

**GASQUET COMMUNITY SERVICES DISTRICT
COUNTY OF DEL NORTE**

**BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2021



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INTRODUCTORY SECTION

**GASQUET COMMUNITY SERVICES DISTRICT
ORGANIZATION
JUNE 30, 2021**

The Board of Directors for the fiscal year ended June 30, 2021 was composed of the following:

GOVERNING BOARD

<u>Name</u>	<u>Term Expires</u>
Mark Dodd, Chairman	2022
Sarah Caron, Board Member	2024
Steven Kasmar, Board Member	2024
R. Barry Walkley, Board Member	2022
Martha Morgan, Board Member	2022

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To Board of Directors
Gasquet Community Services District
Gasquet, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Gasquet Community Services District (the "District") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2021, and the changes in its net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on that.

Harshmal & Company LLP

Oakland, California
November 4, 2022

BASIC FINANCIAL STATEMENTS

GASQUET COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS

Current assets:	
Cash and deposits	\$ 87,479
Investments	593,536
Accounts receivable	16,811
Prepaid expenses	<u>64</u>
Total current assets	<u>697,890</u>
Noncurrent assets:	
Capital assets	1,142,189
Less: accumulated depreciation	<u>(436,222)</u>
Total noncurrent assets	<u>705,967</u>
Total assets	<u>1,403,857</u>

LIABILITIES AND NET POSITION

LIABILITIES

Current liabilities:	
Salaries and benefits payable	3,162
Deposits payable	<u>2,321</u>
Total current liabilities	<u>5,483</u>
Total liabilities	<u>5,483</u>

NET POSITION

Net investment in capital assets	705,967
Unrestricted	<u>692,407</u>
Total net position	<u>1,398,374</u>
Total liabilities and net position	<u>\$ 1,403,857</u>

The accompanying notes are an integral part of these financial statements.

**GASQUET COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021**

OPERATING REVENUES

Charges for services	\$ 185,999
Other revenues	<u>6,136</u>
Total operating revenues	<u>192,135</u>

OPERATING EXPENSES

Services, supplies, and other	64,951
Salaries and benefits	85,545
Depreciation	<u>36,565</u>
Total operating expenses	<u>187,061</u>

Operating income (loss)	<u>5,074</u>
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NONOPERATING REVENUES (EXPENSES)

Interest income	11,834
Claim proceeds	<u>2,542</u>
Total nonoperating revenues (expenses)	<u>14,376</u>

Change in net position	<u>19,450</u>
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Net position - beginning	1,369,386
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<i>Restatement</i>	<u>9,538</u>
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Net position - beginning, <i>restated</i>	<u>1,378,924</u>
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Net position - ending	<u><u>\$ 1,398,374</u></u>
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The accompanying notes are an integral part of these financial statements.

**GASQUET COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 186,979
Cash payments for goods and services	(59,718)
Cash payments to employees	<u>(87,579)</u>
Net cash provided (used) by operating activities	<u>39,682</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	<u>(117,443)</u>
Net cash provided (used) by capital and related financing activities	<u>(117,443)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Claim proceeds	<u>2,542</u>
Net cash provided (used) by non-capital financing activities	<u>2,542</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of investments	75,000
Interest income	<u>10</u>
Net cash provided (used) by investing activities	<u>75,010</u>

Net change in cash and cash equivalents	(209)
Cash and cash equivalents - beginning of the year	<u>87,688</u>
Cash and cash equivalents - end of the year	<u>\$ 87,479</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ 5,074
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	36,565
Change in operating assets and liabilities:	
Accounts receivable	(5,247)
Prepaid expenses	3,978
Accounts payable	1,255
Salaries and benefits payable	(2,034)
Deposits payable	<u>91</u>
Net cash provided (used) by operating activities	<u>\$ 39,682</u>

The accompanying notes are an integral part of these financial statements.

**GASQUET COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Gasquet Community Services District (the "District") was formed to provide water services for both fire and domestic use. The District is a California Municipal Corporation and is governed by an elected Board of Directors.

The activities of the District are governed by Board of Directors, each of whom is elected to office for a four-year term by the registered voters of the District.

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental entities. These financial statements include all activities, and functions that comprise the District.

There are no component units, which are entities that are legally separate for which the government is considered to be financially accountable under the criteria set by the Governmental Accounting Standards Board (GASB) Statement No. 39 as amended by GASB Statement No. 61.

B. Basis of Presentation

The Financial Statements of the reporting entity are organized into one fund which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net position, revenues, and expenses. The fund of the District is organized into the proprietary category.

A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual government fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The District reports the following major proprietary fund:

- The Operating Fund is an enterprise fund used to account for activity related to providing customers with water for both fire protection and domestic use to the surrounding community.

C. Basis of Accounting and Measurement Focus

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, including revenues from grants, entitlements, and donations, are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are charges to customers for services.

**GASQUET COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

C. Basis of Accounting and Measurement Focus - Cont'd

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets and Budgetary Accounting

The Board of Directors adopts a budget annually to be effective July 1st of the ensuing year. Budgets are adopted on a basis consistent with generally accepted accounting principles.

E. Cash and Investments

Cash at June 30, 2021 consists of cash held in a bank checking account and money market accounts. State statutes authorize the District to invest its cash surplus in obligations of the U.S. Treasury, agencies and instrumentalities, corporate bonds, medium term notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund ("LAIF").

The District follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting for Financial Reporting for Certain Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In these financial statements, the fair value of the District's investments was based on unaudited quoted market value.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

The District reports its investments in the financial statements using quoted market prices (Level 1 inputs).

For purposes of the accompanying statement of cash flows, the District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

F. Receivables

Accounts receivable are for water charges. These amounts are not shown net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2021 were not considered material, and therefore, were not recorded.

G. Inventory and Prepaid Costs

Inventory items are recorded as expenditures/expenses at the time individual items are purchased. Records are not maintained of inventory and supplies on hand, as these amounts are not considered material.

Certain payments to vendors/service providers reflect costs applicable to future accounting periods and are recorded as prepaid costs.

**GASQUET COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

H. Capital Assets

All capital assets, including infrastructure, are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets received prior to June 15, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is included as part of the capitalized value.

I. Long-Term Debt

The long-term debt consists primarily of loans payable and deferred interest payable. There was no outstanding loan and related interest payable as of June 30, 2021.

J. Compensated Absences

The District accrues vacation at a rate equal to one twenty-fourth of the prior calendar year annual earnings by employees. The vacation must be used in the subsequent calendar year and does not carry over beyond that time. As of June 30, 2021, accrued vacation payable was \$801, which was included in Salaries and benefits payable.

K. Net Position

Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on its use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional or enabling legislation.

Unrestricted net position – Other net position that does not meet the definition of "restricted" or "net investment in capital assets."

When net position consists of both restricted and unrestricted balances, restricted resources are depleted first before the unrestricted resources are used.

L. Revenues and Expenses

Revenues are reported as a source of economic resources, and are classified as operating and nonoperating.

Expenses are reported as a use of economic resources, and are classified as operating or nonoperating.

M. Estimates

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

**GASQUET COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2021, the District had the following cash and investments:

Cash and deposits:	
Carrying amount of deposits at financial institutions	\$ <u>87,479</u>
Total cash and deposits	<u>87,479</u>
Investments:	
Certificates of deposit	466,661
Local Agency Investment Fund (State of California)	<u>126,875</u>
Total investments	<u>593,536</u>
Total cash and investments	<u><u>\$ 681,015</u></u>

Deposits

California Government Code requires California banks and savings and loan associations to collateralize the District's deposits by pledging government securities. The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to collateralize the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits.

At year end, the carrying amount of the District's cash deposits was \$87,479 and cash balances in financial institution(s) before reconciling items totaled \$82,675 which, were insured by Federal Deposit Insurance Corporation (FDIC).

Investments

External Investments Pool

The District invests in Local Agency Investment Fund (LAIF), a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The District's investments with LAIF at June 30, 2021 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

- Structured Notes - Are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities - The bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flow from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

The District's investment maturities are classified as follows:

	Maturities			Fair Value	Weighted Average Maturity (Years)
	0-1 Year	1-5 Years	Over 5 Years		
Certificate of Deposits	\$ -	\$ 466,661	\$ -	\$ 466,661	-
LAIF	<u>126,875</u>	-	-	<u>126,875</u>	-
Total	<u><u>\$ 126,875</u></u>	<u><u>\$ 466,661</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 593,536</u></u>	<u><u>3.13</u></u>

**GASQUET COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 - CASH AND INVESTMENTS - CONT'D

Interest Rate Risk – Interest rate risk is the risk of loss due to fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rate. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Of the District's \$593,536 investment portfolio, none of the investments has a maturity of more than 5 years.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law limits investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. State law also limits investments in corporate bonds to the rating of A by both Standards & Poor's and Moody's Investors Service. The District has no investment policy that would limit its investment choices.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, the concentration presents a heightened risk of potential loss.

At year end, the carrying amount of the District's investments was \$593,536. Of this balance, \$0 was covered by Federal Deposit Insurance Corporation; \$466,661 was covered by the National Credit Union Share Insurance Fund (NCUSIF); and the remaining balance of \$126,875 consists Local Agency Investment Fund (LAIF). LAIF is a special fund of the California State Treasury through which local governments may pool investments. Investments are highly liquid, as deposits may be converted to cash within twenty four hours without the loss of interest. Investments by the District in investment pools are considered unclassified as to risk because they are not evidenced by securities that exist in physical or book entry form.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>			
Land	\$ 3,005	\$ 116,412	\$ 119,417
Total capital assets not being depreciated	<u>3,005</u>	<u>116,412</u>	<u>119,417</u>
<i>Capital assets being depreciated:</i>			
Machinery & Equipment	958,868	1,031	959,899
Buildings and Improvements	<u>62,873</u>	<u>-</u>	<u>62,873</u>
Total capital assets being depreciated	<u>1,021,741</u>	<u>1,031</u>	<u>1,022,772</u>
Less: accumulated depreciation	<u>(399,657)</u>	<u>(36,565)</u>	<u>(436,222)</u>
Total capital assets being depreciated, net	<u>622,084</u>	<u>(35,534)</u>	<u>586,550</u>
Capital assets, net	<u>\$ 625,089</u>	<u>\$ 80,878</u>	<u>\$ 705,967</u>

**GASQUET COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 4 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases coverage from an insurance company. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 5 - PRIOR PERIOD ADJUSTMENT(S)

During the fiscal year ended June 30, 2021, the District found that the salaries and benefits payable, and accounts payable were not adequately recorded on its previous financial statements. As a result, following prior period adjustments have been made in the District's financial statements to correct the balance of salaries and benefits payable, and accounts payable, and the net position accordingly:

Net position as previously reported at June 30, 2020	\$ 1,369,386
Prior period adjustments:	
Salaries and benefits payable	2,662
Accounts payable	<u>6,876</u>
Total prior period adjustments	<u>9,538</u>
Net position as restated, July 1, 2020	<u><u>\$ 1,378,924</u></u>

NOTE 6 - EVALUATION OF SUBSEQUENT EVENTS

The management of the District has reviewed the results of operations for the period of time from its year end June 30, 2021 through November 4, 2022, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

SUPPLEMENTARY INFORMATION

GASQUET COMMUNITY SERVICES DISTRICT
FIVE YEAR SCHEDULE OF STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 THROUGH JUNE 30, 2017

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUES</u>					
Charges for services and other revenues	\$ <u>192,135</u>	\$ <u>173,641</u>	\$ <u>179,595</u>	\$ <u>189,692</u>	\$ <u>182,113</u>
Total operating revenues	<u>192,135</u>	<u>173,641</u>	<u>179,595</u>	<u>189,692</u>	<u>182,113</u>
<u>OPERATING EXPENSES</u>					
Services, supplies, and other	64,951	71,137	58,703	59,120	68,080
Salaries and benefits	85,545	69,806	69,783	72,865	50,189
Depreciation	<u>36,565</u>	<u>35,912</u>	<u>41,000</u>	<u>41,500</u>	<u>36,000</u>
Total operating expenses	<u>187,061</u>	<u>176,855</u>	<u>169,486</u>	<u>173,485</u>	<u>154,269</u>
Operating income (loss)	<u>5,074</u>	<u>(3,214)</u>	<u>10,109</u>	<u>16,207</u>	<u>27,844</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Interest income	11,834	12,242	9,345	7,022	7,333
Interest expense	-	-	-	(674)	(2,725)
Claim proceeds	<u>2,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>14,376</u>	<u>12,242</u>	<u>9,345</u>	<u>6,348</u>	<u>4,608</u>
Change in net position	<u>19,450</u>	<u>9,028</u>	<u>19,454</u>	<u>22,555</u>	<u>32,452</u>
Net position - beginning	1,369,386	1,041,461	1,025,194	1,002,639	970,187
<i>Restatement</i>	<u>9,538</u>	<u>318,897</u>	<u>(3,187)</u>	<u>-</u>	<u>-</u>
Net position - beginning, restated	<u>1,378,924</u>	<u>1,360,358</u>	<u>1,022,007</u>	<u>1,002,639</u>	<u>970,187</u>
Net position - ending	<u>\$ <u>1,398,374</u></u>	<u>\$ <u>1,369,386</u></u>	<u>\$ <u>1,041,461</u></u>	<u>\$ <u>1,025,194</u></u>	<u>\$ <u>1,002,639</u></u>

The accompanying notes are an integral part of these financial statements.