

CHICO REDEVELOPMENT AGENCY

Chico, California



Component Unit Financial Report

Year Ended June 30, 2009

CHICO REDEVELOPMENT AGENCY
(A Component Unit of the City of Chico, California)

Independent Auditors' Reports,
Basic Financial Statements and
Required Supplementary Information

For the Year Ended June 30, 2009

**CHICO REDEVELOPMENT AGENCY
FOR THE YEAR ENDED JUNE 30, 2009**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Chico Redevelopment Agency
Chico, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chico Redevelopment Agency (the Agency), a component unit of the City of Chico, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency'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 and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 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 Agency as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparisons for the special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2009 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Chico Redevelopment Agency

Management's discussion and analysis are not a required part of the basic financial statements but are 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 supplementary information. However, we did not audit the information and express no opinion on it.

Richardson & Company

October 16, 2009

CHICO REDEVELOPMENT AGENCY
(A Component Unit of the City of Chico, California)
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

The following discussion and analysis of the Chico Redevelopment Agency (Agency) financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2009. The City of Chico (City) Finance Department prepared this discussion and analysis. Please read it in conjunction with the Agency's basic financial statements, which begin on page 9. 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 Agency. To the best of our knowledge and belief, the financial statements, as presented, are accurate in all material respects.

FINANCIAL HIGHLIGHTS

- The liabilities of the Agency exceeded its assets at the close of the most recent fiscal year by \$24,863,635.
- The Agency's net assets decreased by \$1,133,790.
- As of the close of the current fiscal year, the Agency's governmental funds reported an ending fund balance of \$85,144,882, a decrease of \$6,977,068 in comparison with the prior year. The Agency had a positive unreserved/undesignated fund balance of \$37,951,692.
- The Agency had general revenues of \$34,118,357 and program revenues of \$714,078 while program expenses were \$35,966,225.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements report on the function of the Agency, which is to improve, rehabilitate and develop certain areas within the Redevelopment Project Area by eliminating blight and encouraging private investment. These activities are primarily funded with incremental property tax revenue (tax increment). The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The governmental funds used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The Agency maintains nine individual governmental funds and reports each fund as a major fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances,

The Agency reports the following major special revenue funds: Merged Redevelopment, Merged Low and Moderate Income Housing, Merged Art, Humboldt Road Burn Dump Remediation (HRBD) Monitoring and CalHome Grant; the following major capital projects funds: Merged Redevelopment and Chico Urban Area Joint Powers Financing Authority, and the following major debt service funds: Redevelopment Agency Bonds and Chico Public Financing Authority Bonds.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 11-16 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets Governmental Activities June 30, 2009 and 2008

	2009	2008	Total Dollar Change
Assets:			
Current and other	\$ 97,591,810	\$ 105,301,948 *	\$ (7,710,138)
Capital assets	<u>6,789,527</u>	<u>4,264,535</u>	<u>2,524,992</u>
Total assets	<u>104,381,337</u>	<u>109,566,483</u>	<u>(5,185,146)</u>
Liabilities:			
Long-term liabilities outstanding	119,613,470	123,356,996	(3,743,526)
Other liabilities	<u>9,631,502</u>	<u>9,939,332</u>	<u>(307,830)</u>
Total liabilities	<u>129,244,972</u>	<u>133,296,328</u>	<u>(4,051,356)</u>
Net assets:			
Invested in capital assets, net of related debt	6,789,527	4,264,535	2,524,992
Restricted	47,128,933	41,991,597	5,137,336
Unrestricted	<u>(78,782,095)</u>	<u>(69,985,977) *</u>	<u>(8,796,118)</u>
Total net assets (deficit)	<u>\$ (24,863,635)</u>	<u>\$ (23,729,845)</u>	<u>\$ (1,133,790)</u>

* Restated due to prior period adjustment

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, liabilities exceeded assets by \$24,863,635 at the close of the most recent fiscal year, creating a negative net asset balance.

The negative net asset balance is due to the nature of redevelopment financing. By law, the Agency must provide evidence of indebtedness each year in order to receive tax increment revenue. The Agency issues bonds based on future tax increment receipts to fund eligible redevelopment projects. The capital assets constructed or acquired through the debt financing are transferred to the City and reported on the City's financial statements rather than on the Agency's financial statements. However, the debt remains a liability of the Agency thereby creating the deficit.

Land acquired from proceeds of tax increment is reported in the Agency's financial statements. Construction in progress represents sewer facilities and improvements financed through the Chico Urban Area Joint Powers Financing Authority. The assets will be owned by the City of Chico as each phase is completed.

Another portion of the Agency's net assets are restricted net assets. This amount represents resources that are subject to external restrictions on how they are used. Redevelopment law requires that 20% of tax increment be set aside for low and moderate income housing. Approximately \$36,000,000 of the restricted amount is for this purpose, with most of the balance set aside for debt service as required by the bond indentures.

**Statement of Activities
Governmental Activities
For the Years Ended June 30, 2009 and 2008**

	2009	2008	Total Dollar Change
Revenues:			
Program Revenues:			
Charges for services	\$ 25,049	\$ 26,321	\$ (1,272)
Operating grants and contributions	689,029	435,825	253,204
General revenues:			
Property tax increment	32,047,126	30,532,462	1,514,664
Investment earnings	2,055,731	3,450,227	(1,394,496)
Miscellaneous	15,500	36,891	(21,391)
Total revenues	34,832,435	34,481,726	350,709
Expenses:			
Community development and administration	10,454,296	17,597,481	(7,143,185)
Redevelopment	19,835,386	15,224,976 *	4,610,410
Interest and fiscal charges	5,676,543	5,399,903	276,640
Total expenses	35,966,225	38,222,360	(2,256,135)
Change in net assets	(1,133,790)	(3,740,634)	2,606,844
Net assets (deficit) – beginning of year, as restated	(23,729,845)	(19,989,211)	(3,740,634)
Net assets (deficit) – end of year	\$ (24,863,635)	\$ (23,729,845) *	\$ (1,133,790)

* Restated due to prior period adjustment

The net assets of the Agency decreased by \$1,133,790 during the current fiscal year.

Property tax increment revenues increased by \$1,514,664 over the prior year due to a 5.6% increase in the Agency's assessed valuation. Investment earnings decreased \$1,394,496 as the proceeds of the 2005 Tax Allocation Bonds were spent down and investment yields softened due to the economic downturn.

The Agency contributed funds for major infrastructure projects that are shown as redevelopment expenses. The related capital assets, other than land, are recorded on the City's Statement of Net Assets as applicable. Major projects in process during the year included East Eight Street reconstruction, East Fifth Avenue reconstruction, Manzanita Corridor reconstruction, Cohasset Road widening and remodeling of the Old Municipal Building. Completed projects included the Old Municipal Building remodel as well as the East Eight Street reconstruction. Community development and administration expenses decreased from the prior year which included a legal settlement cost of \$6,500,000.

FUND FINANCIAL ANALYSIS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency's governmental funds are discussed on the following pages.

Governmental Funds

The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of the end of the current fiscal year, the Agency's governmental funds reported an ending fund balance of \$85,144,882. The fund balance primarily represents the accumulation of incremental property tax revenue, bond proceeds, and investment earnings in excess of expenditures. Approximately 55% of the fund balance is either reserved for encumbrances, prepaid items, debt service, loans receivable, deposits with others and assets held for resale, or designated for remediation. The remaining fund balance of \$37,951,692 is unreserved and undesignated and available for spending for the Agency's current and future needs.

The current year change in fund balances is presented in the following table:

	2009	2008	Total Dollar Change
Revenues:			
Tax Increment	\$ 32,047,126	\$ 30,532,462	\$ 1,514,664
Investment earnings	2,231,950	3,644,124	(1,412,174)
Other revenue	40,549	63,212	(22,663)
Total revenues	34,319,625	34,239,798	79,827
Expenditures:			
Administrative	1,951,631	2,012,296	(60,665)
Pass-through payments	7,632,032	7,331,244	300,788
Community development	848,476	734,336	114,140
Redevelopment	19,835,386	16,224,976	3,610,410
Capital outlay	2,800,646	454,229	2,346,417
Debt service:			
Principal and interest	8,228,522	7,949,568	278,954
Bond issuance costs	-	510,237	(510,237)
Advance refunding of bonds	-	59,873	(59,873)
Total expenditures	41,296,693	35,276,759	6,019,934
Other financing sources (uses), net:			
Refunding bonds issued	-	23,405,000	(23,405,000)
Discount on refunding bonds	-	(15,628)	15,628
Payment to refunding bond escrow	-	(22,869,874)	22,869,874
Proceeds from sale of capital assets	-	-	-
Total other financing sources (uses), net	-	519,498	(519,498)
Increase (decrease) in fund balance	(6,977,068)	(517,463)	(6,459,605)
Fund balance, beginning of year	92,121,950	92,639,413	(517,463)
Fund balance, end of year	\$ 85,144,882	\$ 92,121,950	\$ (6,977,068)

Pass-through payments increased \$300,788 due to the increased tax increment, as they are calculated as a percentage of tax increment received.

The redevelopment expenditures line item reports the Agency's capital improvement project costs incurred during the current year. The majority of the expenditures are for road projects, and costs for these projects typically span more than one fiscal year. Annual expenditures vary based on actual construction costs incurred and are not indicative of a trend. During the current year, expenditures included approximately \$5,450,000 for Manzanita Corridor reconstruction, approximately \$3,050,000 for the East Eight Street reconstruction, approximately \$2,196,000 for the East Fifth Avenue reconstruction, approximately \$1,970,000 for Cohasset Road widening. Current year costs to complete the Old Municipal Building remodel were approximately \$2,060,000. All project expenditures were legally appropriated through the budgetary process.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital assets. The Agency's investment in capital assets as of June 30, 2009 amounted to \$6,789,527, an increase of \$2,524,992. The investment in capital assets consists of land and construction in progress. The bulk of the increase was attributable to an increase in construction in progress for the sewer facilities and improvements project.

For additional information on the Agency's capital assets, see Note II.C. in the notes to the basic financial statements.

In addition, the Agency has a variety of construction commitments at June 30, 2009. This information can be found in note II.I on page 36 of this report.

Long-term debt. The Agency's long-term debt was reduced primarily by scheduled debt service payments.

For additional information on the Agency's outstanding debt, see Note II.E. in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Agency's primary source of revenue is Property Tax Increment generated within the boundaries of the Redevelopment Project Area. The County of Butte's Assessor's Office has projected a 0.6% growth in assessed value for properties within the Redevelopment Project Area for FY09-10. While this is the lowest growth rate the Agency has experienced, given the current economic climate and declining housing market, the Agency is fortunate to have steady tax increment revenue in the coming fiscal year.

In order to help balance the State of California's FY2009-10 Annual Budget, the legislature imposed mandatory payments from the Redevelopment Agency to the "Supplemental Educational Revenue Augmentation Fund" (SERAF) for FY2009-10 and FY2010-11. The Agency's payments are to be \$9,239,231 in FY2009-10 and \$1,900,000 in FY2010-11. While the legality of this mandate is being challenged by the California Redevelopment Agency, it is unlikely that a court decision will be rendered before March 2010. Therefore, the Agency must prepare to make this payment in the event the litigation is not successful. A number of capital projects will be put on hold or delayed until future funding has been identified, in order to make the mandatory payment on May 10, 2010.

REQUESTS FOR INFORMATION

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

US Mail: or **Phone:** or **Email:**
City of Chico (530) 879-7300 jhenness@ci.chico.ca.us
Finance Director
P.O. Box 3420
Chico, California 95927

CHICO REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Assets	
Cash and investments	\$ 52,340,063
Restricted cash and investments	10,701,794
Receivables:	
Interest	2,036,749
Property taxes	173,688
Intergovernmental	104,703
Loans	28,289,387
Land held for resale	1,355,000
Deposits with others	509,930
Unamortized issuance costs	2,080,496
Capital assets:	
Construction in progress	2,132,495
Land	4,657,032
	<hr/>
Total assets	104,381,337
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Liabilities	
Accounts payable	1,849,845
Accrued wages and benefits	28,391
Intergovernmental payable	6,291,067
Interest payable	1,462,199
Long-term liabilities:	
Due within one year	2,971,570
Due in more than one year	116,641,900
	<hr/>
Total liabilities	129,244,972
	<hr/>
Net Assets (Deficit)	
Invested in capital assets, net of related debt	6,789,527
Restricted for:	
Housing	36,455,611
Debt service	8,672,910
Remediation	1,498,011
Loans	502,401
Unrestricted	(78,782,095)
	<hr/>
Total net assets (deficit)	\$ (24,863,635)
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See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

Redevelopment Agency Program Expenses	
Community development and administration	\$ 10,454,296
Redevelopment	19,835,386
Interest on long-term debt	5,676,543
	<hr/>
Total program expenses	35,966,225
	<hr/>
Redevelopment Agency Program Revenues	
Charges for services	25,049
Operating grants and contributions	689,029
	<hr/>
Total program revenues	714,078
	<hr/>
Net program expense	(35,252,147)
	<hr/>
General Revenues	
Taxes:	
Property tax increment	32,047,126
Investment earnings	2,055,731
Miscellaneous	15,500
	<hr/>
Total general revenues	34,118,357
	<hr/>
Change in net assets	(1,133,790)
Net assets (deficit), beginning of year, as restated	(23,729,845)
	<hr/>
Net assets (deficit), end of year	\$ (24,863,635)
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

Special Revenue Funds

	Merged Redevelopment	Merged Low and Moderate Income Housing	Merged Art	HRBD Remediation Monitoring	CalHome Grant
Assets					
Cash and investments	\$ 6,372,671	\$ 9,647,222	\$ 477,637	\$ 1,503,751	\$ 2,401
Restricted cash and investments	2,028,884	-	-	-	-
Receivables:					
Interest	-	1,877,617	-	-	43,858
Property taxes	173,688	-	-	-	-
Intergovernmental	-	-	-	-	-
Loans	1,854,819	25,934,568	-	-	500,000
Deposits with others	-	-	-	-	-
Land held for resale	-	1,355,000	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 10,430,062</u>	<u>\$ 38,814,407</u>	<u>\$ 477,637</u>	<u>\$ 1,503,751</u>	<u>\$ 546,259</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 23,442	\$ 195,124	\$ -	\$ 5,740	\$ -
Accrued wages and benefits	17,990	10,401	-	-	-
Intergovernmental payable	5,406,579	-	-	-	-
Deferred revenue	-	2,153,271	-	-	43,858
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>5,448,011</u>	<u>2,358,796</u>	<u>-</u>	<u>5,740</u>	<u>43,858</u>
Fund Balances:					
Reserved for:					
Encumbrances	1,803	6,900	1,660	20,612	-
Debt service	-	-	-	-	-
Loans receivable	1,854,819	25,934,568	-	-	500,000
Deposits with others	-	-	-	-	-
Assets held for resale	-	1,355,000	-	-	-
Capital Projects	2,028,884	-	-	-	-
Designated for remediation	-	-	-	1,477,399	-
Unreserved, undesignated	1,096,545	9,159,143	475,977	-	2,401
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>4,982,051</u>	<u>36,455,611</u>	<u>477,637</u>	<u>1,498,011</u>	<u>502,401</u>
	<u>\$ 10,430,062</u>	<u>\$ 38,814,407</u>	<u>\$ 477,637</u>	<u>\$ 1,503,751</u>	<u>\$ 546,259</u>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	Capital Projects Funds		Debt Service Funds		
	Merged Redevelopment	Chico Urban Area Joint Powers Financing Authority	Redevelopment Agency Bonds	Chico Public Financing Authority Bonds	Total
Assets					
Cash and investments	\$ 30,430,976	\$ 3,905,405	\$ -	\$ -	\$ 52,340,063
Restricted cash and investments	-	-	6,943,535	1,729,375	10,701,794
Receivables:					
Interest	115,274	-	-	-	2,036,749
Property taxes	-	-	-	-	173,688
Intergovernmental	104,703	-	-	-	104,703
Loans	-	-	-	-	28,289,387
Deposits with others	509,930	-	-	-	509,930
Land held for resale	-	-	-	-	1,355,000
	<u>31,160,883</u>	<u>3,905,405</u>	<u>6,943,535</u>	<u>1,729,375</u>	<u>95,511,314</u>
Total assets	<u>\$ 31,160,883</u>	<u>\$ 3,905,405</u>	<u>\$ 6,943,535</u>	<u>\$ 1,729,375</u>	<u>\$ 95,511,314</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,625,539	\$ -	\$ -	\$ -	\$ 1,849,845
Accrued wages and benefits	-	-	-	-	28,391
Intergovernmental payable	884,488	-	-	-	6,291,067
Deferred revenue	-	-	-	-	2,197,129
	<u>2,510,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,366,432</u>
Total liabilities	<u>2,510,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,366,432</u>
Fund Balances:					
Reserved for:					
Encumbrances	4,828,705	-	-	-	4,859,680
Debt service	-	-	6,943,535	1,729,375	8,672,910
Loans receivable	-	-	-	-	28,289,387
Deposits with others	509,930	-	-	-	509,930
Assets held for resale	-	-	-	-	1,355,000
Capital Projects	-	-	-	-	2,028,884
Designated for remediation	-	-	-	-	1,477,399
Unreserved, undesignated	23,312,221	3,905,405	-	-	37,951,692
	<u>28,650,856</u>	<u>3,905,405</u>	<u>6,943,535</u>	<u>1,729,375</u>	<u>85,144,882</u>
Total fund balances	<u>28,650,856</u>	<u>3,905,405</u>	<u>6,943,535</u>	<u>1,729,375</u>	<u>85,144,882</u>
Total liabilities and fund balances	<u>\$ 31,160,883</u>	<u>\$ 3,905,405</u>	<u>\$ 6,943,535</u>	<u>\$ 1,729,375</u>	<u>\$ 95,511,314</u>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total fund balances - total governmental funds (page 12)		\$	85,144,882
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			6,789,527
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.			2,197,129
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
Long-term obligations	(113,860,604)		
Claims and judgments	(6,500,000)		
Compensated absences	(153,674)		
Accrued interest payable	(1,462,199)		
Deferred amount on bond refunding	900,808		
Unamortized bond issuance costs	2,080,496		
	<u>2,080,496</u>		<u>(118,995,173)</u>
Net assets of governmental activities (page 10)		\$	<u><u>(24,863,635)</u></u>

See accompanying notes to the basic financial statements.

CHICO REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue Funds				
	Merged Redevelopment	Merged Low and Moderate Income Housing	Merged Art	HRBD Remediation Monitoring	CalHome Grant
Revenues					
Property tax increment	\$ 32,047,126	\$ -	\$ -	\$ -	\$ -
Use of money and property	138,514	228,231	6,352	30,791	47
Other revenue	25,049	15,500	-	-	-
Total revenues	<u>32,210,689</u>	<u>243,731</u>	<u>6,352</u>	<u>30,791</u>	<u>47</u>
Expenditures					
Current:					
Administrative	1,744,253	157,343	-	43,435	-
Pass-through agreements	7,632,032	-	-	-	-
Community development	275,648	572,828	-	-	-
Redevelopment	279,370	383,664	22,323	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>9,931,303</u>	<u>1,113,835</u>	<u>22,323</u>	<u>43,435</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,279,386</u>	<u>(870,104)</u>	<u>(15,971)</u>	<u>(12,644)</u>	<u>47</u>
Other financing sources (uses):					
Transfers in	-	6,409,425	173,063	-	-
Transfers out	(15,886,156)	(384,242)	-	-	-
Total other financing sources (uses)	<u>(15,886,156)</u>	<u>6,025,183</u>	<u>173,063</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>6,393,230</u>	<u>5,155,079</u>	<u>157,092</u>	<u>(12,644)</u>	<u>47</u>
Fund balances, beginning of year	<u>(1,411,179)</u>	<u>31,300,532</u>	<u>320,545</u>	<u>1,510,655</u>	<u>502,354</u>
Fund balances, end of year	<u>\$ 4,982,051</u>	<u>\$ 36,455,611</u>	<u>\$ 477,637</u>	<u>\$ 1,498,011</u>	<u>\$ 502,401</u>

See accompanying notes to the basic financial statements.

CHICO REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Capital Projects Funds		Debt Service Funds		Total
	Merged Redevelopment	Chico Urban Area Joint Powers Financing Authority	Redevelopment Agency Bonds	Chico Public Financing Authority Bonds	
Revenues					
Property tax increment	\$ -	\$ -	\$ -	\$ -	\$ 32,047,126
Use of money and property	1,283,901	108,648	346,148	89,318	2,231,950
Other revenue	-	-	-	-	40,549
Total revenues	<u>1,283,901</u>	<u>108,648</u>	<u>346,148</u>	<u>89,318</u>	<u>34,319,625</u>
Expenditures					
Current:					
Administrative	-	6,600	-	-	1,951,631
Pass-through agreements	-	-	-	-	7,632,032
Community development	-	-	-	-	848,476
Redevelopment	19,150,029	-	-	-	19,835,386
Capital outlay	1,000,000	1,800,646	-	-	2,800,646
Debt service:					
Principal retirement	-	-	1,760,000	1,025,000	2,785,000
Interest and fiscal charges	-	-	4,180,003	1,263,519	5,443,522
Total expenditures	<u>20,150,029</u>	<u>1,807,246</u>	<u>5,940,003</u>	<u>2,288,519</u>	<u>41,296,693</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,866,128)</u>	<u>(1,698,598)</u>	<u>(5,593,855)</u>	<u>(2,199,201)</u>	<u>(6,977,068)</u>
Other financing sources (uses):					
Transfers in	-	1,900,000	5,590,193	2,197,717	16,270,398
Transfers out	-	-	-	-	(16,270,398)
Total other financing sources (uses)	<u>-</u>	<u>1,900,000</u>	<u>5,590,193</u>	<u>2,197,717</u>	<u>-</u>
Net change in fund balances	<u>(18,866,128)</u>	<u>201,402</u>	<u>(3,662)</u>	<u>(1,484)</u>	<u>(6,977,068)</u>
Fund balances, beginning of year	<u>47,516,984</u>	<u>3,704,003</u>	<u>6,947,197</u>	<u>1,730,859</u>	<u>92,121,950</u>
Fund balances, end of year	<u>\$ 28,650,856</u>	<u>\$ 3,905,405</u>	<u>\$ 6,943,535</u>	<u>\$ 1,729,375</u>	<u>\$ 85,144,882</u>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

Net change in fund balances - total governmental funds (page 15)		\$ (6,977,068)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets are capitalized.		2,800,646
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred revenue		512,810
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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal retirement	\$ 2,785,000	
Amortization of debt premium	36,983	
Amortization of bond issuance costs	(110,573)	
Amortization of deferred refunding charges	<u>(56,300)</u>	2,655,110
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.		
Change in compensated absences	(22,157)	
Change in interest payable	<u>(103,131)</u>	<u>(125,288)</u>
Change in net assets of governmental activities (page 10)		<u>\$ (1,133,790)</u>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY
MERGED REDEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	
Revenues				
Property tax increment	\$ 29,849,362	\$ 30,920,080	\$ 32,047,126	\$ 1,127,046
Use of money and property	(116,036)	(273,816)	138,514	412,330
Other revenue	136,514	81,378	83,109	1,731
Total revenues	29,869,840	30,727,642	32,268,749	1,541,107
Expenditures				
Current:				
Administrative	1,919,812	2,049,444	1,744,253	305,191
Pass-through agreements	7,250,548	7,409,078	7,632,032	(222,954)
Community development	314,442	302,449	275,648	26,801
Redevelopment	1,908,440	2,582,957	279,370	2,303,587
Total expenditures	11,393,242	12,343,928	9,931,303	2,412,625
Excess (deficiency) of revenues over (under) expenditures				
	18,476,598	18,383,714	22,337,446	3,953,732
Other financing sources (uses):				
Transfers out	(15,435,801)	(15,521,165)	(15,886,156)	(364,991)
Net change in fund balances	3,040,797	2,862,549	6,451,290	3,588,741
Fund balances, beginning of year - as restated				
	(1,411,179)	(1,411,179)	(1,411,179)	-
Fund balances, end of year				
	\$ 1,629,618	\$ 1,451,370	\$ 5,040,111	\$ 3,588,741

Explanation of differences from the Statement of Revenues, Expenditures and Changes in Fund Balances to Actual Amounts Budgetary Basis

Fund Balance from the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 4,982,051
The Agency budgets and records loan payments received in the revenue accounts, but adjusts the actual payments to loans receivable.	58,060
Budgetary fund balance	\$ 5,040,111

**CHICO REDEVELOPMENT AGENCY
MERGED LOW AND MODERATE INCOME HOUSING
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues				
Use of money and property	\$ 323,333	\$ 311,209	\$ 228,231	\$ (82,978)
Other revenue	45,049	112,821	169,867	57,046
Total revenues	<u>368,382</u>	<u>424,030</u>	<u>398,098</u>	<u>(25,932)</u>
Expenditures				
Current:				
Administrative	157,343	157,343	157,343	-
Community development	516,999	519,570	572,828	(53,258)
Redevelopment	8,086,302	10,191,713	3,600,512	6,591,201
Total expenditures	<u>8,760,644</u>	<u>10,868,626</u>	<u>4,330,683</u>	<u>6,537,943</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,392,262)</u>	<u>(10,444,596)</u>	<u>(3,932,585)</u>	<u>6,512,011</u>
Other financing sources (uses):				
Transfers in	5,969,872	6,184,016	6,409,425	225,409
Transfers out	(384,248)	(384,248)	(384,242)	6
Total other financing sources (uses)	<u>5,585,624</u>	<u>5,799,768</u>	<u>6,025,183</u>	<u>225,415</u>
Net change in fund balances	(2,806,638)	(4,644,828)	2,092,598	6,737,426
Fund balances, beginning of year	<u>31,300,532</u>	<u>31,300,532</u>	<u>31,300,532</u>	<u>-</u>
Fund balances, end of year	<u>\$ 28,493,894</u>	<u>\$ 26,655,704</u>	<u>\$ 33,393,130</u>	<u>\$ 6,737,426</u>

Explanation of differences from the Statement of Revenues, Expenditures and Changes in Fund Balances to Actual Amounts Budgetary Basis

Fund Balance from the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 36,455,611
The Agency budgets and records loan payments received in the revenue accounts, but adjusts the actual payments to loans receivable.	154,367
The Agency budgets and records loans made in the Redevelopment expenditure accounts, but adjusts the actual disbursement to loans receivable.	(2,736,848)
The Agency budgeted the purchase of land held for resale as a Redevelopment expenditure, but adjusts the actual expenditure to Assets Held for Resale.	<u>(480,000)</u>
Budgetary fund balance	<u>\$ 33,393,130</u>

**CHICO REDEVELOPMENT AGENCY
MERGED ART
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Use of money and property	\$ 7,246	\$ 7,246	\$ 6,352	\$ (894)
Expenditures				
Current:				
Redevelopment	<u>167,587</u>	<u>344,067</u>	<u>22,323</u>	<u>321,744</u>
Excess (deficiency) of revenues over (under) expenditures	(160,341)	(336,821)	(15,971)	320,850
Other financing sources (uses):				
Transfers in	<u>159,689</u>	<u>166,276</u>	<u>173,063</u>	<u>6,787</u>
Net change in fund balances	(652)	(170,545)	157,092	327,637
Fund balances, beginning of year	<u>320,545</u>	<u>320,545</u>	<u>320,545</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 319,893</u></u>	<u><u>\$ 150,000</u></u>	<u><u>\$ 477,637</u></u>	<u><u>\$ 327,637</u></u>

**CHICO REDEVELOPMENT AGENCY
 HRBD REMEDIATION MONITORING
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Use of money and property	\$ 44,552	\$ 44,552	\$ 30,791	\$ (13,761)
Expenditures				
Current:				
Administrative	46,000	64,445	43,435	21,010
Excess (deficiency) of revenues over (under) expenditures	(1,448)	(19,893)	(12,644)	7,249
Fund balances, beginning of year	1,510,655	1,510,655	1,510,655	-
Fund balances, end of year	<u>\$ 1,509,207</u>	<u>\$ 1,490,762</u>	<u>\$ 1,498,011</u>	<u>\$ 7,249</u>

**CHICO REDEVELOPMENT AGENCY
 CalHOME GRANT SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Use of money and property	\$ 62	\$ 62	\$ 47	\$ (15)
Fund balances, beginning of year	502,354	502,354	502,354	-
Fund balances, end of year	\$ 502,416	\$ 502,416	\$ 502,401	\$ (15)

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF REPORTING ENTITY

The Chico Redevelopment Agency (Agency) is a community redevelopment agency formed, organized and existing pursuant to the provisions of the Community Redevelopment Law of the State of California (California Health and Safety Code, Section 33000 et seq.), and in accordance with said law, the Agency is vested with the responsibility of carrying out a duly adopted redevelopment plan. The Agency originally consisted of the Southeast Chico, Chico Municipal Airport, and Central Chico Redevelopment Project Areas. On June 4, 1992, the three project areas were merged into one, thereby forming the Chico Merged Redevelopment Project Area (Ordinance Numbers 1900, 1901 and 1902, adopted May 5, 1992). The Greater Chico Urban Area Redevelopment Project Area was established on October 25, 1993.

On July 14, 2004, the two project areas were fiscally merged into one, thereby forming the Chico Amended and Merged Redevelopment Project Area (Ordinance Numbers 2292, 2293 and 2294, adopted June 14, 2004). The Agency is a component unit of the City of Chico, as the Agency's Board of Directors is comprised of the same seven members of the Chico City Council and, as such, is included in the basic financial statements of the City. The Agency's reporting entity includes all of the funds of the Agency, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable.

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 City Council and the governing board of the Chico Redevelopment Agency established a joint powers agency, known as the Chico Public Financing Authority (CPFA), 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 CPFA is authorized 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 financing activity of the CPFA is included in the Agency's financial statements as a blended component unit in debt service funds.

In August 2005, the governing boards of 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. The construction activity of the JPFA is included in the Agency's financial statements as a blended component unit in the capital projects funds.

Complete financial statements of the CPFA and the JPFA may be obtained from the Finance Department of the City of Chico at 411 Main Street, Chico, California 95928.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. Governmental activities normally are supported by taxes and intergovernmental revenues.

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 the community development and administration and redevelopment functions. Program revenues include: (1) charges to customers or applicants 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 requirements of the community development and redevelopment functions. Tax increments, investment earnings, and other items, which are excluded from program revenues, are reported instead as general revenues.

Separate financial statements are provided for the Agency'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 related cash flows. Tax increments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

All property taxes are collected and allocated by the County of Butte to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The Agency participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the Agency based on assessments, not on collections. Property tax is recognized when it is measurable and available.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investment earnings are considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. Other revenues are considered to be measurable and available only when cash is received by the Agency.

The Agency reports the following major governmental funds:

Special Revenue Funds:

- Merged Redevelopment – Accounts for tax increment revenue and expenditures for eligible redevelopment projects and program administration within the project area.
- Merged Low and Moderate Income Housing – Accounts for the 20% tax increment housing set-aside for improvements to the low and moderate income housing stock and related activities within the project area.
- Merged Art – Accounts for the 1% net tax increment set-aside pursuant to Council policy for funding of public arts projects within the project area.
- HRBD Remediation Monitoring – Accounts for annual monitoring expenditures associated with the clean-up of the Humboldt Road Burn Dump.
- CalHome Grant – Accounts for grant funds from the California State Department of Housing and Community Development to provide loans in connection with the Chico Redevelopment Agency's Mortgage Subsidy Program.

Capital Projects Funds:

- Merged Redevelopment – Accounts for bond proceeds and expenditures for eligible redevelopment projects within the project area.
- Chico Urban Area Joint Powers Financing Authority – Accounts for the financing and construction of sewer facilities and improvements in the Greater Chico Urban Area.

Debt Service Funds:

- Redevelopment Agency Bonds – Accounts for the accumulation of resources for the payment of debt service on the 2005 Tax Allocation Bonds and the 2007 Tax Allocation Refunding Bonds.
- Chico Public Financing Authority Bonds – Accounts for the accumulation of resources for the payment of debt service on the 2001 Tax Allocation Revenue Bonds.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund Activity

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

Use of Resources

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

Management's Use of Estimates

The preparation of the 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 in the financial statements. Accordingly, actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Restricted Assets

Restricted assets represent cash and investments held by the Agency or its fiscal agents which are restricted for debt service.

Assets held for Resale

Assets held for resale are carried at the lower of cost or market, but not greater than net realizable value. In the Fund Financial Statements, an amount equal to the carrying value of the asset is reserved in fund balance because such assets are not available to finance the Agency's current operations.

Capital Assets

Capital assets represent Agency owned land and JPFA construction in progress that is reported in the government-wide financial statements. The Agency defines capital assets as assets with an initial, individual cost of more than \$100,000 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.

Deferred Revenue

Deferred revenues in governmental funds arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue represents accrued interest on loans that is not considered to be available to liquidate liabilities of the current period.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and compensatory time. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. In the past, the Merged Redevelopment Special Revenue Fund and the Low and Moderate Income Housing Fund have been used to liquidate compensated absences.

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent current Board policies that may be subject to change.

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. 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.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are reported as reservations of fund balances because they only represent commitments, and do not constitute expenditures or liabilities. Appropriations lapse at year-end and must be re-appropriated in the subsequent fiscal year.

Budgetary Data

The operating budget of the Agency is adopted by the Board of Directors (Chico City Council) on or before the first meeting in July each year on a basis consistent with accounting principles generally accepted in the United States of America except as noted below. The appropriated budget is prepared by fund, function, and activity. The Agency Executive Director is authorized to transfer budget amounts between departments within any fund; however, any revision that exceeds the appropriated expenditures of any fund requires approval by the Board of Directors. The legal level of budgetary control is at the fund level.

Original appropriations are adjusted for supplemental appropriations and budget modifications made during the year, creating the modified adopted budget.

The following items are budgeted on a cash basis:

1. Loans made for housing and other purposes are budgeted as expenditures but reported as receivables.
2. Loan payments received for housing and other purposes are budgeted as revenue but reported as reductions to receivables.
3. Purchases of land held for resale are budgeted as expenditures but recorded as assets.

Budgetary comparisons and reconciliations are included in the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual, in the Fund Financial Statements.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES

A. CASH AND INVESTMENTS

Authorized Investments

The amounts shown as the Agency's cash and investments represent its pro rata share of the City's cash and investments held in the City Treasury as well as the Agency's cash with fiscal agents. The table below identifies the investment types that are authorized by California Government Code Section 53601. The Agency's 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 of the Agency rather than the general provisions of the Agency's 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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee are governed by the provisions of the debt agreements, these agreements specify that the eligible investments are those that are permitted by California Government Code Section 53601 at the time of the investment.

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 Agency and hence these investments are not exposed to custodial credit risk.

The custodial credit risk for deposits is the risk that the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that the Agency's bank deposits are insured by the Federal Depository Insurance Corporation (FDIC). In December 2008, and as a result of the FDIC-sponsored Temporary Liquidity

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

A. CASH AND INVESTMENTS (Continued)

Guarantee Program (TLGP), all funds in non-interest bearing transaction deposit accounts held in domestic offices of FDIC-insured financial institutions will be fully guaranteed, provided the financial institution holding the deposits did not opt out of the TLGP. The Agency's depository did not opt out of the TLGP. Because the Agency's deposits are fully collateralized under the TLGP, collateralization under Government Code Section 53652 is waived. When the TLGP ends, the Agency's depository will revert to collateralizing the balance under the Government Code. 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.

Concentration of Credit Risk

The investment policy of the Agency contains 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 Agency are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FSA Capital Management	Guaranteed Investment Contract	\$ 8,455,840

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 Agency 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 Agency uses the segmented time distribution method for reporting its 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 Agency's policy to purchase investments with the minimum ratings required by the California Government Code.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

A. CASH AND INVESTMENTS (Continued)

As of June 30, 2009, the Agency's investments and credit ratings are as follows:

	Credit rating (S&P/ Moody's)	Maturity			Fair Value
		Under 30 Days	31-365 Days	1-5 Years	
Investments held in City treasury:					
Cash in bank		-	-	-	\$ 776,219
Local Agency Investment Fund	Not Rated	\$ 47,527,029	-	-	47,527,029
Money Market Mutual Funds	Not Rated	\$ 2,062,430	-	-	2,062,430
Federal Home Loan Bank	AAA	-	-	\$ 791,102	791,102
Federal Home Loan Mortgage Corp.	AAA	-	-	\$ 591,070	591,070
Federal National Mortgage Assn	AAA	-	-	\$ 592,214	592,214
Total investments held in City treasury:					<u>51,563,844</u>
Investments held by Fiscal Agents:					
Money Market Mutual Fund	AAA/Aaa	\$ 2,245,954	-	-	2,245,954
Guaranteed Investment Contract	AAA/Aaa	-	-	\$ 8,455,840	8,455,840
Total Investments held by Fiscal Agents:					<u>10,701,794</u>
Total Cash and Investments					<u><u>\$ 63,041,857</u></u>

The Agency 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 Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's 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, 2009, are displayed on the statement of net assets and governmental funds balance sheet as follows:

Cash and Investments	\$ 52,340,063
Restricted Cash and Investments	10,701,794
Total Cash and Investments:	<u><u>\$ 63,041,857</u></u>

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

B. RECEIVABLES

Loans receivable of \$28,289,387 consist of loans made for down payment assistance to low and moderate income first-time homebuyers and for building and rehabilitating affordable housing, as well as loans made for the purpose of removing blight and increasing economic development in the Chico Redevelopment Project Area. The loans are collateralized by second deeds of trust and land covenants.

For deferred loans, payments are deferred until one of the following occurs: (1) the borrower ceases to occupy the property as the principal place of residence, (2) the property is sold, refinanced or transferred without the consent of the Agency or (3) the borrower defaults on any of the covenants or conditions of the loan agreement or deed of trust. Amortized loans are repaid in either monthly or annual installments.

The Agency does not record an allowance for doubtful accounts as management considers all receivables to be collectible.

The amount of total receivables includes \$30,210,862 that is not expected to be received within one year.

C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 331,849	\$ 1,800,646		\$ 2,132,495
Land	3,932,686	1,000,000	(275,654)	4,657,032
	<u>\$ 4,264,535</u>	<u>\$ 2,800,646</u>	<u>\$ (275,654)</u>	<u>\$ 6,789,527</u>
Total Capital Assets				

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

D. INTERFUND TRANSACTIONS

For the year ended June 30, 2009, transfers in and out were comprised of the following:

Transfers to:	Transfers from:		Total
	Merged Redevelopment Special Revenue	Merged Low and Moderate Income Housing	
Chico Merged Low and Moderate Income Housing	\$ 6,409,425	\$ -	\$ 6,409,425
Merged Art	173,063	-	173,063
Redevelopment Agency Bonds	5,590,193	-	5,590,193
Chico Public Financing Authority Bonds	1,813,475	384,242	2,197,717
Chico Urban Area Joint Powers Authority	1,900,000	-	1,900,000
 Total	 \$ 15,886,156	 \$ 384,242	 \$ 16,270,398

Transfers between funds were made to set aside resources for low and moderate income housing as required by law, to set aside resources for the arts per Agency policy, for the payment of debt service on the outstanding tax allocation revenue bonds and tax allocation bonds and, to set aside resources as required by the Chico Urban Area Joint Powers Financing Authority agreement.

E. LONG-TERM LIABILITIES

2001 Tax Allocation Revenue Bonds

On July 31, 2001, the Chico Public Financing Authority (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 4.00%-5.25%, 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.

2005 Tax Allocation Bonds

On November 17, 2005, the Chico Redevelopment Agency (Agency) issued \$68,500,000 of 2005 Tax Allocation Bonds (2005 TABS) to finance redevelopment projects in the Chico Amended and Merged Redevelopment Project Area. Interest rates for the remaining term of the 2005 TABS range from 3.50%-5.00%, and payments are due in semi-annual installments on October 1 and April 1, through April 1, 2032. Additionally, term bonds of \$11,655,000, \$19,770,000 and \$14,885,000 are due April 1, 2027, 2030 and 2032, respectively. The Agency is subject to mandatory sinking fund payments ranging from \$5,690,000 to \$7,625,000 beginning 2026 and ending 2032.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

E. LONG-TERM LIABILITIES (Continued)

2007 Tax Allocation Refunding Bonds

2007 Tax Allocation Refunding Bonds (2007 TABS) were issued in the amount of \$23,405,000 for the purpose of refunding the outstanding 1996 Tax Allocation Revenue Bonds. Interest rates for the remaining term of the 2007 TABS range from 4.00%-4.625%; payments due in semi-annual installments on October 1 and April 1 through April 1, 2025.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and compensatory time. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

Claims liabilities and settlements

A legal settlement of \$7,500,000 was reached in early July 2008 and was determined to be a liability at June 30, 2008. During the current year, \$1,000,000 of the liability was reduced as a result of a purchase of land in accordance with the terms of the settlement.

Changes in the Agency's long-term liabilities during the year ended June 30, 2009, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Revenue Bonds Payable:					
2001 TARBS	\$ 25,740,000	\$ -	\$ (1,025,000)	\$ 24,715,000	\$ 1,075,000
2005 TABS	67,845,000	-	(785,000)	67,060,000	890,000
2007 TABS	22,210,000	-	(975,000)	21,235,000	1,005,000
Compensated absences	131,517	86,836	(64,679)	153,674	1,570
Claim liabilities & settlements	7,500,000	-	(1,000,000)	6,500,000	-
Subtotal	123,426,517	86,836	(3,849,679)	119,663,674	2,971,570
Add: Original issuance premium	887,587	-	(36,983)	850,604	-
Less: Deferred amount on refunding	(957,108)	-	56,300	(900,808)	-
Total long term liabilities	<u>\$123,356,996</u>	<u>\$ 86,836</u>	<u>\$ (3,830,362)</u>	<u>\$119,613,470</u>	<u>\$ 2,971,570</u>

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

E. LONG-TERM LIABILITIES (Continued)

Future annual debt service requirements for the revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	2,970,000	5,328,795	8,298,795
2011	3,085,000	5,214,445	8,299,445
2012	3,215,000	5,079,408	8,294,408
2013	3,345,000	4,946,420	8,291,420
2014	3,485,000	4,806,620	8,291,620
2015-2019	20,380,000	21,567,676	41,947,676
2020-2024	24,890,000	16,371,096	41,261,096
2025-2029	29,840,000	8,638,769	38,478,769
2029-2032	21,800,000	3,634,750	25,434,750
Total	<u>\$ 113,010,000</u>	<u>\$ 75,587,979</u>	<u>\$ 188,597,979</u>

F. PLEDGED REVENUES

The Agency has pledged a portion of tax increment revenue to repay \$68,500,000 in 2005 Tax Allocation Bonds issued in November 2005 to finance redevelopment projects in the Chico Amended and Merged Redevelopment Project Area. Total principal and interest remaining on the bonds is \$122,583,753, payable through April 2032. For the current year, principal and interest paid and total tax increment revenues were \$4,000,203 and \$32,047,126 respectively.

The Agency has pledged a portion of tax increment revenue to repay \$23,405,000 in 2007 Tax Allocation Refunding Bonds issued in July 2007 to advance refund the outstanding 1996 Tax Allocation Revenue Bonds. Total principal and interest remaining on the bonds is \$30,544,994, payable through April 2025. For the current year, principal and interest paid and total tax increment revenues were \$1,935,494 and \$32,047,126 respectively.

The Agency has pledged a portion of tax increment revenue to repay a loan from the Chico Public Financing Authority (Authority). 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. The Agency's annual loan payment is an amount sufficient to cover the principal and interest on the Authority's debt for that year. The Authority has pledged, as security for the bonds, the annual loan payments from the Agency. Total principal and interest remaining on the debt is \$35,469,233, payable through April 2024. For the current year, principal and interest paid by the Authority and total tax increment revenues were \$2,285,574 and \$32,047,126 respectively.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

G. AGENCY AGREEMENTS

Beginning with the 1983-84 tax increments, the Chico Redevelopment Agency entered into agreements for the Chico Merged RPA with the County of Butte, Butte County Mosquito Abatement District, and the Chico Area Recreation District to pay to them 70% of the property tax increment revenues allocated to the Agency which would have been received by these three taxing entities if the Agency had not been formed.

Beginning with the 1994-95 tax increments, the Chico Redevelopment Agency entered into agreements for the Greater Chico Urban Area RPA with the County of Butte, Butte County Mosquito Abatement District, the Chico Area Recreation District, the Chico Unified School District, the Butte-Glenn Community College District, and the Butte County Superintendent of Schools. The agreements call for payments to the entities for varying amounts.

In 2004, the Chico Redevelopment Agency completed a fiscal merger of its four project areas: Southeast Chico Redevelopment Project Area, Greater Chico Urban Area Redevelopment Project Area, Central Chico Redevelopment Project Area, and the Chico Municipal Airport Redevelopment Project Area. As a result of this fiscal merger and with the adoption of an ordinance to repeal the time limit for incurring debt (per SB 211), the Chico Redevelopment Agency is now required to make statutory pass-through payments to all affected taxing entities that do not currently have contractual fiscal agreements. The statutory pass-through payments are designed to alleviate the financial burden on the taxing entity from the passage of the SB 211 ordinance.

In 2005, the governing boards of the Chico Redevelopment Agency and the County of Butte established a joint powers agency known as the Chico Urban Area Joint Powers Financing Authority (JPFA). The Agency has agreed to contribute up to \$1,900,000 annually to the JPFA through the year 2036 to finance the installation and construction of sewer facilities and improvements in the project area. These amounts are reported as transfers.

H. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency participates in the City's self-insurance programs. The City established the general liability and workers' compensation liability fund (self insurance funds) to account for and finance its uninsured risks of loss. Under this program, the general liability program provides coverage up to a maximum of \$500,000 for each general liability claim, and the workers' compensation program provides coverage for up to a maximum of \$750,000 for each workers' compensation claim. The City purchases excess insurance coverage to cover losses over these amounts. For the workers' compensation program, the excess insurance covers losses over \$750,000 up to State statutory limits. Excess insurance coverage for the general liability program is described below. Settled claims resulting from these programs have not exceeded the City's excess insurance coverage in any of the past three fiscal years.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

H. RISK MANAGEMENT, (Continued)

The City is a member of the California Joint Powers Risk Management Authority (Authority) for liability insurance purposes. The Authority is comprised of California member cities and special districts organized under a joint powers agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of self-insurance and insurance for the pooling of losses and to purchase excess liability coverage. The Board of Directors consists of representatives from each member entity, with an Executive Committee consisting of the President and Vice President elected by the Directors every two years, and Executive Committee non-officer positions filled by a permanent rotation list every two years. Annual deposits are paid by member entities and may be retrospectively to cover costs. The City self-insures the first \$500,000 of each loss. Participating entities share in loss occurrences in excess of \$500,000 or \$1,000,000 and up to \$5,000,000, and purchase insurance to provide additional coverage up to \$40,000,000. The auto/general liability program of the Authority provides coverage for comprehensive general liability, personal injury, employment practices liability (\$6,000,000 sublimit), contractual liability, errors and omissions, and auto liability. The City also participates in the Authority's auto physical damage program which provides property damage coverage for vehicles valued in excess of \$25,000, with a \$10,000 deductible, and in the Authority's property insurance program which provides property and boiler & machinery coverage with a \$25,000 deductible per occurrence.

I. CONTINGENCIES AND COMMITMENTS

Construction and contractual commitments for major construction projects at June 30, 2009 are as follows:

Chico Urban Area Nitrate Compliance Program: Project is for the installation of sanitary sewer mains, trunks, and laterals throughout the Chico Urban Area as identified in the Compliance Program Project Report. A State Revolving Fund loan obtained by the Chico Urban Area Joint Powers Financing Authority (JPFA) is being used to finance the expansion and will be repaid through dedicated tax increment collected in the future. Approximately \$1.8 million has been expended and approximately \$47 million will be expended over the next eight years.

Other construction commitments include the East 5th Avenue Reconstruction, Cohasset Road Widening and Manzanita Corridor Reconstruction. These Projects are funded from various sources including grants, redevelopment funds and user fees. Approximately \$18.6 million has been expended and approximately \$7.9 million will be expended over the next year on these projects.

**CHICO REDEVELOPMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

II. DETAILED NOTES (Continued)

J. RESTATEMENT OF BEGINNING NET ASSETS

At July 1, 2008, the Agency increased beginning net assets in the Governmental Activities Statement of Net Assets by \$1,000,000 to adjust for a portion of a prior year settlement accrual related to the purchase of land that should have been reflected as a receivable instead of an expense.

The restatement of beginning net assets as previously reported is presented below:

	<u>Statement of Activities Beginning Net Assets</u>
Net Assets, June 30, 2008, as previously reported	\$ (24,729,845)
Add:	
Adjustment for prior year expense that should have been classified as a receivable	<u>1,000,000</u>
Net Assets, June 30, 2008, as restated	<u><u>\$ (23,729,845)</u></u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Chico Redevelopment Agency
Chico, California

We have audited the financial statements of the Chico Redevelopment Agency (the Agency) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 16, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Chico Redevelopment Agency

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, Board of Directors, and the State Controller's Office and is not intended and should not be used by anyone other than these specified parties.

Richardson & Company

October 16, 2009