



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

SANDALS CHURCH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2016

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Board of Directors
Sandals Church
Riverside, CA

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Sandals Church, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, cash flows, and functional expenses 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.

Auditors' 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 Sandals Church as of December 31, 2016, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

March 30, 2017

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FINANCIAL STATEMENTS

SANDALS CHURCH
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

Current Assets

| | |
|------------------------------|------------------|
| Cash | \$2,613,437 |
| Cash restricted for building | 466,112 |
| Total Cash | <u>3,079,549</u> |

| | |
|-----------------------------|------------------|
| Accounts receivables | 67,333 |
| Prepaid expenses | 379,897 |
| Total Current Assets | <u>3,526,779</u> |

Non-current Assets

| | |
|---------------------------|-------------------|
| Fixed assets (net) | 23,634,424 |
| Sinking Fund | 528,732 |
| Total Other Assets | <u>24,163,156</u> |

| | |
|---------------------|-----------------------------|
| TOTAL ASSETS | <u><u>\$ 27,689,935</u></u> |
|---------------------|-----------------------------|

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|--|------------------|
| Accounts payable and accrued liabilities | \$ 262,777 |
| Accrued payroll and related taxes | 501,324 |
| Accrued interest | 364,925 |
| Current portion of notes payable | 53,659 |
| Current portion of bonds payable | 362,000 |
| Total Current Liabilities | <u>1,544,685</u> |

Non-Current Liabilities

| | |
|--------------------------------------|-------------------|
| Notes payable | 628,073 |
| Bonds payable | 15,135,000 |
| Less unamortized bond issuance cost | (786,449) |
| Total Non-Current Liabilities | <u>14,976,624</u> |
| Total Liabilities | <u>16,521,309</u> |

Net Assets

| | |
|-------------------------|-------------------|
| Unrestricted | 10,173,782 |
| Temporarily restricted | 994,844 |
| Total Net Assets | <u>11,168,626</u> |

| | |
|---|-----------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 27,689,935</u></u> |
|---|-----------------------------|

SANDALS CHURCH**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

| SUPPORT AND REVENUE | Unrestricted | Temporarily Restricted | Total |
|-----------------------------------|----------------------|-----------------------------------|----------------------|
| SUPPORT | | | |
| Tithes and offerings | \$ 8,579,747 | \$ 562,172 | \$ 9,141,919 |
| Assets relieved from restrictions | 1,328,486 | (1,328,486) | - |
| TOTAL SUPPORT | 9,908,233 | (766,314) | 9,141,919 |
| | | | |
| REVENUES | | | |
| Rental income | 304,643 | - | 304,643 |
| Other income | 880,323 | - | 880,323 |
| TOTAL REVENUES | 1,184,966 | - | 1,184,966 |
| TOTAL SUPPORT AND REVENUES | 11,093,199 | (766,314) | 10,326,885 |
| | | | |
| EXPENSES | | | |
| Ministry expenses | 7,200,428 | - | 7,200,428 |
| Administrative expenses | 2,459,478 | - | 2,459,478 |
| Fundraising expenses | 17,921 | - | 17,921 |
| TOTAL EXPENSES | 9,677,827 | - | 9,677,827 |
| | | | |
| Changes in Net Assets | 1,415,372 | (766,314) | 649,058 |
| | | | |
| Net Assets at Beginning of Year | 8,758,410 | 1,761,158 | 10,519,568 |
| | | | |
| NET ASSETS AT END OF YEAR | \$ 10,173,782 | \$ 994,844 | \$ 11,168,626 |

SANDALS CHURCH
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------------|
| Change in net assets | \$ 649,058 |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| Noncash items: | |
| Depreciation expense | 943,794 |
| Loss due to theft | - |
| (Increase) decrease in: | |
| Prepays | (283,109) |
| Pledges receivable - current | 42,071 |
| Unamortized bond issuance cost | 34,070 |
| Increase (decrease) in: | |
| Accounts payable | (3,479) |
| Accrued interest | (1,483) |
| Accrued liabilities | 148,213 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>1,529,135</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|--------------------|
| Purchases of fixed assets | <u>(1,741,041)</u> |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>(1,741,041)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---|------------------|
| Payments on bond issuance | (178,000) |
| Payments on borrowings | (52,978) |
| Payments to sinking fund | (168,885) |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>(399,863)</u> |

| | |
|---|----------------------------|
| Net Increase (Decrease) in Cash | (611,769) |
| Beginning Cash and Cash Equivalents | <u>3,691,318</u> |
| Ending Cash and Cash Equivalents | <u><u>\$ 3,079,549</u></u> |

SUPPLEMENTAL INFORMATION:

| | |
|---------------|--------------------------|
| Interest paid | <u><u>\$ 920,581</u></u> |
| Taxes paid | <u><u>\$ 60,004</u></u> |

SANDALS CHURCH**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

| EXPENSES | Ministry Expenses | Admin Expenses | Fundraising Expenses | Total |
|---------------------------|------------------------------|---------------------------|---------------------------------|---------------------|
| Salaries | \$ 3,155,655 | \$ 444,953 | \$ - | \$ 3,600,608 |
| Benefits | 459,824 | 92,515 | - | 552,339 |
| Payroll taxes | 111,579 | 22,449 | - | 134,028 |
| Café | 80,012 | - | - | 80,012 |
| Benevolence | 72,945 | - | - | 72,945 |
| Food, gifts and missions | 590,575 | 9,911 | - | 600,486 |
| Retreats and events | 135,991 | - | - | 135,991 |
| Bank and credit card fees | - | 142,030 | - | 142,030 |
| Depreciation | 606,725 | 337,069 | - | 943,794 |
| Equipment rentals | 79,545 | 7,093 | - | 86,638 |
| Insurance | 72,036 | 21,651 | - | 93,687 |
| Legal and professional | 30,259 | 50,557 | - | 80,816 |
| Miscellaneous | 910 | - | - | 910 |
| Office expenses | 131,066 | 14,325 | - | 145,391 |
| Postage and printing | 67,309 | 33,490 | - | 100,799 |
| Rent | 163,562 | - | - | 163,562 |
| Repairs and maintenance | 131,668 | 73,148 | - | 204,816 |
| Supplies | 455,755 | 2,397 | 17,921 | 476,073 |
| Travel | 98,842 | 682 | - | 99,524 |
| Utilities | 166,606 | 92,559 | - | 259,165 |
| Other taxes | - | 60,004 | - | 60,004 |
| Outside services | 236,978 | 10,148 | - | 247,126 |
| Training and tuition | 47,114 | 2,909 | - | 50,023 |
| Marketing | 16,706 | - | - | 16,706 |
| Camp | 233,986 | - | - | 233,986 |
| Building security | 1,150 | - | - | 1,150 |
| Licenses, fees, permits | - | 13,419 | - | 13,419 |
| Computer expenses | 53,630 | - | - | 53,630 |
| Interest expense | - | 920,581 | - | 920,581 |
| Amortization expense | - | 49,198 | - | 49,198 |
| Bad debt expense | - | 58,390 | - | 58,390 |
| TOTAL EXPENSES | \$ 7,200,428 | \$ 2,459,478 | \$ 17,921 | \$ 9,677,827 |

SANDALS CHURCH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activities

Sandals Church (the Church) is a nonprofit organization incorporated on November 16, 1999 in the state of California. Sandals Church is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministry within Riverside, California and the surrounding communities.

Sandals Church consolidated with Amethyst Bible Church (ABC) as of December 1st, 2015 as part of their strategic effort to reach communities in Southern California with their vision to be real with self, God, and others.

Amethyst Bible Church (ABC), located in Mentone, California, formally Redlands Bible Church, is a nonprofit organization incorporated on July 1, 1979 in the state of California. In a memorandum of understanding with the Church, ABC's Board of Directors has been re-seated to consist of seven people, five designated by the Church and two designated by ABC. On November 16, 2015 the Corporate Name of ABC was official changed to Sandals Church East Valley (SCEV).

Basis of Accounting

The financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Basis of Presentation

The assets, liabilities, and net assets of the Church are reported in the following net asset groups:

Unrestricted net assets include these resources that are not temporarily or permanently restricted by donor and are available for operations of the Church without limitation. Unrestricted net assets also included resources restricted by donor-imposed criteria for which the restrictions are met within the same time period as the funds were received.

Temporarily restricted net assets included those resources whose use is restricted by donor-imposed criteria that either expires with the passage of time or by action of the Church.

Permanently restricted net assets included those resources whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Church.

Principle of Consolidation

The consolidated financial statements include the accounts of the Church and Amethyst Bible Church. Accounting principles generally accepted in the United States of America require all organizations over which the Church has both control and an economic interest to be accounted for as consolidated affiliates. All material inter-organizational accounts and transactions and have been eliminated.

Support and Revenue

Support and revenue include all resources over which the board of directors has discretionary control to use in carrying on the general operations of the Church. Support and revenue is considered unrestricted unless specifically restricted by the donor.

Tax Status

Sandals Church and Sandals Church East Valley are exempt from income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701d. The Church and SCEV have been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

In accordance with accounting standards, which provide accounting and disclosure guidance about uncertain tax positions taken by an organization, Management believes that all of the positions taken by Sandals Church and Sandals Church East Valley in its federal and state income tax status are more likely than not to be sustained upon examination.

Sandals Church and Sandals Church East Valley are not required to file income tax returns in the U.S. Federal jurisdiction or the state of California, except in some instances. Should The Church or SCEV file Federal income tax returns they would remain subject to examination by the Internal Revenue Service for the prior three tax years. Should the Church or SCEV file California income tax returns they would remain subject to examination by the Franchise Tax Board for the prior four tax years.

Property and Equipment

The Church follows the practice of capitalizing all expenses for equipment in excess of \$1,000; the fair market value of donated fixed assets is similarly capitalized. Depreciation is provided on equipment over the estimated useful lives of the assets using the straight-line method of depreciation. The estimated useful lives are as follows:

| | | |
|---------------------------|---------|-------|
| Vehicles | 5 | years |
| Equipment and Computers | 5 – 10 | years |
| Furniture and Fixtures | 10 | years |
| Building and Improvements | 39 – 40 | years |

Amortization

Bond issuance cost is amortized on a straight line basis over the life of the bonds, 25 years.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$16,706 for the year ended December 31, 2016

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Church considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash.

Cash Restricted to Building

Cash restricted to build the new sanctuary has been restricted by donors and bond holders is not available for operating purposes. As of December 31, 2016, the Church had \$466,112 of cash restricted to building at year end.

Sinking Fund

Deposits held in the sinking fund represent funds held in accordance to the bond agreement for debt service associated with the repayment of bonds and are considered restricted and unavailable for operating purposes.

Contributions

Contributions are recognized when the donor makes a promise to give to the Church that is, in substance, unconditional. Unconditional promises to give are recorded at net realizable value. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. 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 operations and changes in net assets as net assets released from restrictions.

Rental Income

The Church rents Church-owned property to outside entities for commercial use. Total rental revenue for the fiscal year ended December 31, 2016 was \$304,643. The Church's investment in property rented consisted of 49,839 square feet of building of \$4,404,650, less accumulated depreciation of \$486,323, which amounts are recorded in the Church's statement of financial position.

Accounts Receivable

Accounts receivable represent other outside receivables due to the Church. Management considered all receivables collectible at year end and accordingly has not established an allowance for other receivables.

2. FIXED ASSETS

As of December 31, 2016 Sandals Church had the following balances for fixed assets:

| | Balance @ 1/1/2016 | Additions | Deletions | Balance @ 12/31/2016 |
|---------------------------------|-----------------------|-------------------|-------------|-------------------------|
| Assets | | | | |
| Land | \$ 120,000 | \$ - | \$ - | \$ 120,000 |
| Building - 150 | 16,941,769 | 1,512,735 | - | 18,454,504 |
| Building - 250 | 5,300,760 | 1,364 | - | 5,302,124 |
| SCEV Building | 565,305 | 18,212 | - | 583,517 |
| Sound and Video Equipment | 2,036,162 | 91,580 | - | 2,127,742 |
| Equipment and Computers | 653,295 | 28,854 | - | 682,149 |
| Furniture and Fixtures | 371,614 | 69,440 | - | 441,054 |
| Vehicles | 99,366 | 18,856 | - | 118,222 |
| Total Fixed Assets | <u>26,088,271</u> | <u>1,741,041</u> | <u>-</u> | <u>27,829,312</u> |
| Accumulated Depreciation | <u>(3,251,094)</u> | <u>(943,794)</u> | <u>-</u> | <u>(4,194,888)</u> |
| | <u>(3,251,094)</u> | <u>(943,794)</u> | <u>-</u> | <u>(4,194,888)</u> |
| Net Fixed Assets | <u>\$ 22,837,177</u> | <u>\$ 797,247</u> | <u>\$ -</u> | <u>\$ 23,634,424</u> |

Depreciation expense for the year ended amounted to: \$ 943,794

3. PENSION PLAN

The Church sponsors a 403(b) plan for all employees from the date of hire who agree to make contributions to the plan. The Church makes a matching contribution if the participant contributes more than \$52.50 per month and meets eligibility requirements, at various rates based on the employee's class of employment with The Church. The total payroll for the year was \$3,600,608 and the total covered payroll amounted to \$3,600,608. The matching employer contribution for the year ended December 31, 2016, was \$126,411.

4. CASH

Sandals Church places its temporary cash and investments with high quality financial institutions. At times, such investments may be in excess of the Federal Deposits Insurance Corporation and American Share Insurance insured limits. Sandals Church has not incurred losses related to this activity. As of December 31, 2016 balances in excess of insured amounts were \$2,607,777.

5. NOTES PAYABLE

The Church entered into a loan agreement with RLC Funding for sanctuary seating on September 4th, 2015 for \$111,561. The Church is to pay \$5,447 for principal and interest on a monthly basis, for 24 months, beginning in October 2015. The interest rate for the loan is stated at 22.459%.

The Church assumed responsibility for a promissory note between Amethyst Bible Church and Christian Community Credit Union as of December 1st, 2015. The promissory note is for \$685,305 and was placed in effect on April 4th, 2012. The terms of the promissory note call for 59 monthly interest payments of \$ 4,053 beginning on May 20th 2012, with a final payment on April 20, 2017 for the principal balance plus monthly interest. The interest rate for the promissory note is stated at 5.500%.

The future maturities of notes payable as of December 31, 2016 are as follows:

| | | |
|-----------------|--------------|-------------------|
| Current portion | \$ | 53,659 |
| Long-Term | | 628,073 |
| | Total | <u>\$ 681,732</u> |

| | | |
|--------------------------|--------------|-------------------|
| Future Maturities | | |
| 2017 | \$ | 53,659 |
| 2018 | | 17,087 |
| 2019 | | 17,724 |
| 2020 | | 18,324 |
| 2021 | | 19,069 |
| Thereafter | | 555,869 |
| | Total | <u>\$ 681,732</u> |

6. BONDS PAYABLE

The Church issued a series of bonds on February 1, 2015. The bonds are secured by all of the assets of the Church. The bonds issued totaled \$15,675,000 and have interest rates from 2.00% to 6.25%/ Interest on the bonds from February 1, 2015 will be payable on August 1, 2015 and semi-annually thereafter on February 1 and August 1 of each year and at maturity or redemption. The Church agreed to make weekly deposits to a sinking fund of \$17,880 commencing March 6, 2015, through and including July 31, 2015, and in the amount of \$17,130 commencing August 7, 2015, through and including January 29, 2016, and in the amount of \$23,985 commencing February 5, 2016, and each seven days thereafter while any bonds are outstanding and unpaid except that scheduled weekly deposits may be reduced in the event of redemption of outstanding bonds at the option of the Church, and certain weekly deposits may be reduced through prepayment of such weekly deposits or through the accumulation of investment income in the Sinking Fund Account. Accrued interest on bonds payable at year end is \$364,925.

Bonds payable at year end is as follows:

| | | |
|-----------------|--------------|----------------------|
| Current portion | \$ | 362,000 |
| Long-Term | | 15,135,000 |
| | Total | <u>\$ 15,497,000</u> |

Future maturities of bonds payable is as follows:

| | | |
|--------------|-----------|-------------------|
| 2017 | \$ | 362,000 |
| 2018 | | 371,000 |
| 2019 | | 383,000 |
| 2020 | | 398,000 |
| 2021 | | 404,000 |
| Thereafter | | 13,579,000 |
| Total | \$ | 15,497,000 |

Bond maturities is as follows:

| | <u>Maturity</u> | <u>Amount</u> | <u>Rate</u> |
|------------------|------------------|----------------------|-------------|
| | February 1, 2017 | 180,000 | 2.25% |
| | August 1, 2017 | 182,000 | 2.50% |
| | February 1, 2018 | 184,000 | 2.75% |
| | August 1, 2018 | 187,000 | 3.00% |
| | February 1, 2019 | 190,000 | 3.25% |
| | August 1, 2019 | 193,000 | 3.50% |
| | February 1, 2020 | 196,000 | 3.75% |
| August 1, 2020 - | February 1 2021 | 404,000 | 4.00% |
| August 1, 2021 - | February 1, 2022 | 420,000 | 4.25% |
| | February 1, 2024 | 901,000 | 5.00% |
| | February 1, 2027 | 1,539,000 | 5.50% |
| | February 1, 2033 | 3,999,000 | 6.00% |
| | February 1, 2040 | 6,922,000 | 6.25% |
| | Total | \$ 15,497,000 | |

7. BOND ISSUANCE COST

Bond issuance costs of \$851,750 are being amortized on the straight line method over the 25 year life of the bonds. The changes in bond issuance costs during the year are as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|-----------------------------|------------------------------|--------------------|------------------|---------------------------|
| Bond issue cost | \$ 851,750 | \$ - | \$ - | \$ 851,750 |
| Accumulated Amortization | (31,231) | (34,070) | - | (65,301) |
| Total | \$ 820,519 | \$ (34,070) | \$ - | \$ 786,449 |

Amortization of bond issuance costs is as follows:

| | | |
|--------------|-----------|----------------|
| 2017 | \$ | 34,070 |
| 2018 | | 34,070 |
| 2019 | | 34,070 |
| 2020 | | 34,070 |
| 2021 | | 34,070 |
| Thereafter | | 616,099 |
| Total | \$ | 786,449 |

8. NET ASSETS

Temporarily Restricted – funds restricted by the donor, grantor or other outside party for a particular operating purpose.

At year end the temporarily restricted net assets is comprised of the following:

| | |
|--|---------------------------------|
| Reach Offering | \$ 466,112 |
| Sinking Fund | <u>528,732</u> |
| Total Temporarily Restricted Net Assets | <u><u>\$ 994,844</u></u> |

9. NET ASSETS RELEASED FROM RESTRICTION

Net assets were release from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

| | |
|---------------------------------------|-----------------------------------|
| Reach Offering | \$ 154,268 |
| Bond issuance designated for building | <u>1,174,218</u> |
| Total restrictions released | <u><u>\$ 1,328,486</u></u> |

10. SUBSEQUENT EVENTS

Accounting standards require that Sandals Church assess and disclose the date and the basis for that date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or were available to be issued. The Church evaluated all potential subsequent events as of March 30, 2017 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after the balance sheet date or as of March 30, 2017 that require disclosure in the financial statements.

* * * * *