

CHICO PUBLIC FINANCING AUTHORITY

Chico, California



Component Unit Financial Report

Year Ended June 30, 2014

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)

Independent Auditors' Report,
Financial Statements and
Required Supplementary Information

Year Ended June 30, 2014

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORTS

Board of Directors
Chico Public Financing Authority
Chico, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chico Public Financing Authority (the Authority), a component unit of the City of Chico, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note II(E) to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States of America requires 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 operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The debt service funds budget to actual schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The debt service funds budget to actual schedules have 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 them.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California

December 23, 2014

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Assets

Current assets:

Restricted cash and investments	\$	85,662
Accrued interest receivable from the City of Chico, Successor Agency to the Chico Redevelopment Agency		232,666
Loans receivable from the City of Chico, Successor Agency to the Chico Redevelopment Agency		1,320,000
		1,638,328
Total current assets		1,638,328

Noncurrent assets:

Restricted cash and investments		1,684,941
Loans receivable from the City of Chico, Successor Agency to the Chico Redevelopment Agency		17,565,000
		19,249,941
Total noncurrent assets		19,249,941

Total assets		20,888,269
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Liabilities

Current liabilities:

Bond interest payable		232,666
Bonds payable		1,320,000
		1,552,666
Total current liabilities		1,552,666

Noncurrent liabilities:

Bonds payable		17,565,000
		17,565,000
Total liabilities		19,117,666

Net Position

Restricted for debt service		1,770,603
Total net position	\$	1,770,603

See accompanying notes to the financial statements

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2014

Program Expenses	
Interest on long-term debt	\$ 999,174
Program Revenue	
Operating grants and contributions	<u>822,902</u>
Net program expense	(176,272)
General Revenues	
Investment earnings	<u>88,384</u>
Change in net position	(87,888)
Net position, beginning of year, as restated	<u>1,858,491</u>
Net position, end of year	<u><u>\$ 1,770,603</u></u>

See accompanying notes to the financial statements

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	Debt Service Funds		
	2011 Tax Allocation Revenue Bonds	Bond Reserves	Total
Assets			
Restricted cash and investments	\$ 85,662	\$ 1,684,941	\$ 1,770,603
Total assets	\$ 85,662	\$ 1,684,941	\$ 1,770,603
 Fund balances:			
Restricted for:			
Debt service	\$ 85,662	\$ 1,684,941	\$ 1,770,603
Total fund balances	\$ 85,662	\$ 1,684,941	\$ 1,770,603

See accompanying notes to the financial statements

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit to the City of Chico, California)
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances - total governmental funds (page 5)	\$	1,770,603
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Amounts reported for governmental activities in the statement of net position are different because:

Receivables not available to pay current period expenditures are not reported in the governmental funds.

Interest - City of Chico, Successor Agency to the Chico Redevelopment Agency	\$ 232,666	
Loans - City of Chico, Successor Agency to the Chico Redevelopment Agency	18,885,000	19,117,666

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Long-term obligations	(18,885,000)	
Accrued interest payable	(232,666)	(19,117,666)

Net position of governmental activities (page 3)	\$	1,770,603
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See accompanying notes to the financial statements

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Debt Service Funds		
	2001 Tax Allocation Revenue Bonds	Bond Reserves	Total
Revenues:			
Intergovernmental revenue	\$ 2,109,297	\$ -	\$ 2,109,297
Investment earnings	9	88,375	88,384
Total revenues	2,109,306	88,375	2,197,681
Expenditures:			
Debt service:			
Principal retirement	1,270,000	-	1,270,000
Interest and fiscal charges	1,015,569	-	1,015,569
Total expenditures	2,285,569	-	2,285,569
Excess (deficiency) of revenues over (under) expenditures	(176,263)	88,375	(87,888)
Other financing sources (uses):			
Transfers in	88,375	-	88,375
Transfers out	-	(88,375)	(88,375)
Total other financing sources (uses)	88,375	(88,375)	-
Net change in fund balances	(87,888)	-	(87,888)
Fund balances, beginning of year	173,550	1,684,941	1,858,491
Fund balances, end of year	\$ 85,662	\$ 1,684,941	\$ 1,770,603

See accompanying notes to the financial statements

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds (page 7)	\$	(87,888)
<p>Proceeds received from the repayment of the loans receivable are recorded as intergovernmental revenues in the government funds. Since the receivables are only reported on the government-wide statement of net position the amounts repaid represent the change in receivables.</p>		
Interest - City of Chico, Successor Agency to the Chico Redevelopment Agency	\$	(16,395)
Loans - City of Chico, Successor Agency to the Chico Redevelopment Agency	<u>(1,270,000)</u>	(1,286,395)
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any affect on net position.</p>		
Principal retirement		1,270,000
<p>Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Change in interest payable		16,395
Change in net position of governmental activities (page 4)	<u>\$</u>	<u>(87,888)</u>

See accompanying notes to the financial statements.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

In order to facilitate the financing of public improvements, as well as other facilities and improvements which can be funded through the issuance of tax exempt bonds, the Chico City Council (City) and the governing board of the Chico Redevelopment Agency, which due to State Assembly Bill 1X 26 is now known as the City of Chico, Successor Agency to the Chico Redevelopment Agency (Agency), established a joint powers agency, known as the Chico Public Financing Authority (Authority), pursuant to the provisions of the joint powers laws of the State of California, as set forth in Article 1, Chapter 5, Division 7, Title 1, of the California Government Code (commencing with Government Code Section 6500). The Authority is authorized, among other things, to issue bonds pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, as set forth in Article 4, Chapter 5, Division 7, Title 1, of the California Government Code (commencing with Government Code Section 6584) for the purpose of financing facilities and improvements.

The City exercises significant management and financial control over the Authority. As such, the Authority is considered a component unit of the City and is reported along with the activities of the Successor Agency to the Chico Redevelopment Agency in a private-purpose trust fund in the City's financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment earnings and other items which are excluded from program revenues are reported instead as general revenues.

Separate financial statements are provided for the Authority's major governmental funds and are reported as separate columns in the fund financial statements.

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide 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 when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS
(Continued)

period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Investment earnings are considered to be susceptible to accrual and have been recognized as revenue of the current period. Other revenues are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

Debt Service Funds:

- 2001 Tax Allocation Revenue Bonds (2001 TARBS) – Accounts for the accumulation of resources for the payment of debt service on the related bonds.
- Bond Reserves – Accounts for the reserves as required by the Indentures of Trust for the 2001 Tax Allocation Revenue Bonds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Restricted Assets

Restricted assets represent cash and investments held by fiscal agents that are restricted for debt service.

Loans Receivable

Debt service on the Authority's bonds is funded by the Agency's loan repayments. The loan agreement calls for loan repayments in amounts that correspond to the Authority's debt service requirements. The loans receivable are equal to the outstanding bonds. The Authority considers all loans receivable and related interest receivable to be collectible.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Long-Term Debt

In the government-wide financial statements long-term debt is reported as a liability. .

Fund Equity – Governmental Funds

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Net Position – Statement of Net Position

The restricted net position category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation

II. DETAILED NOTES

A. RESTRICTED CASH AND INVESTMENTS

The cash and investment balance represents the Authority’s investments held by fiscal agents as well as cash received from the Butte County Auditor-Controller for debt service payments as listed on the Recognized Obligation Payment Schedule and approved by the California State Department of Finance. The money market mutual funds are valued at fair market value while the guaranteed investment contract is valued at cost.

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Restricted cash and investments with fiscal agents:	
Money market mutual funds	\$ 85,662
Guaranteed investment contract	<u>1,684,941</u>
Total restricted cash and investments	<u>\$ 1,770,603</u>

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2014

II. DETAILED NOTES (Continued)

A. RESTRICTED CASH AND INVESTMENTS (Continued)

Authorized Investments

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code, although the investments must be legally permitted under the laws of the State of California.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>	<u>Minimum Rating</u>
U.S. Treasury Securities	None	None	None	None
U.S. Agency Obligations	None	None	None	None
U.S. Agency Securities	None	None	None	None
Money Market Mutual Funds	None	None	None	AAA
Collateralized Bank Deposits	1 year	None	None	None
Commercial Paper	None	None	None	Prime-1
State of California and California Local Agency Bonds	5 years	None	None	One of two highest rating categories by Moody's and S&P
Banker's Acceptances	1 year	None	None	Prime-1
Other investments permitted in writing by MBIA	As applicable	None	None	None

Concentration of Credit Risk

The investment requirements of the Authority contain no limitations on the amount that can be invested in any one issuer beyond that stated above. Investments in any one issuer (other than U.S. Treasury Notes, mutual funds and external investment pools) that represent 5% or more of the total investments of the Authority include \$1,684,941 in restricted cash and investments reported in the Bond Reserves Fund, which are held in a guaranteed investment contract issued by FSA Capital Management Services.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The custodian of the investments is not the counterparty for the investments held for the Authority and hence these investments are not exposed to custodial credit risk.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2014

II. DETAILED NOTES (Continued)

A. RESTRICTED CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. The money market funds mature in less than 30 days, while the guaranteed investment contract matures in March 2024.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The money market funds are rated AAA/Aaa and guaranteed investment contract is not rated.

B. LONG-TERM DEBT

2001 Tax Allocation Revenue Bonds

In July 2001, the Authority issued \$32,060,000 of 2001 Tax Allocation Revenue Bonds (2001 TARBS). The proceeds of the 2001 TARBS were loaned to the Agency to finance redevelopment projects in the Chico Amended and Merged Redevelopment Project Area and to repay the Agency's prior loans from the Authority relating to the Authority's 1991 Revenue Bonds, Series A. Interest rates for the remaining term of the 2001 TARBS range from 4.70%-5.13% and payments are due in semi-annual installments on October 1 and April 1 through April 1, 2024. Additionally, term bonds of \$5,255,000 and \$3,890,000 are due April 1, 2021 and 2024, respectively. The Agency is subject to mandatory sinking fund payments ranging from \$1,235,000 to \$2,695,000 beginning 2020 and ending 2024.

Changes in the Authority's long-term debt for the year ended June 30, 2014 were as follows:

	<u>July 1, 2013</u>	<u>Retirements</u>	<u>June 30, 2014</u>	<u>Due within One Year</u>
Bonds Payable:				
2001 Tax Allocation Revenue Bonds	\$ 20,155,000	\$(1,270,000)	\$ 18,885,000	\$ 1,320,000
Total	<u>\$ 20,155,000</u>	<u>\$(1,270,000)</u>	<u>\$ 18,885,000</u>	<u>\$ 1,320,000</u>

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2014

II. DETAILED NOTES (Continued)

B. LONG-TERM DEBT (Continued)

Future annual debt service requirements for the 2001 TARBS are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,320,000	\$ 946,174	\$ 2,266,174
2016	1,380,000	884,134	2,264,134
2017	2,230,000	817,894	3,047,894
2018	2,345,000	709,181	3,054,181
2019	2,465,000	591,931	3,056,931
2020-2024	9,145,000	1,211,038	10,356,038
Total	<u>\$ 18,885,000</u>	<u>\$ 5,160,352</u>	<u>\$ 24,045,352</u>

C. PLEDGED REVENUES

The Agency, through an approved recognized obligation payment schedule approved by the State of California Department of Finance, has pledged revenue necessary to repay the annual loan principal and interest of the Authority over the life of the loan.

D. INTERFUND TRANSFERS

Transfers between funds were made to move the excess resources in the Bond Reserve Fund, due to interest earnings, to other debt service funds for the payment of debt service on the outstanding tax allocation revenue bonds.

E. RESTATEMENT OF BEGINNING NONCURRENT ASSETS/BEGINNING NET POSITION

At July 1, 2013, the Authority restated its beginning net position due to the impact of the implementation of GASB 65. One of the provisions of GASB 65 was that bond issuance costs would no longer be amortized, and instead will be expensed. As of July 1, 2013, the Authority had unamortized bond issuance costs totaling \$363,552. As a result, the beginning balance of the Authority's Net Position was restated as follows:

	<u>Statement of Net Position</u>
Net deficit, July 1, 2013, as previously reported	\$ 2,221,843
Adjustment for change in accounting - expenses of bond issuance cost	<u>(363,352)</u>
Net deficit, July 1, 2013, as restated	<u>\$ 1,858,491</u>

SUPPLEMENTAL BUDGETARY COMPARISONS

Schedules of Revenues, Expenditures, and Changes in Fund Balances, Budget to Actual (Debt Service Funds):

- 2001 Tax Allocation Revenue Bonds Fund
- Bond Reserves Fund

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
2001 TAX ALLOCATION REVENUE BONDS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 2,153,239	\$ 2,153,239	\$ 2,109,297	\$ 43,942
Investment earnings	-	-	9	9
Total revenues	<u>2,153,239</u>	<u>2,153,239</u>	<u>2,109,306</u>	<u>43,951</u>
EXPENDITURES:				
Debt service:				
Principal retirement	1,270,000	1,270,000	1,270,000	-
Interest and fiscal charges	1,015,349	1,015,349	1,015,569	(220)
Total expenditures	<u>2,285,349</u>	<u>2,285,349</u>	<u>2,285,569</u>	<u>(220)</u>
Deficiency of revenues under expenditures	(132,110)	(132,110)	(176,263)	(44,153)
OTHER FINANCING SOURCES:				
Transfers in	89,000	89,000	88,375	(625)
Total other financing sources (uses)	<u>89,000</u>	<u>89,000</u>	<u>88,375</u>	<u>(625)</u>
Net change in fund balances	(43,110)	(43,110)	(87,888)	(44,778)
Fund balance, beginning of year	<u>173,550</u>	<u>173,550</u>	<u>173,550</u>	<u>-</u>
Fund balance, end of year	<u>\$ 130,440</u>	<u>\$ 130,440</u>	<u>\$ 85,662</u>	<u>\$ (44,778)</u>

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
BOND RESERVES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment earnings	<u>89,000</u>	<u>89,000</u>	<u>88,375</u>	<u>(625)</u>
OTHER FINANCING SOURCES:				
Transfers in	<u>(89,000)</u>	<u>(89,000)</u>	<u>(88,375)</u>	<u>625</u>
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	<u>1,684,941</u>	<u>1,684,941</u>	<u>1,684,941</u>	-
Fund balance, end of year	<u>\$ 1,684,941</u>	<u>\$ 1,684,941</u>	<u>\$ 1,684,941</u>	<u>\$ -</u>