

Financial Statements

Irvine Community Land Trust

June 30, 2017

IRVINE COMMUNITY LAND TRUST

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Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

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INDEPENDENT AUDITOR'S REPORT

To the Members

IRVINE COMMUNITY LAND TRUST

Irvine, California

We have audited the accompanying financial statements of Irvine Community Land Trust (a nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 Irvine Community Land Trust as of June 30, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Haynie & Company

October 19, 2017

Newport Beach, California

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2017

ASSETS

Current assets:	
Cash	\$ 1,694,198
Certificates of deposit	1,502,790
Investments	7,170,585
Prepaid deposits	<u>20,000</u>
Total current assets	10,387,573
Accrued interest	417,026
Notes receivable	4,394,357
Settlement receivable	19,626,017
Property and equipment, net of accumulated depreciation	<u>18,195,119</u>
Total assets	<u>\$ 53,020,092</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accrued expenses	\$ 47,521
Security deposits	<u>9,012</u>
Total current liabilities and total liabilities	56,533
Net assets - unrestricted	<u>52,963,559</u>
Total liabilities and net assets	<u>\$ 53,020,092</u>

See independent auditor's report and notes to financial statements.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Total</u>
Public support and revenue:		
Contributions	\$ 1,551,966	\$ 1,551,966
Rental income	102,719	102,719
Investment income	1,372,688	1,372,688
Ground lease income	16,664	16,664
Application fees	90	90
Scholarship income	<u>750</u>	<u>750</u>
Total public support and revenue	<u>3,044,877</u>	<u>3,044,877</u>
Expenses:		
Program services	412,847	412,847
Supporting services:		
Management	<u>65,014</u>	<u>65,014</u>
Total expenses	<u>477,861</u>	<u>477,861</u>
Increase in unrestricted net assets from continuing operations	2,567,016	2,567,016
Extraordinary item - settlement expense	<u>(3,027,626)</u>	<u>(3,027,626)</u>
Decrease in unrestricted net assets	(460,610)	(460,610)
Net assets, beginning	<u>53,424,169</u>	<u>53,424,169</u>
Net assets, ending	<u>\$ 52,963,559</u>	<u>\$ 52,963,559</u>

See independent auditor's report and notes to financial statements.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program <u>Services</u>	<u>Support Services</u>		<u>Total</u>
		<u>Management</u>	<u>Fund-raising</u>	
Bank charges	\$ -	\$ 195	\$ -	\$ 195
Conference expense	-	1,655	-	1,655
Consultant expense	206,265	-	-	206,265
Dues and subscriptions	-	507	-	507
Gift expense	-	81	-	81
Insurance	-	2,138	-	2,138
Meeting expense	-	225	-	225
Office expense	-	785	-	785
Postage	-	155	-	155
Professional fees	-	49,980	-	49,980
Rental expenses	152,799	-	-	152,799
Salaries and benefits	53,783	-	-	53,783
Travel	-	9,293	-	9,293
	<u>-</u>	<u>9,293</u>	<u>-</u>	<u>9,293</u>
 Total expenses	 <u>\$ 412,847</u>	 <u>\$ 65,014</u>	 <u>\$ -</u>	 <u>\$ 477,861</u>

See independent auditor's report and notes to financial statements.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Year ended June 30, 2017

Cash flows from operating activities:

Decrease in net assets	\$ (460,610)
Items not requiring cash:	
Depreciation	89,726
Interest and dividends from broker investments	(94,034)
Net unrealized losses on broker investments	(185,760)
(Increase) decrease in:	
Notes receivable	37,755
Accrued interest	(82,343)
Settlement receivable	986,335
Increase (decrease) in:	
Accounts payable	(7,081)
Accrued expenses	35,361
Security deposits	<u>275</u>

Cash provided by operating activities 319,624

Cash flows from investing activities:

Acquisition of property and equipment	(3,893)
Purchases of certificates of deposit	(1,502,790)
Proceeds from sale of investments	64,379
Purchases of investments	<u>(2,357,903)</u>

Cash used in investing activities (3,800,207)

Cash flows from financing activities:

	<u>-</u>
Decrease in cash	(3,480,583)

Cash, beginning 5,174,781

Cash, ending \$ 1,694,198

Cash paid during the year for:

Interest	\$ -
Income taxes	\$ -

See independent auditor's report and notes to financial statements.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of business

The Irvine Community Land Trust (Land Trust) was incorporated in the State of California in 2006 under the California Nonprofit Public Benefit Corporation Law for charitable purposes under Public Charity Status of 509(a)(3). The Land Trust has qualified for tax exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code; accordingly, no provision for income taxes has been made in the accompanying financial statements.

The primary purpose of the Land Trust is to lessen the burdens of government by assisting the City of Irvine, California to ensure that its residents are able to secure housing by, among other things, developing, constructing, financing, managing, selling, renting, subsidizing, and monitoring single and multi-family housing, and to conduct or perform any ancillary or related activity in furtherance of the foregoing.

The City Council of the City of Irvine, California, exercises oversight responsibility over the operations of the Land Trust through the selection of two of the seven directors that serve on the Board of Directors of the Land Trust. The Land Trust cannot undertake any project without the approval of at least one of these two City-appointed directors.

The Land Trust receives its primary income from rental activities and contributions from the City of Irvine.

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

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Marketable securities

Marketable securities and investments are stated in the aggregate at market values based upon quoted market prices, if available, in accordance with authoritative guidance issued by the Financial Accounting Standards Board. Unrealized gains or losses are recognized in the statement of activities.

Cash and cash equivalents

For purposes of the statement of cash flows, the Land Trust considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Land Trust from time to time maintains cash balances that exceed the FDIC insured limit of \$250,000. Customer securities held by BNY Mellon are in segregated accounts, but are not insured. As of June 30, 2017 the Land Trust had balances of \$2,550,773 in excess of the FDIC limit, which includes the cash and money market balances held by BNY Mellon in the investment account.

Property and equipment

The Land Trust capitalizes all expenditures in excess of \$500 for property and equipment at cost. Contributed property and equipment is recorded at fair value at the date of donation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Routine repairs and maintenance are expensed as incurred.

Long-lived assets

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has evaluated the long-lived assets and has not identified any impairment as of June 30, 2017.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of instruments

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments.

Financial statement presentation

The Land Trust has adopted the authoritative guidance issued by the Financial Accounting Standards Board ("FASB") in connection with accounting for contributions received and contributions made. The authoritative guidance requires the Land Trust to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values.

The Land Trust has also adopted authoritative guidance issued by the FASB in connection with financial statements of not-for-profit organizations. The authoritative guidance requires the Land Trust to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Land Trust does not use fund accounting.

Promises to give

Contributions are recognized when the donor makes a promise to give to the Land Trust that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Land Trust uses the allowance method to determine any uncollectible promises receivable. The allowance is based on management's experience and analysis of the specific promises made. As of June 30, 2017, there are no uncollectible promises receivable.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes receivable

Notes receivable are carried at unpaid principal balances, less an allowance for loan losses and net deferred loan fees and unearned discounts. The allowance for loan losses is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Land Trust's past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Land Trust's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

Loans are placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements

Management has reviewed and adopted applicable recent accounting pronouncements and revisions issued by the FASB (including its Emerging Issues Task Force) and the American Institute of Certified Public Accountants during the fiscal year ended June 30, 2017. Management believes the adoption of such pronouncements and revisions do not have a material impact on the Land Trust's financial statements other than certain footnote disclosures which have been incorporated into these financial statements.

Disclosures relating to interest-rate risk

Interest-rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that an entity manages its exposure to interest-rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Land Trust will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent event disclosures

The Land Trust has evaluated subsequent events through October 19, 2017, the date which the financial statements were available.

Income taxes

The Land Trust files income tax returns in the U.S. federal and California jurisdictions. The Land Trust is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2013, and they are no longer subject to California income tax examinations by tax authorities for years before 2012.

2. INCOME TAXES

The Land Trust is exempt from taxes under section 501(c)(3) of the Internal Revenue Code. As such, there has been no provision for income taxes in the accompanying financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Furniture and fixtures	\$ 3,893
Buildings	2,668,446
Land	16,000,000
Less accumulated depreciation	<u>(477,220)</u>
	<u>\$ 18,195,119</u>

4. INVESTMENTS

Investments are stated at fair value and consist of the following:

Cash and money market	\$ 1,361,053
Fixed income	2,702,358
Equities	2,836,746
Accrued income	19,161
Other	<u>251,267</u>
	<u>\$ 7,170,585</u>

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

4. INVESTMENTS (CONTINUED)

The following schedule summarizes the investment return on the statement of activities:

Interest and dividend income	\$ 1,246,240
Net realized gains on sale of investments	(14,668)
Unrealized (losses) on investments	185,760
Management fees	<u>(44,644)</u>
 Total	 <u>\$ 1,372,688</u>

Fair value measurements

Fair value measurement accounting establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets and have the highest level of reliability; Level 2 inputs are those that are observable, either directly or indirectly, for the asset or liability other than quoted prices included in Level 1; and Level 3, which are unobservable, are used when Level 1 and 2 inputs are not available. As of June 30, 2017, the Land Trust's investments are categorized using Level 1 inputs.

Fair values of investments are measured using valuation techniques under a market, income or cost approach. The Land Trust uses a market approach for valuing its investments wherein prices or relevant information derived from market transactions for identical or comparable assets are used in determining the respective fair values.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

5. NOTES RECEIVABLE

In October 2010, the Land Trust entered into a loan agreement to loan a developer \$1,602,505 for the development of residential rental units and related improvements of the Stonegate Community (Doria I Apartments). The loan is secured by a leasehold deed of trust with assignment to property, rent and fixtures on the housing development. Simple interest is accrued from the date the loan was issued, November 30, 2010, annually at a rate of 3% with deferred repayment in part. Annual payments of principal and interest are dependent on the availability of positive net cash flow derived from the developer's operations of the development. The entire unpaid loan and accrued interest is due and payable in a single payment 30 years from the date that all units in the project have received all required occupancy permits. In the event that all principal and 1% of the accrued interest is repaid one year prior to the maturity date, the remaining 2% of interest income will be forgiven. The deferred balance outstanding as of June 30, 2017, is \$1,602,505, with a deferred accrued interest of \$132,760.

In November 2012, the Land Trust entered into a loan agreement with Stonegate Housing Partners II, L.P. (Doria II Apartments) for \$1,600,000. This consisted of \$911,409 representing Land Trust Set-Aside Loan money, \$400,572 representing Land Trust HOME money, and \$288,019 representing Land Trust CDBG money. The total principal amount shall accrue simple interest at the rate of 1% per annum commencing on the date of the note. If a default occurs under this agreement that is not cured within an applicable notice and cure period, the Land Trust may terminate this agreement in whole or in part. The entire Land Trust loan and accrued interest is due and payable in a lump-sum payment on the maturity date which is 30 years after all units in the project have received all required occupancy permits from the City of Irvine. In the event of an extension of the maturity date, the interest rate shall increase to 8% per annum on all remaining principal and accrued interest outstanding as of the date that is 31 years after the completion date. The deferred balance outstanding as of June 30, 2017, is \$1,537,249 with a deferred accrued interest of \$149,797.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

5. NOTES RECEIVABLE (CONTINUED)

In November 2013, the Land Trust entered into a loan agreement to loan a developer \$1,242,103 for the development of residential rental units and related improvements of the Cypress Village community (an additional \$12,500 was advanced during the current year). The loan is secured by a leasehold deed of trust with assignment to property, rent and fixtures on the housing development. Simple interest is accrued from the date loan was issued, November 30, 2013, annually at a rate of 3% with deferred repayment in part. Annual payments of principal and interest are dependent on the availability of positive net cash flow derived from the developer's operations of the development. The entire unpaid loan and accrued interest is due and payable in a single payment 30 years from the date that all units in the project have received all required occupancy permits. In the event that all principal and 1% of the accrued interest is repaid one year prior to the maturity date, the remaining 2% of interest income will be forgiven. The deferred balance outstanding as of June 30, 2017, is \$1,254,603 with a deferred accrued interest of \$134,469.

6. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing programs and support services have been summarized on a functional basis in the statements of functional expenses. All revenues and expenses pertain to unrestricted net assets.

7. OPERATING AGREEMENT

In October 2010, the Land Trust entered into an operating agreement with Jamboree Housing Corporation, a California nonprofit public benefit corporation, for a 0.1% interest in Stonegate Housing LLC, a California limited liability company. Stonegate Housing LLC is organized and operated exclusively for the charitable purposes of its Members, Irvine Community Land Trust (non-managing member) and Jamboree Housing Corporation (managing member). Stonegate Housing LLC will further the charitable purposes of its Members by providing low and moderate income housing to eligible persons by acquiring, developing, constructing, managing, financing, leasing, operating and maintaining a certain affordable multifamily residential rental real estate project, known as the Doria Project, and holding this project for investment purposes until its ultimate disposition. As of June 30, 2017, the Land Trust has not made any capital contributions or received any distributions from this agreement.

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

8. SETTLEMENT INCOME AND RECEIVABLE

A settlement agreement has been entered into that resolves lawsuits filed by the City, Successor Agency, and Irvine Community Land Trust against the State of California relating to debts owed by the former Redevelopment Agency to the City and Irvine Community Land Trust that the State Department of Finance deemed unenforceable obligations for purposes of providing property tax funding to satisfy the debt. The settlement agreement has been approved by the various entities and approved by the Superior Court.

The Dismissal Agreement (dated July 9, 2014) provides that the Land Trust will receive a minimum of \$14,600,000 from the amounts received by the City of Irvine, in periodic payments over the course of approximately 12 years. This amount has been discounted at a rate of 6% to achieve an estimated current value. In addition, in January of 2016, the City Council for the City of Irvine voted to increase the amount of funds dedicated to the Land Trust by \$14,600,000 which was also discounted at a 6% interest rate. The amount of \$2,036,412, including interest, was received in the current year.

9. CONCENTRATION OF INCOME SOURCES

During 2017, the Land Trust received approximately 51% of its total revenue from the City of Irvine.

10. RENTAL EXPENSES

Rental expenses consisted of the following components:

Bank charges	\$	15
Depreciation		89,726
Homeowners' association		34,498
Management fees		10,800
Property taxes		7,106
Repairs and maintenance		5,989
Utilities		4,665
		<hr/>
	\$	<u>152,799</u>

IRVINE COMMUNITY LAND TRUST
(a Nonprofit Public Benefit Corporation)
Notes to Financial Statements

11. CALIFORNIA REDEVELOPMENT AGENCY SETTLEMENT

In February 2011, the Land Trust entered into a "Redevelopment Affordable Housing Funds Grant Agreement" with the Irvine Redevelopment Agency. This grant agreement pledges the unencumbered Agency Housing Set Aside Funds from July 1, 2010 through the termination date. As of January 31, 2012, the termination date of the Irvine Redevelopment Agency, \$4,120,030 was transferred to the Irvine Community Land Trust. On April 28, 2014, the State Controller's Office concluded an Asset Transfer Review of the Irvine Redevelopment Agency and the State Controller's Office identified \$3,876,632 as an unallowable transfer based on their review. In June of 2017, the Land Trust settled this liability for \$3,027,626.

12. LAND TRANSFER AGREEMENTS

During the year ended June 30, 2016, the City of Irvine and the Land Trust entered into two separate land transfer agreements whereby the Land Trust is to receive certain properties within the City of Irvine to facilitate the development of affordable houses. There are certain "conditions to close," including having all approvals necessary for the development of an Affordable Housing Development to be obtained.

13. SUBSEQUENT EVENTS

In July of 2017, the Land Trust moved its offices into facilities separate from the City of Irvine.

In July of 2017, the Land Trust entered into an operating facility lease with an initial term of twenty months commencing on July 31, 2017 and terminating on March 30, 2019.

Effective for the year ending June 30, 2018, the Land Trust has terminated the prior management agreement with the City of Irvine and has hired its own staff. In addition, the requirement to have two board members appointed by the City, and project approval by at least one of these members, has been terminated.