounts on deposit in excess of insured limits. As of December 31, 2016 and March 31, 2016, the Conservancy had approximately $642,000 and $171,000 on deposit in excess of the FDIC insurance limits.

NOTE 5. INVESTMENTS

Investments consist of the following as of December 31, 2016 and March 31, 2016:

	December 31, 2016	March 31, 2016
Cash and cash equivalents	$ 252,692	$ 316,948
Fixed income securities	932,632	894,512
Equity securities	2,994,714	2,990,571
Real estate funds	631,749	658,865
	$ 4,811,787	$ 4,860,896

The following table sets forth by level, within the fair value hierarchy, the Conservancy's investments at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 252,692	$ -	$ -	$ 252,692
Fixed income securities				
U.S. Government obligations	-	206,316	-	206,316
Corporate obligations	-	210,337	-	210,337
Domestic mutual funds	352,153	-	-	352,153
International mutual funds	163,826	-	-	163,826
Equity securities				
Domestic mutual funds	1,860,921	-	-	1,860,921
International mutual funds	1,133,793	-	-	1,133,793
Other				
Real estate mutual funds	631,749	-	-	631,749
	$ 4,395,134	$ 416,653	$ -	$ 4,811,787

NOTE 5. INVESTMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Conservancy's investments at fair value as of March 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 316,948	$ -	$ -	$ 316,948
Fixed income securities				
U.S. Government obligations	-	222,385	-	435,042
Corporate obligations	-	206,142	-	206,142
Domestic mutual funds	312,608	-	-	99,951
International mutual funds	153,377	-	-	153,377
Equity securities				
Domestic mutual funds	1,808,266	-	-	1,808,266
International mutual funds	1,182,305	-	-	1,182,305
Other				
Real estate mutual funds	658,865	-	-	658,865
	$ 4,432,369	$ 428,527	$ -	$ 4,860,896

Investment income for the nine months ended December 31, 2016 consists of the following as of:

Interest	$ 149,554
Unrealized gains	112,114
Realized gains	39
	$ 261,707

NOTE 6. LINE OF CREDIT

The Galapagos Conservancy has a $200,000 line of credit that expires on September 19, 2017. The line of credit accrues interest at the Wall Street Journal Prime Rate plus 1.00%, and is secured by all assets of the Conservancy. The bank also requires the Conservancy to comply with certain administrative covenants. There was no outstanding balance on the line at December 31, 2016.

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Activity in temporarily restricted net assets during the nine months ended December 31, 2016 was as follows:

	(Restated) Balances Beginning of Period	Restricted Contributions or Endowment Earnings (Loss)	Net Assets Released from Restriction	Balances End of Period
Marine	$ -	$ 28,500	$ (28,500)	$ -
Tortoise	-	24,000	(24,000)	-
CDF Operations	-	500	-	500
Education	151,962	101,500	(148,986)	104,476
Education-Tinker Foundation	295,950	-	(161,189)	134,761
Education-National Geographic	-	125,000	(125,000)	-
Celebrity Expeditions	86,487	101,386	(12,464)	175,409
Library Endowment	416,250	111,539	(50,000)	477,789
Ed Bass	200,000	-	(100,000)	100,000
Unexpended endowment earnings	464,000	67,234	-	531,234
	$ 1,614,649	$ 559,659	$ (650,139)	$ 1,524,169

NOTE 8. ENDOWMENT FUNDS

The Conservancy's endowment consists of five individual funds established for a variety of purposes, the income from which is expendable to support various scientific researches of the Galapagos Islands. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All contributions to donor-restricted endowments are reported as increases in permanently restricted net assets. All earnings on the underlying investments are reported as increases in temporarily restricted net assets until appropriated for expenditure by the Conservancy.

NOTE 9. PERMANENTLY RESTRICTED NET ASSETS

Interpretation of relevant law - The Uniform Prudent Management of Institutional Fund Act (UPMIFA) was adopted by the Commonwealth of Virginia in 2008. Management of the Conservancy interprets UPMIFA as requiring the preservation of the fair value of original donor-restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conservancy in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The durations and preservation of the fund.
- The purposes of the Conservancy endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Investment policies.

Return objective and risk parameters - The Conservancy's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support its programs. The Conservancy is primarily invested in publicly traded mutual funds, equities, and corporate bonds.

Spending policies - The earnings from these endowments are available in support of programs of the Conservancy. The Board of Directors approves an annual appropriation to fund grants in support of the Conservancy's mission in amounts aimed to preserve the endowment corpus.

Endowment fund net assets by fund type and net asset class as of December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General Endowment	$ 1,772,239	$ -	$ 1,583,535	$ 3,355,774
USAID Endowment	-	354,224	500,000	854,224
Marine Endowment	-	100,244	240,318	340,562
Hickman Marine Endowment	-	19,504	174,065	193,569
Darwin Scholars Endowment	-	57,262	30,000	87,262
	$ 1,772,239	$ 531,234	$ 2,527,918	$ 4,831,391

NOTE 9. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Changes in endowment fund net assets for the nine months ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of period, restated	$ 1,901,884	$ 464,000	$ 2,494,563	$ 4,860,447
Contributions	5,000	-	33,355	38,355
Investment earnings	170,371	67,234	-	237,605
Appropriations	(305,016)	-	-	(305,016)
End of period	$ 1,772,239	$ 531,234	$ 2,527,918	$ 4,831,391

NOTE 10. LEASE COMMITMENTS

The Conservancy leases its office space under a noncancelable agreement that expires June 2018. The lease does not require the payment of any rentals during the first month of the lease, and beginning the second year thereafter the rental payments increase 3% per year through the end of the lease term. Rent expense for the year ended December 31, 2016, was $45,340.

Future minimum lease payments at December 31, 2016, are due as follows:

Years ending December 31,	2017	$ 60,863
	2018	30,881
		$ 91,744

NOTE 10. RETIREMENT PLAN

The Conservancy has a simple Individual Retirement Account plan covering all employees beginning on their date of hire. Employees can make salary deferrals up to limits specified in the plan. The Conservancy contributes an amount equal to 2% of each employee's eligible compensation. Employer contributions to the plan for the nine months ended December 31, 2016 were $10,749.

NOTE 11. RESTATEMENT

During 2016, management determined that a Board-designated contribution to the Conservancy's unrestricted endowment fund in the amount of $817,206, originally designated in 2000, had not been correctly accounted for. Management therefore restated all endowment fund calculations, including investment income allocations, from the year 2000 forward. As a result, unrestricted net assets as of March 31, 2016 were increased by $1,013,695, and temporarily restricted net assets as of that date were decreased by $1,013,695, over amounts previously reported. There was no change in total net assets previously reported as of that date.

NOTE 12. SUBSEQUENT EVENTS REVIEW

Subsequent events have been evaluated through May 25, 2017, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to, or disclosure in, the accompanying financial statements.