HABITAT FOR HUMANITY OF SAN FERNANDO / SANTA CLARITA VALLEYS, INC.

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

HABITAT FOR HUMANITY OF
SAN FERNANDO / SANTA CLARITA VALLEYS, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2015

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Independent Auditors' Report

To the Board of Directors
HABITAT FOR HUMANITY OF
SAN FERNANDO / SANTA CLARITA VALLEYS, INC.
Woodland Hills, California

We have audited the accompanying financial statements of Habitat for Humanity of San Fernando / Santa Clarita Valleys, Inc., a nonprofit organization (Habitat SF/SCV), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit 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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat SF/SCV as of December 31, 2015, and the activities and changes in its net assets, functional expenses and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Meloni Hribal Tratner LLP
April 26, 2016

HABITAT FOR HUMANITY OF
SAN FERNANDO / SANTA CLARITA VALLEYS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015

ASSETS	
Cash	$ 421,863
Homes under construction	8,304,890
Mortgages receivable, net	4,625,757
Contributions receivable	74,339
Other assets	251,237
Property and equipment, net	167,157
TOTAL ASSETS	$ 13,845,243
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and other liabilities	$ 2,179,753
Lines of credit	2,500,000
Construction advances	4,542,500
Note payable / deferred grants	375,000
TOTAL LIABILITIES	9,597,253
NET ASSETS	
Unrestricted	4,197,527
Temporarily restricted	50,463
TOTAL NET ASSETS	4,247,990
TOTAL LIABILITIES AND NET ASSETS	$ 13,845,243

See accompanying independent auditors' report and notes to financial statements.

HABITAT FOR HUMANITY OF
SAN FERNANDO / SANTA CLARITA VALLEYS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

UNRESTRICTED NET ASSETS	
REVENUES AND SUPPORT	
Cash contributions	$ 695,941
In-kind contributions	462,830
ReStore sales	663,614
Fundraising events	372,168
Construction advances assumed by homeowners	5,885,000
Notes payable assumed by homeowners	348,000
Sales / transfers of homes to homeowners (net of $440,351 discount)	694,649
Mortgage discount amortization	194,630
Other	(8,008)
Net assets released from restrictions	750,654
Total unrestricted revenues and support	10,059,478
EXPENSES	
Program services	8,633,969
Supporting services	
Management and general	19,962
Fundraising	120,403
Total expenses	8,774,334
Changes in unrestricted net assets	1,285,144
TEMPORARILY RESTRICTED NET ASSETS	
Cash contributions	339,753
Net assets released from restrictions	(750,654)
Changes in temporarily restricted net assets	(410,901)
CHANGES IN NET ASSETS	874,243
NET ASSETS, beginning	3,373,747
NET ASSETS, ending	$ 4,247,990

See accompanying independent auditors' report and notes to financial statements.

HABITAT FOR HUMANITY OF
SAN FERNANDO / SANTA CLARITA VALLEYS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services	Management and General	Fundraising	Total Expenses
Automobile	$ 20,828	$ -	$ -	$ 20,828
Bank charges	16,811	139	235	17,185
Construction / development costs of homes transferred to homeowners	6,532,738	-	-	6,532,738
Cost of events	34,993	-	80,932	115,925
Depreciation and amortization	45,723	1,018	1,715	48,456
Family construction training and advocacy education	180,623	-	-	180,623
Insurance	7,726	-	-	7,726
Interest	29,839	-	-	29,839
Marketing	38,032	-	-	38,032
Miscellaneous	71,480	404	3,906	75,790
Neighborhood model replication	127,187	-	-	127,187
Office supplies	12,102	269	454	12,825
Payroll and related benefits	613,914	13,663	23,031	650,608
Printing and postage	7,278	115	2,295	9,688
Professional fees	51,608	1,943	3,773	57,324
Rent	94,645	1,678	2,828	99,151
ReStore operations	681,288	-	-	681,288
Repairs and maintenance	10,926	244	410	11,580
Telephone	21,973	489	824	23,286
Volunteer supplies	34,255	-	-	34,255
TOTAL EXPENSES	$ 8,633,969	$ 19,962	$ 120,403	$ 8,774,334

See accompanying independent auditors' report and notes to financial statements.

HABITAT FOR HUMANITY OF
SAN FERNANDO / SANTA CLARITA VALLEYS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	$ 874,243
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Construction advances assumed by homeowners	(5,885,000)
Notes payable assumed by homeowners	(348,000)
Depreciation and amortization	48,456
Loss on sale of other assets	8,008
Mortgage discount amortization	(194,630)
Changes in assets and liabilities:	
Homes under construction	(3,357,044)
Mortgages receivable, net	(382,250)
Contributions receivable	518,233
Other assets	(71,295)
Accounts payable and other liabilities	1,544,561
NET CASH USED IN OPERATING ACTIVITIES	(7,244,718)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of other assets	6,550
Purchases of equipment	(52,391)
NET CASH USED IN INVESTING ACTIVITIES	(45,841)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from lines of credit, net	350,000
Proceeds from construction advances	5,942,500
Proceeds from note payable / deferred grant	723,000
Repayments on note payable - affiliate	(12,034)
NET CASH PROVIDED BY FINANCING ACTIVITIES	7,003,466
NET DECREASE IN CASH	(287,093)
CASH - beginning	708,956
CASH - ending	$ 421,863
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Interest	$ 78,440

See accompanying independent auditors' report and notes to financial statements.

NOTE 1 - NATURE OF ACTIVITIES

Habitat for Humanity of San Fernando / Santa Clarita Valleys, Inc. was incorporated under the laws of the State of California as a not-for-profit public benefit organization. It is a separately incorporated 501(c)(3) affiliate of Habitat for Humanity International, Inc. (Habitat International) responsible for its own fundraising and governance. Its primary mission is to provide home ownership opportunities to low income working families and veterans along with training and services that promote self-sufficiency. Home construction is the major financial expenditure of Habitat SF/SCV. For 2015, costs for construction of homes along with other program services totaled approximately $11,991,000, which represented over 98 percent of the organization's activities. It is also important to note that the terms of the primary funding sources for Habitat SF/SCV (i.e. advances and notes payable / deferred grants), provide that costs and expenses generally can only be reimbursed after the underlying disbursements have been made.

Habitat SF/SCV is an affiliate of Habitat International, a not-for-profit public benefit organization whose goal is to eliminate poverty housing everywhere and to put shelter on the hearts and minds of people in such a powerful way that poverty housing and homelessness become socially, politically, and religiously unacceptable. Although Habitat International assists with information resources, publications, and in other ways, Habitat SF/SCV is directly responsible for its own operations.

Habitat SF/SCV is independently responsible for all aspects of home building in its local area: fund raising, building site selection, partner family selection and support, home construction and mortgage servicing. Habitat SF/SCV strives to ensure that every person, from all different walks of life, has the opportunity to live in decent affordable housing. The motto is that Habitat SF/SCV provides a “hand up, rather than a hand out” because it is designed for the working poor to be able to own their own homes. Affordable homes are provided at low costs with zero interest and up to 40 year loans to those at approximately 50-80 percent of the average monthly income level for an area. Families of four pay about what it would cost to live in a small one-bedroom apartment. The program is designed to lift people out of poverty, to provide a literal home-base from which to grow.

Habitat SF/SCV believes that, in order to effect long-term economic advancement, low-income housing has to move beyond subsidy to home-stability in an environment that empowers future generations to move up the economic ladder. The program is unique and differs from other Habitat for Humanity affiliates and affordable housing providers in that Habitat SF/SCV offers social services, training and education along with homeownership. Habitat SF/SCV plans their communities and outreach in traditionally underserved and disadvantaged neighborhoods where they can have the greatest impact. By forming partnerships and networks for engagement throughout the communities they work in, Habitat SF/SCV is able to serve more people. Habitat SF/SCV believes in addressing all aspects of poverty, not just housing, and have developed this model to literally lift off the “concrete ceiling” that impairs lives and limits socio-economic futures. The replication of this program with veterans is conducted in collaboration with the California Department of Veteran Affairs (CalVet).

NOTE 1 - NATURE OF ACTIVITIES (continued)

The Habitat Enriched Neighborhood™ model is designed to address the need for a comprehensive approach that can promote the upward mobility of very low income working families who are making the choice to remain off welfare and to attempt to improve the future of their families. The fact that in an urban environment such families experience profoundly low educational levels and high rates of poverty, coupled with the risk of continuing the poverty cycle across generations, poses a critical need for Habitat SF/SCV's attention. Pacoima and surrounding areas are in dire need of affordable, newly built, homeownership development. In this model, Habitat SF/SCV targets the development of resourcefulness in advocating for services and the value of education both for a career and for continued life success.

Classes in money management, educational planning, language, health related topics, tutoring, and so on, begin to level the playing field so that these families, their children, and their children's children can begin to climb the educational and socioeconomic ladder. Some examples of core classes include "Planning & Budgeting", "Teen Money Management", "Funding & Grants for College", "Home Repair", "Disaster Preparedness", and "Computer Training". Habitat SF/SCV provides free health and dental screenings for all families along with nutrition, obesity and diabetes education and information on how to obtain affordable healthcare. Other core classes include computer training, home repair, gardening, and understanding loan and insurance documents.

Optional classes are not required for the Enriched Neighborhood™ model but are strongly recommended and generally taken advantage of by new and existing homeowners. These classes provide training that allows people to get better jobs, receive funding for college, learn new skills, give back to the community, and explore their own creativeness. Some of these include "English as a Second Language", "Fire Department Emergency Response Certification", "Art for Kids" and more. Workshops are conducted right in Habitat families' garages, or at local schools, libraries, or community centers.

Habitat SF/SCV volunteers and their community business, non-profit and educational partners have helped to strengthen the program and demonstrate the incredible socio-economic impacts it is having for current homeowners and their children over time.

Habitat SF/SCV also manages operations for Habitat for Humanity ReStore (ReStore); a retail store where home furnishings, home goods, building materials, appliances, and other miscellaneous items are donated and then sold to the community at a greatly reduced price.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Habitat SF/SCV has adopted standards for financial statements of not-for-profit organizations. Under those provisions, net assets and revenues, support, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued**)**

- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the organization pursuant to those stipulations or that expire by the passage of time. Temporarily restricted net assets are reclassified to unrestricted as their time and/or purpose requirements are met.

- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of such assets permit the organization to use all or part of the income earned on the assets.

As of December 31, 2015, Habitat SF/SCV did not have any permanently restricted net assets.

Contributions Receivable

Contributions receivable represents unconditional and conditional pledges, recorded at fair market value, as of the pledge date. Habitat SF/SCV considers all contributions receivable fully recoverable and expects all amounts to be collected within one year of the balance sheet date.

Property and Equipment

Property and equipment purchased are recorded at acquisition cost, including costs necessary to prepare the asset for its intended use. Donated property is recorded at fair market value at the date of the gift. Property and equipment are depreciated using the straight line method over the estimated useful lives of the assets, which range from three to seven years.

Mortgages Receivable

Habitat SF/SCV constructs and sells homes in exchange for non-interest bearing mortgages, which are secured by real estate and generally payable in monthly installments over the life of the mortgage. Habitat SF/SCV records the mortgages receivable at their net present value. Periodic accretion on these mortgages is recorded as mortgage discount amortization over the terms of the mortgages by the effective interest method so as to provide a constant rate of return on the notes. Habitat SF/SCV considers all mortgages receivable to be fully recoverable.

Home Construction Costs

Costs incurred in conjunction with home construction include land, materials, real estate taxes, interest, and purchased labor. Upon sale and transfer of the homes to qualified buyers, the resulting costs are recognized as program services expenditures. Land for future construction, whether donated or purchased, and the related improvements for future Habitat SF/SCV housing projects are capitalized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of Homes and Grant Revenues

Sales / transfers of homes to homeowners are recorded when title has transferred to the homeowner. The transfer amount is based on an "established net present affordable housing value" and is recorded at the net present value of the amount of payments to be received over the lives of the mortgages.

Upon the sale / transfer of homes, revenue is recorded at the agreed-to portion of the notes payable / deferred grant or construction advance that has been forgiven as a result of the transfer / assumption by the homeowners.

In-kind Contributions and ReStore

Habitat SF/SCV receives contributed professional services, supplies, and equipment. The contribution of services is recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Revenues and expenses related to contributed professional services are recognized in equal amounts at their fair market value, as estimated by management.

Initial measurement of contributions received where there is a major uncertainty about the existence of value may indicate an item received should not be recognized. Under these circumstances, fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value. Therefore, ReStore donations are not valued nor is an inventory of items used for financial reporting. At the time donated items are transferred to a customer, revenue is recognized.

For the year ended December 31, 2015, a number of individuals donated time to assist in the construction of the housing projects. The value of these services has not been reflected in the financial statements as the services performed do not meet the criteria discussed above.

Income Taxes

Under applicable laws and regulations, Habitat SF/SCV has been determined to be exempt from federal income and California franchise taxes. In addition, Habitat SF/SCV does not have any income which it believes would subject it to unrelated business income taxes. Accordingly, there is no provision for income taxes in the financial statements. Habitat SF/SCV does not believe there are entity level uncertain tax positions and is no longer subject to federal and state income tax examinations for years prior to 2012 and 2011, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

The costs of providing Habitat SF/SCV's various program and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated between the program and supporting services as determined by management. Joint costs are generally allocated based on the payroll costs attributable to the underlying activity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and the footnotes related thereto. Significant estimates relate to home sales prices, mortgage discounts and collectability, and in-kind contributions. Accordingly, actual results may differ from those estimates.

The sales price of the houses is established based upon net present affordable housing values. Accordingly, the ultimate sales price cannot be determined until the qualified buyers have been selected and thus may result in losses on home sales. For purposes of determining construction cost impairment and potential losses, Habitat SF/SCV considers loans and advances which will eventually become grants.

NOTE 3 - CONCENTRATIONS OF RISK

Concentrations of risk arise when organizations engage in similar activities, or activities in the same geographical region, or have economic features that are affected by changes in economic conditions. Substantially all of Habitat SF/SCV's assets and activities are located in Northern Los Angeles County. Consequently, the organization's activities may be subject to a greater risk of uncertainty in the event of adverse economic, political or business developments in Northern Los Angeles County.

Habitat SF/SCV maintains its cash with what it considers to be quality financial institutions. Cash in bank is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times, cash balances may be in excess of the amounts insured by the FDIC, which constitutes a concentration of credit risk.

NOTE 4 - HOMES UNDER CONSTRUCTION

Homes under construction consist of the Centre Pointe housing project, which is a 78-unit development in Santa Clarita, California. The land purchase agreement commenced in 2012 and construction began in 2013. Completion of construction will be accomplished in three phases: phases I (26 units completed in 2015), II (28 units to be completed in 2016), and III (24 units to be completed in 2017).

During 2015, capitalized interest included in the Centre Pointe housing project approximated $49,000.

NOTE 5 - MORTGAGES RECEIVABLE

Mortgages receivable consist of the following:

Receivable in less than 1 year	$ 388,497
Receivable in 2 to 5 years	1,499,150
Receivable after 5 years	5,102,486
	6,990,133
Less unamortized discount based on imputed interest rates ranging from 3.00 to 8.00 percent	2,364,376
	$ 4,625,757

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Equipment	$ 180,130
Furniture and fixtures	55,373
Software	52,634
Vehicles	87,477
	375,614
Less accumulated depreciation and amortization	208,457
	$ 167,157

NOTE 7 - LINES OF CREDIT

Habitat SF/SCV has a bank line of credit for maximum borrowings of up to $1,500,000. The line is unsecured, payable in monthly interest only payments calculated at the bank's current reference rate, with a minimum interest rate of 3.25 percent per annum (3.50 percent as of December 31, 2015) and is due July 1, 2018. The line of credit provides for certain ratios to be maintained by Habitat SF/SCV.

Habitat SF/SCV has another bank line of credit for maximum borrowings of up to $1,000,000. The line is unsecured, payable in monthly interest only payments calculated at the bank's current reference rate, with a minimum interest rate of 3.25 percent per annum (3.50 percent as of December 31, 2015) and is due July 1, 2016. The line of credit provides for certain ratios to be maintained by Habitat SF/SCV.

NOTE 8 - CONSTRUCTION ADVANCES

Habitat SF/SCV entered into a collaboration with CalVet to construct the Centre Pointe housing project. After qualified buyers have been identified, Habitat SF/SCV functions as contractor to build the homes, provides its Enriched Neighborhood™ model, and raises funds for additional costs of construction which become a second position note. Construction is partially funded by advances from CalVet upon completion of certain benchmarks as specified in the underlying agreements and subject to a maximum advance per home. Upon completion and transfer of the home to the identified buyers, the advances will be assumed by the buyers. As of December 31, 2015, Habitat SF/SCV has received approximately $10,428,000 in cumulative construction advances from CalVet for the Centre Pointe housing project.

NOTE 9 - NOTE PAYABLE / DEFERRED GRANTS

The note payable is non-interest bearing, payable to the Department of Housing and Community Development of the State of California. Should Habitat SF/SCV satisfy the low-income housing requirements as stated in the note agreement, the note will be forgiven and converted to grants upon sale of the properties; otherwise, the note is due in September 2017. The note is secured by a deed of trust on the properties at the Centre Pointe housing project.

NOTE 10 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

The note payable to affiliate, Habitat International, was unsecured and non-interest bearing. The remaining balance was paid in full during 2015.

During 2015, Habitat SF/SCV incurred expenditures of approximately $194,000 with an entity related to a board member for construction services. As of December 31, 2015, amounts due to the party approximated $86,000 and are included in accounts payable and other liabilities on the accompanying statement of financial position.

During 2015, Habitat SF/SCV recognized $187,000 in contributions from a not-for-profit entity related through some common board membership. As of December 31, 2015, amounts due from the entity approximated $25,000 and are included in contributions receivable on the accompanying statement of financial position.

NOTE 11 - SALES / TRANSFERS OF HOMES TO HOMEOWNERS

During 2015, Habitat SF/SCV completed the sale and transfer of the Centre Pointe housing project phase I in exchange for non-interest bearing mortgages with maturities ranging from 15 to 40 years as defined in the underlying mortgage agreements. In addition, $348,000 of notes payable / deferred grants and $5,885,000 of construction advances related to the construction of these properties were assumed by the buyers.

The resulting mortgages receivable and transfer of homes have been recorded in the accompanying statement of financial position and statement of activities at the net present value of the underlying notes receivable based upon a discount rate, which approximates the average of published prevailing market rates for loans with similar terms and underlying security at the dates of the transfers.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisting of cash as of December 31, 2015, are available for Habitat for Heroes, Disabled American Veterans, and Advocacy Education in the amounts of $12,963, $25,000, and $12,500, respectively.

For the year ended December 31, 2015, net assets released from restrictions were as follows:

Timing restriction accomplished – Ahmanson Foundation Grant	$ 450,000
Purpose restriction accomplished – Habitat for Heroes	295,901
Purpose restriction accomplished – Various Donors	4,753
	$ 750,654

NOTE 13 - OPERATING LEASES

Habitat SF/SCV leases an office facility under a non-cancellable operating lease agreement which expires in June 2020 and contains a renewal option for an additional 5-year period. Habitat SF/SCV leases another office facility under a non-cancellable operating lease agreement which expires in June 2017. Habitat SF/SCV also leases its ReStore facility and parking lot under a non-cancellable operating lease agreement which expires in December 2016 and contains a renewal option for an additional 5-year period. Additionally, Habitat SF/SCV leases a warehouse for ReStore under a non-cancellable operating lease agreement which expires in October 2017 and contains a renewal option for an additional 3-year period. The future minimum lease payments required under these operating leases are as follows:

Year Ending December 31:	
2016	$ 299,318
2017	138,807
2018	94,069
2019	95,177
2020	48,873
	$ 676,244

For the year ended December 31, 2015, total rent expense included in the statement of activities approximated $276,000.

NOTE 14 - EMPLOYEE BENEFIT PLAN

Habitat SF/SCV maintains a defined contribution retirement plan for all eligible employees. Contributions to the plan by the organization are based on matching employee contributions up to three percent of eligible salary. For the year ended December 31, 2015, Habitat SF/SCV's contributions to the plan approximated $18,000.

NOTE 15 - SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2015 have been evaluated for possible adjustment to the financial statements or disclosure is April 26, 2016, which is the date on which the financial statements were issued.