

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)

Independent Auditors' Report,
Financial Statements and
Required Supplementary Information

Year Ended June 30, 2007

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

Honorable Chairman and Members
of the Board of Directors
Chico Urban Area Joint Powers
Financing Authority
Chico, California

We have audited the accompanying financial statements of the Chico Urban Area Joint Powers Financing Authority, a component unit of the City of Chico, California, as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the Chico Urban Area Joint Powers Financing Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chico Urban Area Joint Powers Financing Authority as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nystrom & Company LLP

November 28, 2007

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Management's Discussion and Analysis
June 30, 2007

The following discussion and analysis of the Chico Urban Area Joint Powers Financing Authority (JPFA) financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2007. The City Finance Department prepared this discussion and analysis. Please read it in conjunction with the Authority's basic financial statements, which begin on page 4. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest solely with management of the JPFA. To the best of our knowledge and belief, the financial statements, as presented, are accurate in all material respects.

Financial Statements

The JPFA's financial statements are those of a special-purpose government engaged only to facilitate the financing, construction and installation of sewer facilities and improvements in the greater Chico urban area. Under Governmental Accounting Standards Board (GASB) Statement No. 34, governments like the JPFA that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net assets; (2) statement of revenues, expenses and changes in net assets; and (3) statement of cash flows.

The JPFA's basic financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The JPFA is reported as a single enterprise fund.

This is the first year in which the JPFA has fiscal activity; accordingly, a comparative analysis of current and prior year balances is not included. However, such an analysis will exist in subsequent years.

The following table indicates the net assets as of June 30, 2007:

Statement of Net Assets
June 30, 2007

	2007
Current assets	\$ 1,980,529
Noncurrent assets	153,274
Total assets	2,133,803
Current liabilities	153,274
Total liabilities	153,274
Restricted net assets	\$ 1,980,529

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Management's Discussion and Analysis (Continued)
June 30, 2007

Statement of Activities
Year Ended June 30, 2007

	2007
Intergovernmental Revenue	\$ 1,900,000
Interest Revenue	92,539
Total revenues	1,992,539
Administrative Expenses	12,010
Total expenses	12,010
Change in net assets	1,980,529
Net assets, beginning of year	-
Net assets, end of year	\$ 1,980,529

Capital Assets

The JPFA's investment in capital assets as of June 30, 2007 amounted to \$153,274. The investment in capital assets consists solely of construction in progress related to the construction and installation of sewer facilities.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information may be requested as followings:

<u>US Mail:</u>	or	<u>Phone:</u>	or	<u>Email:</u>
City of Chico		(530) 879-7301		jhenness@ci.chico.ca.us
Finance Director				
P.O. Box 3420				
Chico, California 95927				

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Statement of Net Assets
June 30, 2007

Assets

Current assets:

Cash and investments	\$ 80,529
Restricted cash and investments (Note 3)	<u>1,900,000</u>
Total current assets	<u>1,980,529</u>

Noncurrent assets:

Construction in Progress	<u>153,274</u>
Total noncurrent assets	<u>153,274</u>
 Total assets	 <u>2,133,803</u>

Liabilities

Current liabilities:

Accounts payable	54,374
Intergovernmental payable	<u>98,900</u>
Total liabilities	<u>153,274</u>

Net Assets

Net assets invested in capital assets	153,274
Restricted for debt service	1,900,000
Unrestricted	<u>(72,745)</u>
Total net assets	<u><u>\$ 1,980,529</u></u>

See accompanying notes to financial statements.

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2007

Operating revenues:	
Intergovernmental	\$ 1,900,000
Operating expenses:	
Administrative expenses	<u>12,010</u>
Operating income	1,887,990
Nonoperating revenues:	
Investment earnings	<u>92,539</u>
Change in net assets	1,980,529
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ 1,980,529</u></u>

See accompanying notes to financial statements.

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Statement of Cash Flows
Year Ended June 30, 2007

Cash flows from operating activities:	
Cash received from Chico Redevelopment Agency	\$ 1,900,000
Cash payments to claimants and employees	<u>(12,010)</u>
Net cash provided by operating activities	1,887,990
Cash flows from noncapital financing activities:	
Short term borrowing from Chico Redevelopment Agency	98,900
Cash flows from capital financing activities:	
Acquisition and construction of capital assets	(98,900)
Cash flows from investing activities:	
Investment income	<u>92,539</u>
Net increase in cash and cash equivalents	1,980,529
Cash and cash equivalents:	
Beginning of year	<u>-</u>
End of year	<u><u>\$ 1,980,529</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 1,887,990</u>
Net cash provided by operating activities	<u><u>\$ 1,887,990</u></u>

See accompanying notes to financial statements.

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2007

NOTE 1 – REPORTING ENTITY

In August 2005, the governing boards of the Chico Redevelopment Agency (the Agency) and the County of Butte established a joint powers agency known as the Chico Urban Area Joint Powers Financing Authority (JPFA) to facilitate the financing, construction and installation of sewer facilities and improvements in the greater Chico urban area. The JPFA was formed 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 JPFA is authorized to obtain state or federal loans for the purpose of financing the construction and installation of sewer facilities and improvements. It is also authorized to perform the construction and installation of the sewer facilities and improvements. The construction activity of the JPFA is included in the Agency's financial statements in the capital projects funds.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to the JPFA is determined by its measurement focus. The transactions of the JPFA are accounted for using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The JPFA uses the full accrual basis in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The JPFA has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The accounts of the JPFA are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the JPFA's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge or the net revenues from fees and charges for the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Notes to Financial Statements (Continued)
Year Ended June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the JPFA is the Agency's commitment to contribute up to \$1,900,000 to the JPFA annually, whereas the principal operating expenses relate to costs associated with facilitating the construction and installation of sewer facilities and improvements in the greater Chico urban area. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Assets

Restricted assets represent cash and investments held by the JPFA that are restricted for debt service.

Cash Equivalents

For purposes of the accompanying statement of cash flows, the JPFA considers investments in the City's investment pool and all other highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets represent JPFA construction in progress that is reported in the financial statements. The JPFA defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation.

Net Assets

Net assets are classified in the following categories:

Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted net assets – This 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.

Unrestricted net assets – This category represents the net assets of the JPFA, which are not restricted or invested in capital assets net of related debt for any project or other purpose.

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

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Notes to Financial Statements (Continued)
Year Ended June 30, 2007

NOTE 3 – CASH AND INVESTMENTS

I. Authorized Investments

The JPFA follows the City’s investment policy with respect to the management of cash and investments. The table below identifies the investment types that are authorized for by California Government Code Section 53601. The investment policy limits the amount of funds invested in instruments with maturities over one year to 15%, unless adequate liquidity is available, yield appears favorable and the Executive Director approves the investment in advance. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements rather than the general provisions of the investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
U.S. Treasury Securities	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
Money Market Mutual Funds	5 years	20%	10%	AAA
Collateralized Bank Deposits	5 years	None	None	None
State of California and California				
Local Agency Bonds	5 years	15%	5%	None
Repurchase Agreements	5 years	None	5%	None
Local Agency Investment Fund	N/A	None	None	None

II. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. 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 California Government Code and the investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. As of June 30, 2007, the City’s balance in financial institutions was \$5,892,761. Of that amount, \$100,000 was covered by Federal depository insurance, and \$5,792,761 was covered by collateral held in the pledging bank’s trust department, but such collateral was not held in the City’s name. The custodian of the investments is not the counterparty for the investments held and hence these investments are not exposed to custodial credit risk.

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Notes to Financial Statements (Continued)
Year Ended June 30, 2007

NOTE 3 – CASH AND INVESTMENTS (Continued)

III. Concentration of Credit Risk

The investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stated above.

IV. Interest Rate and Credit 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. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City manages its exposure to interest rate risk by investing in the Local Agency Investment Fund (LAIF), which provides the necessary cash flow and liquidity needed for operations, as well as purchasing a combination of shorter term and longer term investments so that a portion of the portfolio is maturing or coming close to maturing evenly over time. The segmented time distribution method is used for reporting interest rate 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. It is the City's policy to purchase investments with the minimum ratings required by the California Government Code.

As of June 30, 2007, the JPFA's share of the City's investments is as follows:

	Credit Rating (S & P/ Moody's)	Maturity				Fair Value
		Under 30 Days	31-365 Days	1-5 Years	Over 5 Years	
Investments held by City Treasurer:						
Cash on Hand						\$ 141,857
Local Agency Investment Fund	Not Rated	\$ 879,321	\$ -	\$ -	\$ -	879,321
Securities in City of Chico Pool	Not Rated	96,141	149,227	713,983	-	<u>959,351</u>
Total Cash and Investments held by City Treasurer:						<u>\$ 1,980,529</u>

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the State of California Treasurer. The fair value of the investment in this pool is reported in the accompanying financial statements at amounts based upon the pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio, as calculated monthly). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The cash and investments as of June 30, 2007, are displayed on the JPFA's Statement of Net Assets as follows:

Cash and Investments	\$ 80,529
Restricted Cash and Investments	<u>1,900,000</u>
Total Cash and Investments:	<u>\$ 1,980,529</u>

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the Chico Redevelopment Agency and the City of Chico, California)
Notes to Financial Statements (Continued)
Year Ended June 30, 2007

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Capital assets not being depreciated:				
Construction in progress	<u>\$ -</u>	<u>\$ 153,274</u>	<u>\$ -</u>	<u>\$ 153,274</u>

Capital assets will be transferred to the City of Chico upon completion of each phase of the sewer project.