CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY

County of Butte
&
City of Chico, Successor Agency
to the
Chico Redevelopment Agency

Annual Financial Report

Year Ended June 30, 2015

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Chico)

Independent Auditors' Report,
Financial Statements and
Required Supplementary Information

Year Ended June 30, 2015

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Chico)
Year Ended June 30, 2015

Table of Contents

INDEPENDENT AUDITORS' REPORT

Board of Directors
Chico Urban Area Joint Powers Financing Authority
Chico, California

We have audited the accompanying financial statements of the governmental activities and the capital projects fund of the Chico Urban Area Joint Powers Financing Authority (the Authority), a component unit of the City of Chico, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the capital projects fund of the Authority, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 7, 2015

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

Statement of Net Position and
Governmental Funds Balance Sheet
June 30, 2015

	Capital Projects Fund	Adjustments (Note II D)	Statement of Net Position
Assets			
Current assets:			
Restricted cash and investments	$ 9,771,275	$ -	$ 9,771,275
Interest receivable	6,907	-	6,907
Prepaid expenses	1,265	-	1,265
Total assets	$ 9,779,447	$ -	$ 9,779,447
Liabilities and Fund Balance/Net Position			
Current liabilities:			
Accounts payable	$ 1,265	-	$ 1,265
Due to City of Chico	3,411,492	-	3,411,492
Noncurrent liabilities:			
Loans payable	-	20,359,516	20,359,516
Total liabilities	3,412,757	20,359,516	23,772,273
Fund Balance/Net Position			
Fund balances:			
Restricted for sewer projects	6,366,690	(6,366,690)	
Total Liabilities and Fund Balance	$ 9,779,447		
Net Position:			
Unrestricted		(13,992,826)	(13,992,826)
Total net position		$ (13,992,826)	$ (13,992,826)

See accompanying notes to the financial statements

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

Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
Year Ended June 30, 2015

	Capital Projects Fund	Adjustments (Note II D)	Statement of Activities
Expenditures/Expenses:			
Administrative expenses	$ 79,835	$ -	$ 79,835
Construction expenses	4,725,396	(4,725,396)	-
Conveyance of capital assets	-	4,725,396	4,725,396
Interest accretion	-	199,227	199,227
Total expenditures/expenses	4,805,231	199,227	5,004,458
Program revenues:			
Intergovernmental revenue	1,900,000	(1,900,000)	-
Capital grants and contributions	-	1,900,000	1,900,000
Total program revenue	1,900,000	-	1,900,000
Net program (expense) revenue	(2,905,231)	(199,227)	(3,104,458)
General revenues:			
Investment earnings	25,365	-	25,365
Excess (deficiency) of revenues over expenditures	(2,879,866)	(199,227)	(3,079,093)
Other financing sources (uses):			
Issuance of long-term debt	996,107	(996,107)	-
Change in fund balance/net position	(1,883,759)	(1,195,334)	(3,079,093)
Fund balance/net position:			
Beginning of the year	8,250,449	(19,164,182)	(10,913,733)
End of the year	$ 6,366,690	$ (20,359,516)	$ (13,992,826)

See accompanying notes to the financial statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

In August 2005, the governing boards of the Chico Redevelopment Agency, which due to State Assembly Bill 1X 26 is now known as the City of Chico, Successor Agency to the Chico Redevelopment Agency (Agency) 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 City of Chico's financial statements as a discretely presented component unit as the activities of the JPFA provides a financial benefit to the City's Sewer Enterprise Fund.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the JPFA. Governmental activities are normally 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 a specific function or segment. Program revenues include: (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment earnings and other items which are excluded from program revenues are reported instead as general revenues.

Separate financial statements are provided for the JPFA's major governmental fund and are reported as a separate column in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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

The activities of the JPFA are accounted for in a capital projects fund.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

<u>Capital Assets</u>

Although the JPFA's sole purpose is to construct infrastructure to facilitate the installation of sewer connections for residents located in the benefited area, the infrastructure is ultimately conveyed to the City of Chico, and as a result, the construction costs of the sewer infrastructure are shown as construction expenses (not capital assets) in these financial statements. As the construction occurs, the infrastructure is conveyed to the City of Chico's Sewer Enterprise Fund as capital assets.

<u>Due to other Governments</u>

Due to other governments represents the amount the Authority owes the City of Chico's Treasury (pooled cash) for use of the City's cash. Due to the timing of vendor invoices, the JPFA's cash balance may be at a deficit at June 30. This amount is paid back from the Authority's cash and investments held with Local Agency Investment Fund's (LAIF).

<u>Long-Term Liabilities</u>

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities and in the fund financial statements; the face amount of debt issued is reported as other financing sources.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution or external resource providers.

Net Position

Net position is classified as unrestricted net position which is not restricted for any project or any other purpose. Negative net position occurs when liabilities of the JPFA exceed the assets. In the case of the JPFA, it is assuming the debt of the project, but does not own the assets which can create a negative net position.

II. DETAILED NOTES

A. 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 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.

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 (LAIF)	N/A	None	None	None

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

II. DETAILED NOTES (Continued)

A. CASH AND INVESTMENTS (Continued**)**

II. Custodial Credit Risk (Continued)

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, 2015, the JPFA had $9,771,275 in LAIF. The JPFA also had a negative cash balance of $3,411,492 which is shown as a due to the City of Chico as it represents cash temporarily borrowed from the City of Chico's treasury pool.

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 JPFA 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.

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2015

II. DETAILED NOTES (Continued)

A. CASH AND INVESTMENTS (Continued)

IV. Interest Rate and Credit Risk (Continued)

As of June 30, 2015, the JPFA's investments were held with LAIF. LAIF is not rated by S&P/Moodys. The maturity of all investments were under 30 days. The fair value of cash and investments at June 30, 2015 was $9,771,275.

The JPFA is a voluntary participant in the 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. LAIF is not registered with the Securities and Exchange Commission.

B. CONSTRUCTION EXPENDITURES

During the current period, the JPFA constructed sewer related infrastructure totaling $4,725,396. The infrastructure is conveyed to the City of Chico's Sewer Enterprise Fund.

C. PROGRAM REVENUES/ANNUAL CONTRIBUTION

After formation of the JPFA in August 2007, it obtained a loan (the Loan) from the California State Water Resources Control Board to finance the construction and installation of sewer facilities and improvements in the Great Chico Urban Area Redevelopment Project Area. The Agreement with the State obligated the Chico Redevelopment Agency to repay the loan, in the amount of $1,900,000 per year for each year commencing with the effective date of the Agreement and ending with the fiscal year in which the last payments is due on the Loan. Neither the City nor the County have any obligation to make the loan payments under the Loan Agreement. The Loan Agreement provides that the sole source of contributions to the JPFA is the pledge by the Redevelopment Agency which, post-dissolution is the obligation of the Successor Agency. On December 17, 2013, the State Department of Finance confirmed that the annual $1,900,000 payments were considered an enforceable obligation. As of June 30, 2015, $17,100,000 has been received by the JPFA from the Redevelopment Agency and Successor Agency to the Redevelopment Agency.

II. DETAILED NOTES (Continued)

D. RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION

Total governmental fund balance	$ 6,366,690
Amounts reported for governmental activities in the statement of net position are different because:	
Loans payable are not due and payable in the current period and, therefore are not reported in the funds.	(20,359,516)
Net position of governmental activities	$ (13,992,826)

E. RECONCILIATION OF THE GOVERNEMNETAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental fund	$ (1,883,759)
Amounts reported for governmental activities in the statement of activities are different because:	
The issuance of long-term debt (e.g. loans) provides current financial resources to governmental funds, however, the transaction does not affect net position.	(996,107)
Accreted interest on the long-term debt does not provide financial resources to governmental funds, however, it will be due and payable in the Statement of Net Position.	(199,227)
Change in net position of governmental activities	$ (3,079,093)

F. LONG-TERM DEBT

Loans Payable

A loan in the amount of $38,000,000, has been approved by the State Water Resources Control Board (SWRCB) for the JPFA's Nitrate Compliance Program. During the life of the project, the Loan Program allows the JPFA make loan draws at 83.33% of the project cost, while requiring the JPFA to recognize 16.67% as a local match to be included as an additional loan amount payable to the State. The JPFA records the additional loan amount as accreted interest in the Statement of Activities due to cost of obtaining the 0% loan from the SWRCB. As of June 30, 2015, construction draws on the loan were $996,107, while the local match totals $199,269. No payments are due on the loan until project completion, currently estimated in fiscal year 2017-18. The JPFA will use the $1,900,000 received annually from the Agency to pay the debt when it becomes due.

II. DETAILED NOTES (Continued)

F. LONG-TERM DEBT (Continued)

Loans Payable (Continuing)

Changes to the JPFA's long-term debt for the year ended June 30, 2015 were as follows:

	July 1, 2014	Additions	June 30, 2015	Due Within One Year
Loans Payable:				
State Revoloving Fund Loan	$ 19,164,182	$ 1,195,334	$ 20,359,516	$ -

Total accumulated accreted interest as of June 30, 2015 was $3,393,321.