

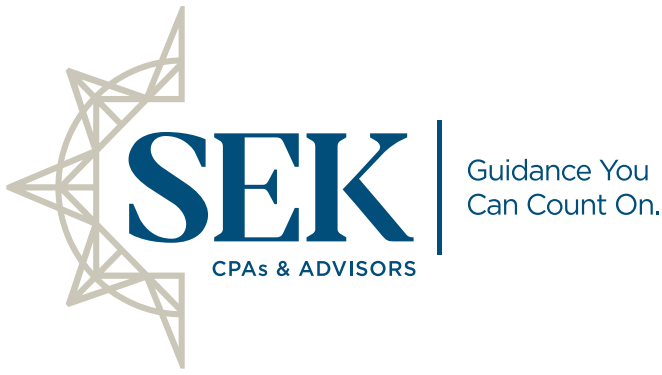
Audited
Financial
Statements

December 31,
2023

**Municipal Authority
of the Borough of
Orwigsburg**

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1 - 3
FINANCIAL STATEMENTS	
Statement of net position	4
Statement of revenues, expenses, and changes in fund net position	5
Statement of cash flows	6
Notes to financial statements	7 - 13
OTHER SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule	14



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Municipal Authority of the Borough of Orwigsburg
Orwigsburg, Pennsylvania

Opinion

We have audited the accompanying financial statements of the Municipal Authority of the Borough of Orwigsburg (the Authority), a component unit of the Borough of Orwigsburg, Pennsylvania, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for The Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management's 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the budgetary comparison schedule but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Smith & Gott Reams Company, LLC

Carlisle, Pennsylvania

January 7, 2025

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Statement of Net Position
December 31, 2023

ASSETS

Current assets

Cash and cash equivalents	\$ 817,280
Lease receivable - current portion	29,807
Grant receivable	<u>128,179</u>
Total current assets	<u>975,266</u>

Noncurrent assets

Lease receivable - long term	\$ 820,924
Capital assets not being depreciated	
Land and easements	39,532
Construction in progress	128,179
Capital assets, net of accumulated depreciation	
Sewer system	<u>1,030,201</u>
Total noncurrent assets	<u>2,018,836</u>
Total assets	<u>\$ 2,994,102</u>

LIABILITIES

Current Liabilities

Due to other governments	\$ 128,179
Total current liabilities	<u>\$ 128,179</u>

DEFERRED INFLOWS OF RESOURCES

Leases	\$ 828,743
Total deferred inflows	<u>828,743</u>

NET POSITION

Net investment in capital assets	\$ 1,197,912
Unrestricted	<u>839,268</u>
Total net position	<u>2,037,180</u>

Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,994,102</u>
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MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Statement of Revenues, Expenses, and Changes in Fund Net Position
Year Ended December 31, 2023

OPERATING REVENUES

Lease rental fees	\$ 59,423
Other rental income	<u>1,000</u>
Total operating revenues	<u>60,423</u>

OPERATING EXPENSES

Secretary fee	3,767
Management fee	10,019
Professional fees	4,600
Other operating expenses	1,216
Depreciation	<u>139,426</u>
Total operating expenses	<u>159,028</u>

Operating loss	<u>(98,605)</u>
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NONOPERATING REVENUES (EXPENSES)

Interest income	7,193
Grant revenue	128,179
Transfer from other governments	578,350
Gain (loss) on disposal of assets	<u>(1,618,888)</u>
Total nonoperating revenues (expenses)	<u>(905,166)</u>

Change in net position	(1,003,771)
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Total net position - beginning, as restated	<u>3,040,951</u>
Total net position - ending	<u>\$ 2,037,180</u>

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Statement of Cash Flows
Year Ended December 31, 2023

Cash flows from operating activities

Lease rental payments received	\$ 50,400
Other rental income received	1,000
Payments to suppliers for goods and services	(5,816)
Payments to and on behalf of contracted employees	<u>(13,786)</u>
Net cash provided by operating activities	<u>31,798</u>

Cash flows from capital financing activities

Transfer from other governments	<u>578,350</u>
Net cash provided by capital financing activities	<u>578,350</u>

Cash flows from investing activities

Interest received	<u>7,193</u>
Net cash provided by investing activities	<u>7,193</u>

Net increase in cash and cash equivalents 617,341

Cash and cash equivalents - beginning of the year 199,939

Cash and cash equivalents - end of the year \$ 817,280

**Reconciliation of loss from operations to net cash provided
by operating activities**

Operating loss	\$ (98,605)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Lease receivable	29,083
Deferred inflow related to leases	(38,106)
Depreciation expense	<u>139,426</u>
Net cash provided by operating activities	<u>\$ 31,798</u>

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

The Municipal Authority of the Borough of Orwigsburg (the Authority) was established as a financing authority for the Borough of Orwigsburg.

Reporting Entity

The Authority was formed by the Borough of Orwigsburg for the purpose of providing long-term financing to construct and equip its sewer plant and facilities. The plant facilities acquired by the Authority are operated and maintained by the Borough under the provisions of a long-term lease with the Authority dated May 16, 2002. This lease was terminated in May 2015, as the debt guaranteed under the lease was satisfied by the Borough. A new operating lease was executed in May 2015.

Members of the Authority Board are appointed by the Borough of Orwigsburg, but the Borough has no power to remove a member of a board of an authority organized under the Municipality Authorities Act. The Authority has no employees. The operation of the sewer systems is carried out by Borough employees.

Governmental Accounting Standards Board (GASB) statements define the criteria used to determine the composition of the reporting entity. These standards require the reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable, (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on these criteria, there are no other entities to be included in these financial statements as a component unit. The Authority is included in the reporting entity of the Borough of Orwigsburg as a blended component unit. Although it is legally separate from the Borough, the Authority's sole purpose was to finance the construction of the Borough's sewer plant and facilities. It continues to lease these facilities to the Borough.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus and basis of accounting, all assets, liabilities, deferred inflows of resources and deferred outflows of resources associated with the operations of these funds are included in the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows of resources and deferred outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers cash and cash equivalents to include all demand deposit accounts.

Leases

The Authority is the lessor for the lease of the Sewer System to the Borough of Orwigsburg. The Authority recognizes a lease receivable and a deferred inflow of resources in the statements of net position for the proprietary funds.

At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements include how the Authority determines (1) the discount rate if uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Authority uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes a noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Authority monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of lease receivable.

Capital Assets

Capital assets with extended useful lives are carried at cost and are depreciated over their useful lives. Public domain ("Infrastructure") capital assets including the sewer system are capitalized at cost along with other capital assets. The Authority maintains a capitalization threshold of \$ 1,000. Depreciation is estimated using the straight-line method based on the following useful lives:

Sewer system	40 years
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MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position is classified in the following components:

Net investment in capital assets - This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, accounts payable or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Restricted - This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Classification of Revenues

The Authority has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues – Operating revenues include activities which have characteristics of exchange transactions, such as sales and services of the Authority.

Nonoperating Revenues – Nonoperating revenues include activities which have characteristics of non-exchange transactions (in which the Authority receives value without directly giving equal value in return), such as gifts and contributions, grants, and investment income. Tap fees are also considered nonoperating because they are not assessed to cover current operating costs, but to fund future expansion of the sewer system.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG

Notes to Financial Statements

NOTE 2 CASH AND INVESTMENTS

Section 7.1 of the Pennsylvania Municipal Authorities Act and Act 10 of 2016 defines allowable investments for authorities, which are summarized as follows:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government and federal agencies.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the respective governmental entity.
- Shares of an investment company restricted under the Investment Company Act of 1940.
- Obligations, participations or other instruments of any Federal agency, instrumentality, or United States government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent.
- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days.
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity.
- Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less.

All bank deposits are fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized under Pennsylvania Act 72. Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledger of the assets.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial credit risk. As of December 31, 2023, \$ 565,166 of the Authority's bank balance of \$ 815,166 was exposed to custodial credit risk.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Credit Risk - Investments

Included in cash and cash equivalents on the statement of net position are investments in Pennsylvania Local Government Investment Trust (PLGIT). PLGIT operates like a money market and seeks to maintain a stable net asset value of \$ 1 per share. At December 31, 2023, the Authority held \$ 2,114 in the PLGIT-Class portfolio. PLGIT portfolio funds are invested in United States Treasury bills, obligations, participations, or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise; deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund; obligations guaranteed or insured by the United States of America, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the Commonwealth; and repurchase agreements involving United States Government and agency obligations. The Authority's investment in PLGIT was rated AAA, by Standard and Poor's.

Policies Followed at PLGIT

Regulatory Oversight

The operation of PLGIT is governed by an eleven-member Board of Trustees. The Trustees must be employees or elected officials of a local government or school district and are elected at the annual meeting of investors. The Trustees have exclusive and absolute control over the affairs of the Trust and its' assets, subject to rights of the Investors, as provided in the Declaration of Trust.

PLGIT is not registered with the Securities and Exchange Commission (SEC); however, PLGIT follows investment procedures similar to those followed by SEC registered money market funds.

Valuation of Investments

Portfolios are valued using the net asset value per share. The net asset value per share is computed by dividing the total value of the securities and other assets of the portfolio less liabilities, by the outstanding shares of the portfolio.

The Authority has no limitations or restrictions on withdrawals on accounts held at PLGIT.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 3 CAPITAL ASSETS

The following details capital assets activity for the year ended December 31, 2023:

	Beginning Balance	Additions	Retirements	Ending Balance
Cost				
Capital assets not being depreciated:				
Land and easements	\$ 39,532	\$ -	\$ -	\$ 39,532
Construction in progress	-	128,179	-	128,179
Capital assets:				
Sewer system	7,431,425	-	(4,541,426)	2,889,999
Total cost	<u>7,470,957</u>	<u>128,179</u>	<u>(4,541,426)</u>	<u>3,057,710</u>
Less accumulated depreciation				
Sewer system	(4,642,910)	(139,426)	2,922,538	(1,859,798)
Total accumulated depreciation	<u>(4,642,910)</u>	<u>(139,426)</u>	<u>2,922,538</u>	<u>(1,859,798)</u>
Capital assets, net	<u>\$ 2,828,047</u>	<u>\$ (11,247)</u>	<u>\$ (1,618,888)</u>	<u>\$ 1,197,912</u>

During the year ended December 31, 2023, the Borough was performing a project to upgrade and expand the sewer plant. As a result of this project, certain portions of the existing sewer plant were disposed of. This is reflected above as a retirement of capital assets. The additions to capital assets for the upgrade project will be reflected on the Borough's financial statements.

The balance in construction in progress is related to the Marshall Drive, Station Road, and N Warren Street sewer replacement project engineering costs.

As of December 31, 2023, the Authority had an open construction commitment for the Marshall Drive, Station Road, and N Warren Street sewer replacement project with a total contract amount of \$ 2,243,350. As of December 31, 2023, no construction costs under the contract have been incurred.

NOTE 4 LEASE RECEIVABLE/DEFERRED INFLOWS

The Authority has entered into a lease agreement as lessor for the use of the sewer system with the Borough of Orwigsburg. The lease requires monthly payments of \$ 4,200 through October 1, 2029. The future payments are discounted using the Authority's estimated incremental borrowing rate of 2.46% to determine the lease receivable. The ending lease receivable of \$ 850,731 and associated deferred inflow of \$ 828,743 as of December 31, 2023, are shown on the statement of net position. For the year ended December 31, 2023, the Authority recognized lease revenue of \$ 29,083 and interest income of \$ 21,317. These amounts are shown as rental income in the financial statements.

NOTE 5 RELATED PARTY TRANSACTIONS

The Authority utilizes the administrative services of the Borough of Orwigsburg. The Authority reimburses the Borough for the costs and time associated with the assistance of the Authority. This reimbursement was \$ 13,786 for 2023.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 6 RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance to manage its risk. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

NOTE 7 PRINCIPAL FORGIVENESS LOAN

In September 2023, the Authority obtained financing with PENNVEST through two principal forgiveness loan agreements totaling \$ 2,087,500 related to the Marshall Drive, Station Road, and N Warren Street sewer replacement project. Under these agreements, the Authority has funds available for disbursement \$ 2,087,500, with no repayment amount to PENNVEST. As of December 31, 2023, the Borough of Orwigsburg has incurred preliminary costs of \$ 128,179 related to this project. This is reflected as due to other governments on the Statement of Net Position for the amount that will be reimbursed to the Borough by the Authority. There is a corresponding grant receivable for the reimbursement request from PENNVEST related to these expenses.

NOTE 8 RESTATEMENT

A restatement was necessary to restate the beginning balances of the Authority's lease receivable and related deferred inflow of resources due to a prior year amendment extending the term in the lease for the use of the sewer system with the Borough of Orwigsburg. The beginning balances were restated as follows:

Net position, as originally stated - December 31, 2022	\$ 3,035,629
Restatement of lease receivable	563,103
Restatement of deferred inflow of resources	<u>(557,781)</u>
Net position, as restated - December 31, 2022	<u>\$ 3,040,951</u>

OTHER SUPPLEMENTARY INFORMATION

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Other Supplementary Information – Budgetary Comparison Schedule
Year Ended December 31, 2023

	Original/Final Budget	Actual	Variance
OPERATING REVENUES			
Lease rental fees	\$ 50,400	\$ 59,423	\$ 9,023
Other rental income	1,000	1,000	-
Total operating revenues	<u>51,400</u>	<u>60,423</u>	<u>9,023</u>
OPERATING EXPENSES			
Secretary fee	-	3,767	(3,767)
Management fee	14,484	10,019	4,465
Professional fees	11,100	4,600	6,500
Maintenance and repairs	24,000	-	24,000
Other operating expenses	200	1,216	(1,016)
Total operating expenses	<u>49,784</u>	<u>19,602</u>	<u>30,182</u>
Operating income (loss)	<u>1,616</u>	<u>40,821</u>	<u>39,205</u>
NONOPERATING REVENUES			
Interest income	75	7,193	7,118
Grant revenue	-	128,179	128,179
Miscellaneous income	50	-	(50)
Transfers from other governments	5,000	578,350	573,350
Total nonoperating revenues	<u>5,125</u>	<u>713,722</u>	<u>708,597</u>
Change in net position - budgetary basis	<u>\$ 6,741</u>	754,543	<u>\$ 747,802</u>
Reconciliation to Statement of Revenues, Expenses, and Changes in Fund Net Position			
Depreciation expense		(139,426)	
Gain (loss) on disposal of assets		<u>(1,618,888)</u>	
Change in net position - GAAP basis		<u>\$ (1,003,771)</u>	

NOTE

The Budget prepared by the Authority is prepared on the modified cash basis of accounting and does not include depreciation expense. These items are shown above to reconcile to the Statement of Revenues, Expenses, and Changes in Fund Net Position.