

MARINE CONSERVATION BIOLOGY INSTITUTE

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2009 AND 2008

MARINE CONSERVATION BIOLOGY INSTITUTE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

September 22, 2010

Board of Directors
Marine Conservation Biology Institute
Bellevue, Washington

We have audited the accompanying statements of financial position of Marine Conservation Biology Institute, a nonprofit corporation, as of December 31, 2009 and 2008 and the related statements of activity, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Marine Conservation Biology Institute. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marine Conservation Biology Institute, as of December 31, 2009 and 2008, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Jacobson Jarvis & Co, PLLC

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,714,227	\$ 1,070,683
Cash held for others	292,590	204,438
Equity and fixed income securities	50,536	40,143
Promise to give - current	83,889	1,743,519
Prepays and deposits	<u>27,248</u>	<u>28,223</u>
Total Current Assets	2,168,490	3,087,006
Promises to Give - long-term	139,876	168,261
Property and Equipment, net	<u>35,432</u>	<u>30,066</u>
	<u>\$ 2,343,798</u>	<u>\$ 3,285,333</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 41,714	\$ 38,101
Grants payable	51,965	-
Accrued vacation	76,178	75,991
Funds held for others	<u>292,590</u>	<u>204,438</u>
Total Liabilities	462,447	318,530
Net Assets		
Unrestricted	832,096	1,282,349
Temporarily restricted	<u>1,049,255</u>	<u>1,684,454</u>
Total Net Assets	<u>1,881,351</u>	<u>2,966,803</u>
	<u>\$ 2,343,798</u>	<u>\$ 3,285,333</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF ACTIVITY

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Grants and contracts	\$ 211,201	\$ 1,039,700	\$ 1,250,901	\$ 206,896	\$ 1,283,000	\$ 1,489,896
Contributions	58,747	-	58,747	93,735	-	93,735
In-kind contributions	37,589		37,589	80,068		80,068
Administrative fees	18,250		18,250	51,058		51,058
Investment income	16,895		16,895	28,032		28,032
Other revenue	1,319		1,319	1,445		1,445
Total Public Support and Revenue	<u>344,001</u>	<u>1,039,700</u>	<u>1,383,701</u>	<u>461,234</u>	<u>1,283,000</u>	<u>1,744,234</u>
Net Assets Released from Restrictions						
Satisfaction of purpose restriction	1,264,899	(1,264,899)	-	876,573	(876,573)	-
Satisfaction of time restriction	410,000	(410,000)	-	880,000	(880,000)	-
Total Net Assets Released from Restrictions	<u>1,674,899</u>	<u>(1,674,899)</u>	<u>-</u>	<u>1,756,573</u>	<u>(1,756,573)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>2,018,900</u>	<u>(635,199)</u>	<u>1,383,701</u>	<u>2,217,807</u>	<u>(473,573)</u>	<u>1,744,234</u>
Expenses						
Program services	1,826,813		1,826,813	1,638,635		1,638,635
Management and general	367,774		367,774	393,710		393,710
Fundraising	274,566		274,566	153,478		153,478
Total Expenses	<u>2,469,153</u>		<u>2,469,153</u>	<u>2,185,823</u>		<u>2,185,823</u>
Change in Net Assets	(450,253)	(635,199)	(1,085,452)	31,984	(473,573)	(441,589)
Net Assets - beginning of year	<u>1,282,349</u>	<u>1,684,454</u>	<u>2,966,803</u>	<u>1,250,365</u>	<u>2,158,027</u>	<u>3,408,392</u>
Net Assets - end of year	<u>\$ 832,096</u>	<u>\$ 1,049,255</u>	<u>\$ 1,881,351</u>	<u>\$ 1,282,349</u>	<u>\$ 1,684,454</u>	<u>\$ 2,966,803</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009						2008					
	Advancing The Science	Protecting Marine Ecosystems	Total Program Services	Management and General	Fundraising	Total	Advancing The Science	Protecting Marine Ecosystems	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 13,033	\$ 837,443	\$ 850,476	\$ 212,388	\$ 158,628	\$ 1,221,492	\$ 15,942	\$ 822,983	\$ 838,925	\$ 223,336	\$ 87,211	\$ 1,149,472
Payroll taxes	1,149	70,029	71,178	14,255	13,154	98,587	1,486	69,292	70,778	14,192	7,185	92,155
Employee benefits	3,182	199,465	202,647	47,787	34,108	284,542	3,018	175,121	178,139	43,915	11,296	233,350
	17,364	1,106,937	1,124,301	274,430	205,890	1,604,621	20,446	1,067,396	1,087,842	281,443	105,692	1,474,977
Grants expense	52,465	210,850	263,315	-	-	263,315	73,241	9,000	82,241	-	-	82,241
Professional fees	3,506	116,706	120,212	40,185	13,347	173,744	4,445	64,625	69,070	37,287	5,995	112,352
Occupancy	1,471	88,474	89,945	23,855	16,955	130,755	1,451	76,148	77,599	21,296	7,677	106,572
Travel	89	98,169	98,258	6,007	6,168	110,433	533	125,117	125,650	17,343	11,560	154,553
Communications	383	25,392	25,775	6,824	5,120	37,719	852	26,646	27,498	5,626	2,147	35,271
In-kind	-	22,237	22,237	385	4,600	27,222	-	69,682	69,682	8,886	1,500	80,068
Miscellaneous	38	7,697	7,735	4,247	14,734	26,716	312	9,678	9,990	6,373	9,835	26,198
Printing and postage	107	19,238	19,345	779	2,295	22,419	106	10,131	10,237	964	3,924	15,125
Conferences and meetings	2	18,843	18,845	93	-	18,938	-	26,391	26,391	804	215	27,410
Supplies	128	12,901	13,029	2,484	2,333	17,846	223	12,442	12,665	3,086	2,250	18,001
Depreciation	149	10,471	10,620	3,224	1,715	15,559	248	12,957	13,205	3,453	1,268	17,926
Equipment and maintenance	72	10,485	10,557	1,688	924	13,169	270	24,552	24,822	3,918	1,247	29,987
Insurance	42	2,597	2,639	3,573	485	6,697	34	1,709	1,743	3,231	168	5,142
Total Expenses	\$ 75,816	\$1,750,997	\$1,826,813	\$ 367,774	\$ 274,566	\$ 2,469,153	\$ 102,161	\$1,536,474	\$1,638,635	\$ 393,710	\$ 153,478	\$ 2,185,823

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Cash received from:		
Grantors	\$ 2,913,916	\$ 1,496,821
Donors	78,149	118,735
Fees	18,250	51,058
Investment income	12,100	35,843
Other	1,319	1,445
Cash paid for:		
Personnel	(1,604,434)	(1,441,905)
Services and supplies	(553,848)	(513,905)
Grantees	(211,350)	(176,870)
Net Cash Provided (Used) by Operating Activities	<u>654,102</u>	<u>(428,778)</u>
Cash Flows Used by Investing Activities		
Purchases of property and equipment	<u>(10,558)</u>	<u>(31,726)</u>
Change in Cash and Cash Equivalents	643,544	(460,504)
Cash and Cash Equivalents - beginning of year	<u>1,070,683</u>	<u>1,531,187</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,714,227</u>	<u>\$ 1,070,683</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities		
Change in net assets	\$ (1,085,452)	\$ (441,589)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	15,559	17,926
Reinvested earnings	(909)	(1,289)
Donated property and equipment	(10,367)	-
Donated investments	(5,598)	-
Net (gain) loss on investments	(3,886)	9,100
Decrease in		
Promises to give	1,688,015	31,925
Prepays and deposits	975	3,620
Increase (decrease) in		
Accounts payable	3,613	13,086
Accrued vacation	187	33,072
Grants payable	<u>51,965</u>	<u>(94,629)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 654,102</u>	<u>\$ (428,778)</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE A - ORGANIZATION

Marine Conservation Biology Institute (MCBI) is a not-for-profit organization founded in 1996 to advance the science of marine conservation biology and secure protection for ocean ecosystems. MCBI'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. MCBI brings scientists together to address important questions and synthesize the results. Science is central to all we do. MCBI is registered as a not-for-profit corporation in the State of Washington. MCBI is exempt from federal income taxes under Section 501(c)(3) of the US Internal Revenue Code.

MCBI's Board of Directors is made up primarily of independent directors and officers. Dr. Elliott A. Norse, the founder and chief executive officer is the only non-independent director presently sitting on the Board of Directors, and he serves at the will of the Board. MCBI receives operational and 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 US government.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

MCBI's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 Statement of Activity 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. MCBI had no permanently restricted net assets as of December 31, 2009 and 2008.

Cash and Cash Equivalents

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

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are stated at fair value based on published market quotations. During 2008 MCBI adopted the framework for reporting fair value established by generally accepted accounting principles. There are extended disclosures required by the accounting standard for financial assets and liabilities and nonfinancial assets and liabilities that are required to be reported at fair value on a recurring basis. The standard was effective for years beginning after November 15, 2007, and interim periods within those fiscal years. MCBI elected to defer adoption of the remaining provisions for nonfinancial assets and liabilities which are not required to be reported at fair value on a recurring basis. During 2009 MCBI adopted the remaining provisions of the standard which was effective for periods beginning after November 15, 2008, and interim periods within those fiscal years.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as revenues in the period received and as assets, decreases of 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. MCBI had no conditional promises to give as of December 31, 2009 and 2008.

In-kind goods and services

Contributed materials 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 non-financial 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.

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.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 years ended December 31, 2009 and 2008, in-kind goods and services were \$37,589 and \$80,068, respectively.

Concentration of credit risk

MCBI maintains cash and cash equivalents in four accounts at two financial institutions that may exceed federally insured limits at times during the year. MCBI has not experienced any losses in these accounts. At December 31, 2009 the amounts held in two institutions in excess of FDIC insurance were \$647,162 and \$128,240, respectively.

MCBI maintains cash and cash equivalents in one account at one financial institution that is not insured or guaranteed by the Federal Deposit Insurance Company or any other government agency. In 2009, MCBI has not experienced any losses in this account. At December 31, 2009, the amount in the financial institution not insured or guaranteed by the FDIC was \$781,916.

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.

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 Activity and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Federal income taxes

MCBI 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, MCBI has been classified as an organization that is not a private foundation under IRC Section 509(a). Contributions to MCBI qualify for deduction as charitable contributions. However, income generated from activities unrelated to MCBI's exempt purpose is subject to tax under IRC Section 511. MCBI did not have any material unrelated business income tax liability for the years ended December 31, 2009 and 2008.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

MCBI regularly reviews and evaluates its tax positions taken in previously filed information returns and as reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income and related matters. It believes that in the event of an examination by taxing authorities, its positions would prevail based upon the technical merits of such positions. Therefore, it has concluded that no tax benefits or liabilities are required to be recognized. MCBI's Information Return Form 990 is subject to review and examination by federal, state and local authorities. Information returns for fiscal years ended December 31, 2006 through 2009 are open to examination by those authorities.

Grants payable

In accordance with financial accounting standards, grants authorized but unpaid at year end are reported as liabilities. All grants are expected to be paid in less than one year.

NOTE C - CONTRIBUTIONS RECEIVABLE

Financial accounting standards 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. MCBI uses the income approach to 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, 2009 and 2008 management believes that the promises to give are fully collectible. Promises to give were discounted at rates up to 3.92%. Unconditional promises to give at December 31, 2009 are due as follows:

Receivable in less than one year	\$ 83,889
Receivable in one to five years	<u>150,000</u>
	233,889
Less discounts to net present value	<u>(10,124)</u>
	<u>\$ 223,765</u>

NOTE D - AGENCY TRANSACTIONS

MCBI receives certain grants that are designated for non-related specified beneficiaries. MCBI has no variance power over these funds, and accordingly, they are not reflected in the Statement of Activity, other than the portion received by MCBI for administrative fees. MCBI charges a negotiated administrative fee for this service. For the years ended December 31, 2009 and 2008, MCBI passed through \$391,636 and \$479,912, respectively, in grants and recognized \$18,250 and \$51,058 respectively, in administrative fees. As of December 31, 2009 and 2008, MCBI held \$292,590 and \$204,438, respectively, in cash to be passed through to other organizations.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE E- PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ 154,589	\$ 133,664
Leasehold improvements	8,864	8,864
	<u>163,453</u>	<u>142,528</u>
Less accumulated depreciation and amortization	<u>(128,021)</u>	<u>(112,462)</u>
	<u>\$ 35,432</u>	<u>\$ 30,066</u>

NOTE F- INVESTMENTS

MCBI's investments at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Bonds	\$ 33,789	\$ 31,477
Stocks	<u>16,747</u>	<u>8,666</u>
Total equity and fixed income securities	50,536	40,143
Cash held for others	292,590	204,438
Cash and cash equivalents	<u>1,714,227</u>	<u>1,070,683</u>
	<u>\$ 2,057,353</u>	<u>\$ 1,315,264</u>

Professional accounting standards establish a three level fair value hierarchy for inputs used in measuring fair value that describes the inputs that are used to measure the fair values of the entity'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. MCBI's Level 1 assets include cash and cash equivalents, equity 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 calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE F- INVESTMENTS (Continued)

MCBI's investments are classified as follows, under the definitions noted above at December 31:

	<u>2009</u>	<u>2008</u>
Level 1	\$ 2,057,353	\$ 1,315,264
Level 2	-	-
Level 3	-	-
Total Investments	<u>\$ 2,057,353</u>	<u>\$ 1,315,264</u>

Corresponding investment income (loss) consists of the following for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 13,005	\$ 37,132
Net realized and unrealized gains (losses)	<u>3,890</u>	<u>(9,100)</u>
	<u>\$ 16,895</u>	<u>\$ 28,032</u>

NOTE G – RETIREMENT PLAN

MCBI offers a tax-deferred retirement plan under Section 403(b) of the Internal Revenue Code. All employees working more than 20 hours per week are eligible to make elective deferrals under the plan. After one year of service, MCBI 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.

Employees are fully vested in the employer contribution after 4 years of service. For the years ended December 31, 2009 and 2008, MCBI contributed \$199,501 and \$139,395, respectively, to the plan which is included in employee benefits expense.

NOTE H – LEASE COMMITMENTS

MCBI leases certain office space under a non-cancelable lease with a remaining lease term greater than one year. The future minimum rental commitments are included below. Rental expense incurred for this lease for the years ended December 31, 2009 and 2008 was \$48,529 and \$45,100, respectively, which is included in occupancy expense.

Related minimum future rental commitments on this lease are:

2010	\$ 50,470
2011	<u>30,282</u>
	<u>\$ 80,752</u>

MARINE CONSERVATION BIOLOGY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE I – CONCENTRATIONS

During the year ended December 31, 2009, MCBI received a significant one-year grant from one funder, which represented 36% of total support and revenue recognized in 2009. At December 31, 2009, 56% of total promises to give is due from one donor.

NOTE J- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted by the donor to be used for certain purposes of future periods. At December 31, 2009 and 2008 MCBI had temporarily restricted net assets as follows:

	<u>2009</u>	<u>2008</u>
Subsequent years' operations	\$ 685,000	\$ 1,045,000
Protecting marine ecosystems	364,255	589,454
Advancing the science	-	50,000
	<u>\$ 1,049,255</u>	<u>\$ 1,684,454</u>

NOTE K - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2009 through September 22, 2010 which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2009, including the estimates inherent in the processing of financial statements.