

CORNING HEALTHCARE DISTRICT
TEHAMA COUNTY, CALIFORNIA
AUDIT REPORT
TOGETHER WITH AUDITOR'S OPINION
FOR THE YEAR ENDED
June 30, 2012

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ROY R. SEILER

CERTIFIED PUBLIC ACCOUNTANT

201C North Tehama
Willows, CA 95988

Phone: 530-934-8841

Fax: 530-934-8849

INDEPENDENTS AUDITOR'S REPORT

Board of Directors
Corning Healthcare District
Tehama County, California

I have audited the financial statements of the Corning Healthcare District as of and for the year ended June 30, 2012, as listed as Exhibits and Notes to Financial Statements in the foregoing table of contents. These financial statements are the responsibility of the District's Management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material error. 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. I believe that my audit provides a reasonable basis for my opinion.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Corning Healthcare District as of June 30, 2012, and the results of its operations and its changes in cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as schedules in the Table of Contents is presented for the purposes of additional analysis and is not a required part of the financial statements of the District. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 22, 2012, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

August 22, 2012



Roy R. Seiler, CPA

ROY R. SEILER
CERTIFIED PUBLIC ACCOUNTANT

201 C. North Tehama
Willows, CA 95988

Phone: 530-934-8841
Fax: 530-934-8849

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Corning Healthcare District
Tehama County, California

I have audited the general purpose financial statements of the Corning Healthcare District Tehama County, California (the District), as of and for the year ended June 30, 2012, and have issued my report thereon dated August 22, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over

financial reporting, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies in internal control over financial reporting. Reference finding No. One. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. I did not audit the District's response and, accordingly, I express no opinion on it

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the District Board, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

August 22, 2012



Roy R. Seiler, CPA

CORNING HEALTHCARE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash on Hand	100
Cash in Bank	255,367
Total Cash and Cash Equivalents	255,467

Prepaid Expenses	9,790
Rents and Other Receivables	50,000

Total Current Assets	315,257
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NON CURRENT ASSETS

Fixed Assets:	
Land and Improvements	662,670
Buildings and Improvements	3,801,279
Equipment	9,551
Less: Accumulated Depreciation	(644,439)

Total Fixed Assets	3,829,061
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Other Assets	
Investments (Certificates of Deposit)	218,152
Investments (Certificates of Deposit), Reserved for Debt Service	85,475

TOTAL ASSETS	4,447,945
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	3,541
Accrued Interest Payable	25,837
Accrued Payroll	3,609
Payroll Tax Payable	2,244
Current Portion of Long Term Debt	16,000

Total Current Liabilities	51,231
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LONG TERM LIABILITIES

Loan Payable, USDA	1,459,019
Less: Current Portion of Long Term Debt	(16,000)

Total Liabilities	1,494,250
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	2,334,811
Reserve for Debt Service	85,475
Unrestricted	533,409

Total Net Assets	2,953,695
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TOTAL LIABILITIES AND NET ASSETS	4,447,945
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The notes to financial statements are an integral part of this statement.

CORNING HEALTHCARE DISTRICT
STATEMENT OF REVENUES , EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Operating Revenues	
Rental Income	196,504
Other	

Total Operating Revenues	196,504

Operating Expenses	
Wages and Related Expenses	93,944
Depreciation	98,173
Employee Benefits	30,350
Grants Provided	52,000
Insurance	12,968
Professional Services	12,051
Repairs and Maintenance	30,163
Utilities	31,597
Other Operating Expenses	114,416

Total Operating Expenses	475,662

Operating Income (Loss)	(279,158)

Non Operating Revenues (Expenses)	
Interest Income	460
Property Tax Revenues	261,401
Other Income	24
Interest Expense	(62,005)

Total Non Operating Revenues (Expenses)	199,880

Change in Net Assets	(79,278)

Net Assets, July 1,	3,035,360
Prior Period Adjustments	(2,387)

Net Assets, July 1, As Adjusted	3,032,973

Net Assets, June 30,	2,953,695
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The notes to financial statements are an integral part of this statement.

CORNING HEALTHCARE DISTRICT
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Rents	196,504
Cash Received, Other	
Cash Payments to Employees and Related Benefits	(91,034)
Cash Payments for Repairs and Maintenance	(30,163)
Cash Payments for Utilities and Insurance	(31,597)
Cash Payments for Other Expenses	(219,311)

NET CASH PROVIDED BY OPERATING ACTIVITIES	(175,601)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Income	460
Investments in Certificates of Deposits	(223)
Redemptions in Certificates of Deposits	

NET CASH PROVIDED BY INVESTING ACTIVITIES	237

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Purchase of Fixed Assets and Construction in Progress	(16,431)
Loan Payments, USDA	(16,069)
Interest paid on Long Term Debt	(62,339)

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(94,839)

CASH FLOWS FROM NON CAPITAL
FINANCING ACTIVITIES:

Property Tax Receipts	261,401
Other	24
Receivables (non rent) from Tenants	(50,000)

NET CASH PROVIDED (USED) BY NON CAPITAL FINANCING ACTIVITIES	211,425

INCREASE IN CASH AND CASH EQUIVALENTS	(58,778)

Cash and Cash Equivalents, Beginning of Year	314,245

Cash and Cash Equivalents, End of Year	255,467
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CORNING HEALTHCARE DISTRICT
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2012

**Reconciliation of Operating Income (Loss) to Net Cash Provided
(Used) by Operating Activities:**

Operating Income/(Loss)	(279,158)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:	
Depreciation	98,173
Changes in Assets and Liabilities:	
Prepaid Expenses	2,319
Deposits and Other Receivables	618
Accounts and Other Payables	2,447
NET CASH PROVIDED BY OPERATING ACTIVITIES	(175,601)

The notes to financial statements are an integral part of this statement.

**CORNING HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corning Healthcare District (District) complies with Generally Accepted Accounting Principles (GAAP) as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2012.

A. ORGANIZATION

The District was formed in Tehama County in 1946 to provide and promote public health and general welfare under the terms of the Local Hospital District Law. In order to attain such objectives, the District owned and operated the Corning Memorial Hospital (the Hospital) until 1989 when the District ceased operations. The District's current operations consist of leasing its facilities to medical care providers.

On December 27, 1989, the District filed a voluntary municipality petition of relief under Chapter 9 of the United States Bankruptcy Code. Under such a filing, the District was required to file a plan for adjustment and repayment of debt with the Bankruptcy Court. The plan was confirmed by the Bankruptcy Court on June 14, 1991. In February 1994, all remaining petition debt was paid in full. In May 1995, a final degree was entered and the Bankruptcy case was closed. As a part of the plan, the District began conducted surveys, held public meetings and conducted feasibility studies to determine the future role of the District. As a result of those actions, the District expanded the existing medical facilities.

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The District's records are maintained on the accrual basis of accounting. It's revenues are recognized when earned and expenses are recognized when they are incurred. All assets and liabilities (whether current or non-current) associated with its activities are reported in its balance sheet.

CORNING HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1-Continued

Operating revenues consist of those directly related to the functions of the district. Other types of revenues, such as property tax collections and interest income, are reported as non operating revenues.

The records of the District comply with the uniform system of accounts as prescribed by the Controller's Office of the State of California.

C. FIXED ASSETS

Additions to fixed assets are recorded at cost, or if contributed property, at their estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets are recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

D. METHOD OF DEPRECIATION

The District provides for depreciation of fixed assets using the straight line method over estimated useful lives of five to forty years.

E. CAPITALIZED INTEREST

The District capitalizes net interest costs and interest earned as part of the cost of constructing various projects when material.

F. 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 reported period. Actual results could differ from those estimates.

G. BUDGET AND BUDGETING

Budget integration is employed as a management control device. Budgets are formally adopted by the Board in June and takes affect the following July 1. Budgeted amounts, as presented in Schedule One, are as approved by the Board.

**CORNING HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 1-Continued

H. Employee Benefits and Compensating Time Off (CTO)

The District has a "Health Savings Account" program which eligible employees are allowed to participate. The District paid the full contribution to this plan for eligible employees. The district provides, to eligible employee, leave in lieu of additional compensation for attendance of meetings and similar items; annual vacation; and annual sick leave. Liabilities at year end have not been determined but are not considered material to the financial statements taken as a whole.

NOTE 2 CASH AND INVESTMENTS

The District considers highly liquid investments with a maturity of three months or less to be cash equivalents.

Cash and Cash Equivalents:

Cash on Hand	\$ 100
Premiere West Bank	<u>255,367</u>
Totals	<u>\$255,467</u>

Investments:

Certificates of Deposits with Financial Institutions	<u>\$ 303,627</u>
Total Deposits	<u>\$ 559,094</u>

Depository Account

The district had the following depository accounts. All deposits are carried at cost plus accrued interest. The District has established a formal investment policy. As a matter of policy, the District limits its cash and investments to FDIC insured banks which maintain required collateral.

Insured	\$ 500,000
Collateralized: Collateral held by pledging Bank's trust department in the District's Name	58,994
Uninsured	<u>100</u>
Total Deposits	<u>\$ 559,094</u>

Activity of Certificates of Deposits:

Certificates Held, July 1, 2010	\$ 303,404
Certificates Matured/Redeemed	< -0->
Certificates Renewed and New Deposits And Earned Interest	<u>223</u>
Certificates Held, June 30, 2012	<u>\$ 303,627</u>

CORNING HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2, Continued:

Collateral for Deposits

Under the provisions of the California Government Code, California banks are required to secure a District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110 percent of the District's deposits. It is the District's policy not to waive the collateral requirements.

California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of a District's total deposits. It is the District's policy to accept this form of collateral.

Safekeeping Arrangements of Investments:

Under Section 53600 of the California Government Code, as amended, the collateral underlying a District's investments must be "delivered" to the District. Under California Senate Bill No 2115, passed by the California Legislature in 1986, when a bank is used as third-party custodial agent, the bank is permitted to maintain the underlying securities in either a "Trust Department" or a separate "Safekeeping Department". Substantially all of the District's investments are maintained in the "Safekeeping Departments" of applicable banks.

NOTE 3 FIXED ASSETS (PROPERTY, PLANT AND EQUIPMENT)

Fixed Assets as of June 30, 2012 consisted of the following:

Land and Land Improvements	\$ 662,670
Buildings and Building Improvements	3,801,279
Equipment, Furniture and Fixtures	<u>9,551</u>
Totals	\$4,473,500
Less: Accumulated Depreciation	<u>< 644,439 ></u>
Net Fixed Assets	<u>\$3,829,601</u>

Following is a summary of activities in fixed assets for the year ended June 30, 2012:

Total Fixed Assets as of July 1:	\$4,457,069
Additions	16,431
Deletions	<u>< -0- ></u>
Total Fixed Assets as of June 30:	<u>\$4,473,500</u>

CORNING HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of the first Monday in March. Property taxes are payable in two installments on December 10 and April 10. The District collects its share of property taxes through the County of Tehama. The District relies on the competency of the County in determining its share of the overall property tax collections.

NOTE 5 CONTINGENT LIABILITIES

The District is potentially exposed to various risks and losses related to torts, theft, damage and destruction, injury or natural disasters. In the opinion of the District management, the potential loss from claims and lawsuits will not be significant to the District's financial statements.

NOTE 6 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The District does not budget for depreciation. Accordingly, expenditures exceeded budgeted appropriations in this area.

NOTE 7 ECONOMIC DEPENDENCY

The District has two major sources of income, property taxes and rental income. Rental income is currently limited to a relative few tenants.

NOTE 8 NOTE RECEIVABLE- Corning Medical Associates

On January 17, 2012, the District entered into an agreement with Corning Medical Associates, Inc. (CMA), where the District agreed to loan CMA up to \$150,000. Advances on this loan were timely paid and had the Note had a balance due of \$50,000 at June 30, 2012.

NOTE 9 LOANS PAYABLE

This district has upgraded and expanded its facilities. Actual construction began during the 2009-10 fiscal year and was completed during 2010-11. As part of the construction project permanent financing ,with a USDA loan in the amount of \$1,492,300, has been obtained. Proceeds from the "Community Facilities Loan" were advanced to the District in December of 2009, and held by the USDA, and advanced to the District on an "as required" basis. The loan is secured by District assets, carries an annual interest rate of 4.25 percent, and matures August 1, 2049. The District has a reserve requirement equal to approximately one year's debt service and must fully fund that reserve by year ten. The district has met its debt service reserve requirement.

**CORNING HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 9, Continued:

Changes in Long-Term Debt were as follows:

Long-Term Debt, July 1,	\$1,475,088
Additions	-0-
Deletions	<u>< 16,069 ></u>
Long-Term Debt, June 30,	<u>\$1,459,019</u>

Future maturities of Long-Term Debt were as follows:

	Principal	Interest	Total
2012-13	16,000	62,402	78,402
2013-14	17,000	61,701	78,701
2014-15	18,000	60,958	78,958
2015-16	18,000	60,192	78,192
2015-21	106,000	288,211	394,211
2021-26	130,000	263,242	393,242
2026-31	159,000	232,748	391,748
2031-36	193,000	195,329	388,329
2036-41	240,000	149,237	389,237
2041-46	297,000	92,457	389,457
2046-49	<u>265,019</u>	<u>25,902</u>	<u>290,921</u>
Totals	<u>\$1,459,019</u>	<u>\$1,492,379</u>	<u>\$2,951,398</u>

NOTE 10 SUBSEQUENT EVENTS

The District has evaluated subsequent events through the date the financial statements were issued, August 22, 2012, and determined that no events have occurred that meet the requirements for disclosure set forth by FASB Statement number 165.

SCHEDULE ONE

CORNING HEALTHCARE DISTRICT
 SCHEDULE OF REVENUES , EXPENSES AND CHANGES IN NET ASSETS
 BUDGET TO ACTUAL COMPARISON
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <Unfavorable>
Operating Revenues			
Rental Income	184,281	196,504	12,223
Other			-
	-----	-----	-----
Total Operating Revenues	184,281	196,504	12,223
	-----	-----	-----
Operating Expenses			
Wages and Related Expenses	102,575	93,944	8,631
Depreciation		98,173	(98,173)
Employee Benefits	22,704	30,350	(7,646)
Grants Provided	52,000	52,000	-
Insurance	15,718	12,968	2,750
Professional Services	12,100	12,051	49
Repairs and Maintenance	24,000	30,163	(6,163)
Utilities	30,097	31,597	(1,500)
Other Operating Expenses	60,836	114,416	(53,580)
	-----	-----	-----
Total Operating Expenses	320,030	475,662	(155,632)
	-----	-----	-----
Operating Income (Loss)	(135,749)	(279,158)	(143,409)
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Non Operating Revenues (Expenses)			
Interest Income	1,540	460	(1,080)
Property Tax Revenues	242,539	261,401	18,862
Other Income		24	24
Interest on LTD	(72,000)	(62,005)	9,995
Other Expense	-		-
	-----	-----	-----
Total Non Operating Revenues (Expenses)	172,079	199,880	27,801
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Change in Net Assets	36,330	(79,278)	(115,608)
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The notes to financial statements are an integral part of this statement.

Corning HealthCare District
Schedule of Findings and Questioned Costs
June 30, 2012

SUMMARY OF AUDITOR'S RESULTS:

FINANCIAL STATEMENTS

1. I issued an unqualified opinion was issued.
2. I found one significant deficiency in the design or operation of internal control over financial reporting that I consider a reportable condition.
3. I noted no instances of noncompliance that were material to the financial statements of the District.

SUMMARY OF FEDERAL FINDINGS:

Finding No. One (Current period and Prior Period):

Finding: Reliance upon Auditor for Financial Statement Preparation and Footnote Disclosures

Condition: Management relies on the auditor to determine the proper presentation of financial statements and related footnote disclosures.

Criteria: Statement of Auditing Standards states that the auditor may not be of the Organization's internal control system; specifically someone from the Organization must be knowledgeable enough in generally accepted accounting principles to know if a misstatement has occurred in the financial statements including the notes to the financial statements.

Cause: The Organization does not have either an employee experienced in the generally accepted accounting principles or an accounting firm engaged to assure compliance with generally accepted auditing principles.

Effect: Undetermined.

Recommendation: We recommend that management consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or hiring an independent Certified Public Accounting firm to compile full disclosure financial statements.

Management's Response: Management is provided with a draft copy of the financial statements and related notes for review. Management has reviewed the draft copy with the auditor and is able to accept responsibility for them. Management has determined there is no additional cost-benefit to hiring an accountant for additional review the financial statements for compliance with Accounting Principles Generally Accepted in the United States of America prior to the annual audit of the financial statements.