

**CYPRESS CREEK EMERGENCY MEDICAL
SERVICES ASSOCIATION**

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2016

WITH

INDEPENDENT AUDITOR'S REPORT

SVADLENAK, SEE & COMPANY, P.C.

Certified Public Accountants

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SERVICES ASSOCIATION**

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FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

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SVADLENAK, SEE & COMPANY, P.C.

Certified Public Accountants

1600 TOWNHURST DRIVE
HOUSTON, TEXAS 77043-3227

(713) 464-6390
(713) 464-9177 – FAX
www.svadlenak-see.com

Ernest R Svadlenak
Melvin R See
Mark E Owens
Michael J Burcham

A.I.C.P.A.
Division For CPA Firms
A.I.C.P.A.
T.S.C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Cypress Creek Emergency Medical Services Association
Spring, Texas

We have audited the accompanying financial statements of Cypress Creek Emergency Medical Services Association (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, 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 Cypress Creek Emergency Medical Services Association, as of December 31, 2016, and the changes in its net assets and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Svadlenak, See & Company P.C

SVADLENAK, SEE & COMPANY, P.C.
Houston, Texas

March 27, 2017

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

ASSETS

Current assets:

Cash	\$ 489,488
Accounts receivable	6,295,275
Inventories	834,615
Prepaid expenses	<u>878,528</u>

Total current assets 8,497,906

Land, buildings and equipment-at cost, less accumulated depreciation 11,188,724

Other assets 100

Total assets \$ 19,686,730

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 1,062,535
Current portion of long-term debt	1,124,774
Accruals	<u>371,089</u>

Total current liabilities 2,558,398

Long-term debt:

Notes payable 6,504,893

Commitments and contingent liabilities -

Net assets:

Total net assets 10,623,439

Total liabilities and net assets \$ 19,686,730

SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

Support and revenue:

Support:

ESD 11 funds	\$ 13,535,901
Insurance billings-net	11,192,619
Educational funds	94,840
Special events-fundraisers	57,073
Dispatch fees-communications centers	<u>567,349</u>
Total support	<u>25,447,782</u>

Revenue:

Interest income	2,191
Gain (loss) on sale of investments/property	<u>215,848</u>
Total revenue	<u>218,039</u>

Total support and revenue 25,665,821

Expenses:

Program services	19,087,482
General and administrative	<u>3,641,140</u>
Total expenses	<u>22,728,622</u>

Change in net assets 2,937,199

Net assets-unrestricted at the beginning of the year 7,686,240

Net assets-unrestricted at the end of the year \$ 10,623,439

SEE ACCOMPANYING NOTES.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities:

Change in net assets – increase (decrease) \$ 2,937,199

Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:

Depreciation 1,106,294

4,043,493

Change in operating assets and liabilities:

Accounts receivable \$ (1,573,488)

Inventories (62,511)

Prepaid expenses (98,806)

Other assets 9,352

Accounts payable 233,848

Accruals 46,402 (1,445,203)

Net cash provided (used) by operating activities 2,598,290

Cash flows from investing activities:

Purchase of fixed assets (3,264,190)

Retirement of fixed assets 345,457 (2,918,733)

Cash flows from financing activities:

Proceeds from long-term debt 1,895,646

Repayment of long-term debt (1,263,216) 632,430

Net increase (decrease) in cash 311,987

Cash at the beginning of the year 177,501

Cash at the end of the year \$ 489,488

Supplemental information:

Interest paid in cash during the year. \$ 259,108

SEE ACCOMPANYING NOTES.

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CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. Summary of significant accounting policies:

Nature of organization

Cypress Creek Emergency Medical Services Association (the Organization) is a not-for-profit association incorporated on July 25, 1975 to provide emergency medical services and educational programs to the communities along FM 1960 from Jones Road to the Houston city limits at Humble. In October 1996, the Organization purchased and is now operating the FM 1960 Area Emergency Communications Center, Inc. which provides centralized emergency communications for certain fire departments and associations in the area.

Date of Management's review

Subsequent events were evaluated through March 27, 2017, which is the date the financial statements were available to be issued.

Method of accounting

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting, revenues are recorded when earned and expenses when incurred.

Use of estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, support, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Financial reporting and financial statement presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as applied to not-for-profit organizations. The Organization follows accounting and financial reporting guidelines set forth in the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations.

The Organization reports its financial position and activities, including contributions received, according to the classification and presentation described in Financial Accounting Standards Board (FASB) ASC 958, Financial Statements of Not-for-Profit Organizations.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. Summary of significant accounting policies: (cont'd.)

Under FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purposed restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. Under FASB ASC 958, information regarding financial position and activities are reported according to three classes of assets: unrestricted, temporarily restricted, and permanently restricted.

Contributions

Contributions are made by individual homeowners and are collected by municipal utility (water) districts in the area served by the Organization. Those water districts then remit the funds to the Organization.

Distributions

The Organization has a contract as the Emergency Service District #11 provider. The designated provider will receive monies from taxing authorities in order to provide these services.

Consideration of credit risk

The Organization maintains its cash in bank deposit accounts at a high credit quality financial institution. The balances, at times, may exceed federally insured limits. At December 31, 2016, the Organization exceeded the insured limit by approximately \$334,000.

Cash and cash equivalents

For purpose of the statement of cash flows, cash equivalents include all highly liquid debt instruments with an original maturity of three month or less.

Land, buildings and equipment

Donations of land, buildings and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. Summary of significant accounting policies: (cont'd.)

Land, buildings and equipment (cont'd.)

Land, buildings and equipment are stated at cost. It is the Organization's policy to capitalize all assets with continuing value and to expense other cost as repairs and maintenance. Major renewals and betterments are capitalized. Depreciation was calculated by using the straight-line method. Estimated useful lives used in computing depreciation are as follows:

<u>Description</u>	<u>Years</u>
Buildings and Improvements	5 to 39
Equipment, Furniture and fixtures	5 to 7
Vehicles	5 to 15

Accounts receivable

Accounts receivable represent amounts due from patients, Medicare and insurance companies. All claims representing amounts due to the Organization are being processed and collected by an outside service.

The gross fees for the various services rendered are difficult to collect due the discounts and limitations placed on claims by insurance companies and the patients' inability to pay for the services. Uncollected claims totaling \$13,351,944 and insurance adjustments totaling \$13,232,574 are netted against insurance billings for the year ended December 31, 2016.

Management feels that it is impracticable to evaluate each individual receivable (claim) due to the numerous accounts and historical data is insufficient to properly establish an accurate allowance for uncollectible accounts. Therefore, management intends to follow its previous practice and charge off the accounts to operations as they are deemed worthless.

Inventory

Inventory consists of medical supplies which are valued at the lower of cost or market using current replacement cost as market.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. Summary of significant accounting policies: (cont'd.)

ESD 11 funds

ESD 11 funds are considered to be available for unrestricted use unless specifically restricted by the donor. Donated materials, equipment, and services are reflected as donated in the accompanying statements at their estimated value at date of receipt. Donated services consist of time donated by volunteers, drivers, emergency care technicians and assistants and paramedics. They are valued at the estimated cost that the Organization would have incurred had the Organization been required to employ individuals to provide those services.

Income tax status

The Organization is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has conclude that as of December 31, 2016, there are no uncertain positions taken or expected to be taken.

The federal income tax returns of the Organization are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

2. Accounts receivable:

Accounts receivable as of December 31, 2016 consists of:

	<u>Amount</u>
Billings of insurance companies for services rendered	\$6,264,694
Communication center revenue from fire departments	<u>30,581</u>
Total accounts receivable	<u>\$6,295,275</u>

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

3. Land, buildings and equipment:

As of December 31, 2016, land, buildings and equipment consisted of the following:

	<u>Useful Lives</u>	<u>Amount</u>
Land		\$ 359,654
Buildings and improvements	5-39	9,280,377
Vehicles	5	5,596,566
Vehicle repair equipment	5	72,908
Bicycles	5	22,905
Communications equipment	5	3,987,858
Leasehold improvements	5-39	281,155
Office equipment	5	99,224
Furniture and fixtures	5-7	926,578
Medical equipment	5	2,775,076
Other equipment	5	<u>150,021</u>
		23,552,322
Accumulated depreciation		<u>(12,363,598)</u>
		<u>\$ 11,188,724</u>

Depreciation expense for the year ended December 31, 2016 amounted to \$1,106,294.

4. Long-term debt:

Note payable to bank dated November 10, 2010 in the original amount of \$8,100,000 accruing interest at a variable rate of approximately 4.00% at December 31, 2016. Principle and interest payments are due quarterly until maturity when the remaining principle balance and any unpaid interest will be due in February 2021. The note is collateralized by a deed of trust and properties. \$ 5,557,048

Note payable to bank dated May 6, 2015 in the original amount of \$599,200 accruing interest at a variable rate of approximately 4.00% at December 31, 2016. Principle and interest payments of \$13,468 are due in 48 monthly payments until maturity, May 2019. The note is collateralized by automotive equipment. 372,746

Note payable to bank dated August 31, 2016 in the original amount of \$485,200 accruing interest at a variable rate of approximately 4.00% at December 31, 2016. Principle and interest payments of \$10,949 are due in 48 monthly payments until maturity, September 2020. The note is collateralized by automotive equipment. 457,076

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

4. Long-term debt: (cont'd.)

Capital lease to a financing institution dated August 24, 2016 in the original amount of \$328,200. Annual payment of \$65,640 are due on July 5 through 2021. At maturity (July 5, 2021) the Organization has the option to purchase the equipment for \$1.00. The note is collateralized by equipment. 328,200

Line of credit to a bank dated April 10, 2016 with a borrowing maximum of \$1,000,000. Interest is due monthly at prime plus .75%. Principle and any unpaid interest is due at April 10, 2017. The line of credit is unsecured. -

Note payable to vendor dated June 2, 2016 in the original amount of \$929,892. The note does not accrue interest. Principal payments are due monthly in the amount of \$23,950 until maturity in February of 2020. The note is collateralized by the equipment purchased. 914,597

7,629,667

Less current portion of long-term debt 1,124,774

Long-term debt \$ 6,504,893

The principal maturities on the long-term debt are as follows:

Year ending
December 31,

2018	\$ 1,155,754
2019	1,092,808
2020	785,447
2021	3,470,884
2022	-
Thereafter	<u>-</u>
	<u>\$ 6,504,893</u>

5. Pension plan:

Effective July 1, 1999, the Organization adopted a 401(k) pension plan for the Organization's employees. Employee contributions are voluntary and are made on a pretax basis. Employer contributions are based on a percentage of wages, up to a maximum of 7.00%. The employer's contributions are contributed semi-monthly. The contributions for the year ended December 31, 2016 were \$563,978.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

6. Commitments and contingencies:

A sublease exists with a fire department for Station 5. Under the terms of the lease, the Organization pays a monthly rental amount based upon the percentage of time in a calendar month that the Organization operates an advanced life support ambulance from the premises more than 60% of a 24 hour day. Since the inception of the lease, the Organization has operated an ambulance at least 95% of a 24 hour day and therefore pays a rental fee of \$515 a month. The lease is month to month.

On October 1, 1996, a lease was entered into for station space. Rental payments are \$1,650 per month through October 31, 2017 at which time the lease expires.

The Organization has entered into a lease with a member of the ESD #11 board of directors for a facility for operations and storage which requires rental payments of \$1,000 per month. The lease is on a month to month basis.

Aggregate year minimum future rentals under the leases are as follows:

<u>December 31,</u>	<u>Amount</u>
2017	<u>\$16,500</u>

During the normal course of business, the Organization could be named in frivolous and immaterial lawsuits. It is management's opinion that any such lawsuit outstanding as of the period ended December 31, 2016 (none were known to management) would not have a material effect on the financial statements.

Substantially all of the Organization's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Organization expect such compliance to have, any material effect upon the capital expenditures, change in net assets, financial conditions or competitive position of the Organization. Management believes that its current practices and procedures for the control and disposition of such waste comply with applicable federal and state requirements.

7. Annexation:

The Organization is within the extra-territorial jurisdiction of the city of Houston, Texas (the City). The City has the power to annex, with the approval of the residents and proper legislation. Should that occur and the Organization not make servicing arrangements with the City, most services currently provided by the Organization would be provided by the City and the Organization as it is known and operates today would likely be seriously affected.

SUPPLEMENTAL INFORMATION

SVADLENAK, SEE & COMPANY, P.C.

Certified Public Accountants

1600 TOWNHURST DRIVE
HOUSTON, TEXAS 77043-3227

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INDEPENDENT AUDITOR’S REPORT

ON SUPPLEMENTAL INFORMATION

To the Board of Directors of
Cypress Creek Emergency Medical
Services Association
Spring, Texas

We have audited the financial statements of Cypress Creek Emergency Medical Services Association as of and for the year ended December 31, 2016, and our report thereon dated March 27, 2017, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses and statement of activities – actual and budget are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Organization’s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and other accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of functional expenses and statement of activities – actual and budget are fairly stated in all material respects in relation to the financial statements as a whole.

Svadlenak, See & Company P.C.

SVADLENAK, SEE & COMPANY, P.C.
Houston, Texas

March 27, 2017

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>	<u>General and Administrative</u>
Functional expenses:		
Salaries	\$ 10,694,084	\$ 1,298,694
Employee health benefits	2,644,243	257,489
Accounting and legal	-	437,547
Bank and credit card charges	-	39,971
CCATT program expense	127,355	-
Communication center expense	276,153	-
Contract labor	66,636	6,489
Dues	-	7,195
Education courses	106,405	-
Fundraising expenses	-	64,347
Insurance	644,749	-
Interest expense	-	257,108
Miscellaneous	-	90,954
Oil and gasoline	305,191	-
Pension expense	513,933	50,045
Postage	-	6,708
Printing and office	-	36,676
Recruiting and advertising	43,866	-
Rent	39,226	-
Repairs and maintenance	232,644	283,822
Supplies	1,022,920	-
Taxes-payroll	812,668	78,691
Telephone	202,602	-
Third party billing	-	670,671
Uniforms, pins, gifts, etc.	48,882	4,760
Utilities	182,849	-
Volunteer expenses	<u>66,755</u>	<u>-</u>
Total expenses before depreciation	18,031,161	3,591,167
Depreciation	<u>1,056,321</u>	<u>49,973</u>
Total expenses	<u>\$ 19,087,482</u>	<u>\$ 3,641,140</u>

SEE INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES – ACTUAL AND BUDGET

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Actual</u>	<u>Budget Unaudited</u>	<u>Variance</u>
Support and revenue:			
ESD 11 funds	\$13,535,901	\$ 12,362,127	\$1,173,774
Third party insurance payments	11,192,619	10,930,308	262,311
Educational funds	94,840	-	94,840
Special events-fund raisers	57,073	139,600	(82,527)
Dispatch fees-communications center	567,349	480,000	87,349
Interest and dividend income	2,191	-	2,191
Gain (loss) on sale of assets	<u>215,848</u>	<u>-</u>	<u>215,848</u>
Total support and revenue	<u>\$ 25,665,821</u>	<u>\$ 23,912,035</u>	<u>\$1,753,786</u>
Expenses:			
Salaries	\$11,992,778	\$ 11,705,727	\$ 287,051
Employee health benefits	2,901,732	2,610,000	291,732
Accounting and legal	437,547	265,000	172,547
Bank and credit card charges	39,971	35,000	4,971
CCATTS program expenses	127,355	125,000	2,355
Communication center expenses	276,153	265,000	11,153
Contract labor	73,125	-	73,125
Dues	7,195	8,000	(805)
Education courses	106,405	60,000	46,405
Fundraising expenses	64,347	-	64,347
Insurance	644,749	730,000	(85,251)
Interest expense	257,108	257,000	108
Miscellaneous	90,954	75,000	15,954
Oil and gasoline	305,191	475,000	(169,809)
Pension expense	563,978	400,000	163,978
Postage	6,708	6,000	708
Printing and office	36,676	20,000	16,676
Recruit and advertising	43,866	50,000	(6,134)
Rent	39,226	35,000	4,226
Repairs and maintenance	516,466	505,000	11,466
Supplies	1,022,920	922,000	100,920
Taxes-payroll	891,359	773,000	118,359
Telephone	202,602	205,000	(2,398)

SEE INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

CYPRESS CREEK EMERGENCY MEDICAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES – ACTUAL AND BUDGET (cont'd.)

FOR THE YEAR ENDED DECEMBER 31, 2016

Expenses: (cont'd.)

	<u>Actual</u>	<u>Budget Unaudited</u>	<u>Variance</u>
Third party billing	670,671	650,000	20,671
Uniforms pins and gifts	53,642	60,000	(6,358)
Utilities	182,849	180,000	2,849
Volunteer expenses	<u>66,755</u>	<u>120,000</u>	<u>(53,245)</u>
Total expenses before depreciation	21,622,328	20,536,727	1,085,601
Depreciation expense	<u>1,106,294</u>	<u>900,000</u>	<u>206,294</u>
Total expenses	<u>22,728,622</u>	<u>21,436,727</u>	<u>1,291,895</u>
Change in net assets – increase (decrease)	<u>\$ 2,937,199</u>	<u>\$ 2,475,308</u>	<u>\$ 461,891</u>

SEE INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION.

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