

# **CHICO REDEVELOPMENT AGENCY**

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**Chico, California**



## **Component Unit Financial Report**

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**Year Ended June 30, 2006**

**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, 2006

**CHICO REDEVELOPMENT AGENCY  
FOR THE YEAR ENDED JUNE 30, 2006**

*Table of Contents*

	<i>Page(s)</i>
<b>Independent Auditors' Report</b> .....	1-2
<b>Management's Discussion and Analysis (Required Supplementary Information)</b> .....	3-9
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets – Governmental Activities.....	10
Statement of Activities – Governmental Activities .....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	12-13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15-16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Notes to Basic Financial Statements .....	18-30
<b>Other Report:</b>	
Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (Including the Provisions Contained in the <i>Guidelines for Compliance Audits of Redevelopment Agencies</i> ) Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	31-32

## INDEPENDENT AUDITORS' REPORT

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 (Agency), a component unit of the City of Chico, California, as of and for the year ended June 30, 2006, 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 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 and the standards applicable to financial audits contained in *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 the 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 Chico Redevelopment Agency, as of June 30, 2006, and the respective changes in financial position thereof 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 September 22, 2006, on our consideration of the Chico Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 or 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.

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

*Nystrom & Company LLP*

September 22, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2006**

The following discussion provides a narrative overview and analysis of the financial activities of the Chico Redevelopment Agency (Agency) for the fiscal year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with the Agency's financial statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS**

- The liabilities of the Agency exceeded its assets at the close of the most recent fiscal year by \$14,384,198.
- The Agency's net assets decreased by \$1,978,493.
- As of the close of the current fiscal year, the Agency's governmental funds reported an ending fund balance of \$101,239,393, an increase of \$63,889,896 in comparison with the prior year. The Agency had a positive unreserved fund balance of \$68,328,487.
- The Agency had general revenues of \$24,474,357 and program revenues of \$783,090 while program expenses were \$27,235,940.
- The Agency issued \$68,500,000 in long-term debt during the year.

**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 only 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 10 and 11 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 capital projects and debt service funds are 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 reports the following major capital projects funds: Chico Amended and Merged Redevelopment, Chico Merged Low and Moderate Income Housing, Chico Merged Arts and CalHome Grant. The Agency reports the following major debt service funds: 1996 Tax Allocation Revenue Bonds, 2001 Tax Allocation Revenue Bonds, 2005 Tax Allocation Bonds, Chico Merged RPA Low and Moderate Income Housing and Chico Merged RPA Reserves.

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 12-17 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 18-30 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets \* Governmental Activities June 30, 2006

	<u>2006</u>	<u>2005</u>	<u>Total Dollar Change</u>
<b>Assets:</b>			
Current and other	\$ 111,777,343	\$ 45,111,783	\$ 66,665,560
Capital Assets	2,870,838	1,365,918	1,504,920
Total assets	<u>114,648,181</u>	<u>46,477,701</u>	<u>68,170,480</u>
<b>Liabilities:</b>			
Long-term liabilities outstanding	120,363,098	52,558,279	67,804,819
Other liabilities	8,669,281	6,325,127	2,344,154
Total liabilities	<u>129,032,379</u>	<u>58,883,406</u>	<u>70,148,973</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	2,870,838	1,365,918	1,504,920
Restricted	31,623,927	22,968,830	8,655,097
Unrestricted	(48,878,963)	(36,740,453)	(12,138,510)
Total net assets (deficit)	<u>\$ (14,384,198)</u>	<u>\$ (12,405,705)</u>	<u>\$ (1,978,493)</u>

\* Fiscal year 2005 amounts have been restated for the cost of issuance of the 1996 and 2001 Tax Allocation Revenue Bonds. See the footnotes to the financial statements for further information.

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 \$14,384,198 at the close of the most recent fiscal year, creating a negative net asset balance. The capital assets constructed or acquired through the debt financing of the Agency are owned by the City and reported on the City's financial statements rather than on the Agency's financial statements. However, land acquired from proceeds of tax increment is reported in the Agency's financial statements.

The Agency issued \$68,500,000 in Tax Allocation Bonds in November, 2005. The debt issuance increased the cash and long-term liabilities of the Agency.

**Statement of Activities \***  
**Governmental Activities**  
**For the Year Ended June 30, 2006**

	<u>2006</u>	<u>2005</u>	<u>Total Dollar Change</u>
<b>Revenues:</b>			
Program Revenues:			
Charges for services	\$ 35,211	\$ 34,113	\$ 1,098
Operating grants and contributions	442,959	250,249	192,710
Capital grants and contributions	304,920	--	304,920
General revenues:			
Property tax increment	22,230,697	18,679,113	3,551,584
Investment earnings	2,079,242	710,370	1,368,872
Gain on sale of capital assets	--	234,751	(234,751)
Miscellaneous	164,418	72,135	92,283
Total revenues	<u>25,257,447</u>	<u>19,980,731</u>	<u>5,276,716</u>
<b>Expenses:</b>			
Community development and administration	8,085,547	6,338,818	1,746,729
Redevelopment	14,424,097	5,717,621	8,706,476
Interest and fiscal charges	4,726,296	2,709,672	2,016,624
Total expenses	<u>27,235,940</u>	<u>14,766,111</u>	<u>12,469,829</u>
Change in net assets	(1,978,493)	5,214,620	(7,193,113)
Net assets (deficit) - July 1, 2005, as restated	<u>(12,405,705)</u>	<u>(17,620,325)</u>	<u>5,214,620</u>
Net assets (deficit) - June 30, 2006	<u>\$ (14,384,198)</u>	<u>\$ (12,405,705)</u>	<u>\$ (1,978,493)</u>

\* Fiscal year 2005 amounts have been restated for the cost of issuance of the 1996 and 2001 Tax Allocation Revenue Bonds. See the footnotes to the financial statements for further information.

The net assets of the Agency decreased by \$1,978,493 during the current fiscal year.

Capital grants and contributions increased by \$304,920 due to land that was donated to the Agency in conjunction with the Humboldt Road Burn Dump remediation.

Property tax increment revenues increased by \$3,551,584 over the prior year due primarily to a 12% increase in the Agency's assessed valuation. Investment earnings increased \$1,368,872 primarily due to the additional cash on hand as a result of the issuance of the 2005 Tax Allocation Bonds.

The pass-through payments of tax increment increased approximately \$1,064,517 as a result of increased tax increment revenues.

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.

Interest and fiscal charges increased over the prior year by \$2,016,624 primarily due to \$1,205,303 in interest payments and \$809,532 in interest accruals on the 2005 Tax Allocation Bonds issued November 17, 2005.

## 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 below:

### 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 \$101,239,393. The fund balance primarily represents the accumulation of incremental property tax revenue, bond proceeds, and investment earnings in excess of expenditures. A portion of fund balance is reserved for encumbrances, prepaid items, debt service, loans receivable and deposits with others. The remaining fund balance is unreserved and undesignated.

	2006	2005	Total Dollar Change
<b>Revenues:</b>			
Tax Increment	\$ 22,230,697	\$ 18,679,113	\$ 3,551,584
Investment earnings	2,333,411	928,872	1,404,539
Intergovernmental revenue	208,000	180,000	28,000
Other revenue	176,626	106,248	70,378
<b>Total revenues</b>	<u>24,948,734</u>	<u>19,894,233</u>	<u>5,054,501</u>
<b>Expenditures:</b>			
Administrative	1,916,676	1,449,643	467,033
Pass-through payments	5,459,366	4,394,849	1,064,517
Community development	706,239	472,630	233,609
Redevelopment	14,424,097	5,717,621	8,706,476
Capital outlay	1,200,000	260,605	939,395
Debt service	6,850,996	4,321,934	2,529,062
<b>Total expenditures</b>	<u>30,557,374</u>	<u>16,617,282</u>	<u>13,940,092</u>
<b>Other financing sources (uses), net:</b>			
Debt issuance	68,500,000	--	68,500,000
Premium on debt issuance	998,536	--	998,536
Proceeds from sale of capital assets	--	517,370	(517,370)
<b>Increase (decrease) in fund balance</b>	<u>\$ 63,889,896</u>	<u>\$ 3,794,321</u>	<u>\$ 60,095,575</u>

Fund balance in the Chico Amended and Merged Redevelopment fund increased primarily due to the issuance of the 2005 Tax Allocation Bonds in the amount of \$68,500,000. The bond proceeds are to be used to finance eligible redevelopment projects within the Chico Amended and Merged Redevelopment Project Area.

Investment earning increased by \$1,404,539 primarily due to interest earnings on 2005 Tax Allocation Bonds issued on November 17, 2005 in the amount of \$68,500,000.

Pass-through payments increased \$1,064,517 due to the increased tax increment.

The redevelopment expenditures line item reports the Agency's capital improvement project costs incurred during the current year. The majority of the budgeted projects are 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 budgeted expenditures included approximately \$5,800,000 for the Humboldt Road Burn Dump Remediation and approximately \$2,990,000 for the City Plaza reconstruction.

The increase of \$939,395 in capital outlay expenditures is attributable to the purchase of land within the Chico Amended and Merged Redevelopment Project area. 15 acres were purchased for \$1,200,000. The land is to be used as open space to serve as a mitigation area for environmental impacts in connection with other Redevelopment Area projects.

Debt service expenditures increased by \$2,529,062 primarily due to interest payments of \$1,205,303 and bond issuance costs of \$1,328,259 relating to the issuance of the 2005 Tax Allocation Bonds.

## **CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION**

**Capital assets.** The Agency's investment in capital assets as of June 30, 2006 amounted to \$2,870,838. The investment in capital assets consists solely of land.

**Long-term debt.** The Agency's outstanding long-term debt on its bonds increased due to the issuance of \$68,500,000 in 2005 Tax Allocation Bonds. The proceeds of the bonds are to be used to finance eligible redevelopment projects in the Chico Amended and Merged Redevelopment Project Area. For additional information on the Agency's outstanding debt, see Note I in the notes to the basic financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The following factors were considered in preparing the Agency's budget for the 2006-07 fiscal year:

The Chico Redevelopment Agency entered into a Joint Exercise of Powers Agreement (JPA) with the County of Butte on August 30, 2005, forming the Chico Urban Area Joint Powers Financing Authority. The purpose of this Authority is to fund the installation and construction of public sewer facilities and improvements in the Project Area. The Authority will borrow funds from the Safe Drinking Water State Revolving Fund to finance and facilitate the sewer improvements. In accordance with the JPA agreement, the Agency will contribute annually to the Authority an amount not to exceed \$1.9 million solely to repay the JPA loan. This obligation begins in fiscal year 2006-07.

The Chico Urban Area Fire and Rescue Agreement (CUAFRA) between the City and Butte County provides that with the annexation of unincorporated islands, the City will assume primary responsibility for fire protection services in the interior portions of the Chico Urban Area and Butte County will be responsible for the exterior portions. In order to comply with this provision, it is necessary to ensure that fire stations for both agencies are situated in the ideal locations. The addition of fire stations is identified in the Chico Amended and Merged Redevelopment Project Five Year Implementation Plan. Funds are requested in this budget to implement the station location provisions of the CUAFRA, including the City's acquisition from the County of a 1.6 acre site for City Fire Station No. 7, and funding for a \$2 million loan to the County to provide financial assistance to construct County Fire Station No. 41 in the north Chico area and County Fire Station No. 44 in the south. Additionally, site acquisition for a new fire

station (Fire Station No. 7) is budgeted in fiscal year 2006-07. Funds for design will be requested in fiscal year 2007-08 with construction funds to be requested in fiscal year 2009-10.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Agency Treasurer, Chico Redevelopment Agency, P. O. Box 3420, Chico, California 95927.

**CHICO REDEVELOPMENT AGENCY**  
**STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2006**

<b>Assets</b>	
Cash and investments	\$ 83,009,576
Restricted cash and investments	8,678,962
Receivables	16,967,099
Other assets	55,223
Deposits with others	682,446
Cost of debt issuance	2,384,037
Capital assets:	
Land	<u>2,870,838</u>
 Total assets	 <u>114,648,181</u>
<b>Liabilities</b>	
Payables	7,100,697
Interest payable	1,454,583
Deposits	2,000
Unearned revenue	112,001
Long-term liabilities:	
Due within one year	1,904,099
Due in more than one year	<u>118,458,999</u>
 Total liabilities	 <u>129,032,379</u>
<b>Net Assets (Deficit)</b>	
Invested in capital assets, net of related debt	2,870,838
Restricted for:	
Housing	22,557,973
Debt service	8,678,962
Loans	386,992
Unrestricted	<u>(48,878,963)</u>
 Total net assets (deficit)	 <u><u>\$ (14,384,198)</u></u>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY  
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Redevelopment Agency Program Expenses</b>	
Community development and administration	\$ 8,085,547
Redevelopment	14,424,097
Interest on long-term debt	4,726,296
	<hr/>
Total program expenses	27,235,940
	<hr/>
<b>Redevelopment Agency Program Revenues</b>	
Charges for services	35,211
Operating grants and contributions	442,959
Capital grants and contributions	304,920
	<hr/>
Total program revenues	783,090
	<hr/>
Net program expense	(26,452,850)
	<hr/>
<b>General Revenues</b>	
Taxes:	
Property tax increment	22,230,697
Investment earnings	2,079,242
Miscellaneous	164,418
	<hr/>
Total general revenues	24,474,357
	<hr/>
Change in net assets	(1,978,493)
Net assets (deficit), beginning of year, as restated	(12,405,705)
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Net assets (deficit), end of year	\$ (14,384,198)
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See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	Capital Projects Funds			
	Chico Amended and Merged Redevelopment	Chico Merged Low and Moderate Income Housing	Chico Merged Arts	CalHome Grant
<b>Assets</b>				
Cash and investments	\$ 72,042,931	\$ 10,638,481	\$ 328,164	\$ -
Restricted cash and investments	-	-	-	-
Receivables:				
Interest	-	930,614	-	8,602
Taxes	384,610	-	-	-
Accounts	71,880	-	-	-
Intergovernmental	-	-	-	125,000
Loans	2,042,744	13,015,649	-	388,000
Due from other funds	14,008	-	-	-
Deposits with others	682,446	-	-	-
Prepaid items	54,608	615	-	-
	<u>\$ 75,293,227</u>	<u>\$ 24,585,359</u>	<u>\$ 328,164</u>	<u>\$ 521,602</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 1,918,585	\$ 1,092,643	-	\$ -
Accrued wages and benefits	6,442	3,982	-	-
Customer deposits	2,000	-	-	-
Intergovernmental payable	4,078,898	147	-	-
Due to other funds	-	-	-	14,008
Deferred revenue	-	930,614	-	120,602
	<u>6,005,925</u>	<u>2,027,386</u>	<u>0</u>	<u>134,610</u>
Fund Balances:				
Reserved for:				
Encumbrances	6,539,711	1,470,378	37,793	-
Prepaid items	54,608	615	-	-
Debt service	-	-	-	-
Loans receivable	2,042,744	13,015,649	-	388,000
Deposits with others	682,446	-	-	-
Unreserved, undesignated	59,967,793	8,071,331	290,371	(1,008)
	<u>69,287,302</u>	<u>22,557,973</u>	<u>328,164</u>	<u>386,992</u>
Total fund balances	<u>69,287,302</u>	<u>22,557,973</u>	<u>328,164</u>	<u>386,992</u>
Total liabilities and fund balances	<u>\$ 75,293,227</u>	<u>\$ 24,585,359</u>	<u>\$ 328,164</u>	<u>\$ 521,602</u>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	Debt Service Funds					
	1996 Tax Allocation Revenue Bonds	2001 Tax Allocation Revenue Bond	2005 Tax Allocation Bond	Chico Merged RPA Low and Moderate Income Housing	Chico Merged RPA Reserves	Total
<b>Assets</b>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,009,576
Restricted cash and investments	104,190	27,520	15,722	-	8,531,530	8,678,962
Receivables:						
Interest	-	-	-	-	-	939,216
Taxes	-	-	-	-	-	384,610
Accounts	-	-	-	-	-	71,880
Intergovernmental	-	-	-	-	-	125,000
Loans	-	-	-	-	-	15,446,393
Due from other funds	-	-	-	-	-	14,008
Deposits with others	-	-	-	-	-	682,446
Prepaid items	-	-	-	-	-	55,223
<b>Total assets</b>	<b>\$ 104,190</b>	<b>\$ 27,520</b>	<b>\$ 15,722</b>	<b>\$ -</b>	<b>\$ 8,531,530</b>	<b>\$ 109,407,314</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,011,228
Accrued wages and benefits	-	-	-	-	-	10,424
Customer deposits	-	-	-	-	-	2,000
Intergovernmental payable	-	-	-	-	-	4,079,045
Due to other funds	-	-	-	-	-	14,008
Deferred revenue	-	-	-	-	-	1,051,216
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,167,921</b>
<b>Fund Balances:</b>						
<b>Reserved for:</b>						
Encumbrances	-	-	-	-	-	8,047,882
Prepaid items	-	-	-	-	-	55,223
Debt service	104,190	27,520	15,722	-	8,531,530	8,678,962
Loans receivable	-	-	-	-	-	15,446,393
Deposits with others	-	-	-	-	-	682,446
Unreserved, undesignated	-	-	-	-	-	68,328,487
<b>Total fund balances</b>	<b>104,190</b>	<b>27,520</b>	<b>15,722</b>	<b>-</b>	<b>8,531,530</b>	<b>101,239,393</b>
<b>Total liabilities and fund balances</b>	<b>\$ 104,190</b>	<b>\$ 27,520</b>	<b>\$ 15,722</b>	<b>\$ -</b>	<b>\$ 8,531,530</b>	<b>\$ 109,407,314</b>

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, 2006**

Total fund balances - total governmental funds (page 13)		\$	101,239,393
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.			2,870,838
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.			939,215
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Long-term obligations	(120,266,553)		
Compensated absences	(96,545)		
Accrued interest payable	(1,454,583)		
Deferred charges on bond issuance costs	<u>2,384,037</u>		<u>(119,433,644)</u>
Net assets of governmental activities (page 10)		\$	<u><u>(14,384,198)</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, 2006**

	Capital Projects Funds			
	Chico Amended and Merged Redevelopment	Chico Merged Low and Moderate Income Housing	Chico Merged Arts	CalHome Grant
<b>Revenues</b>				
Property tax increment	\$ 22,230,697	\$ -	\$ -	\$ -
Investment earnings	1,566,224	450,453	8,437	(1,770)
Intergovernmental revenue	-	-	-	208,000
Other revenue	14,208	162,418	-	-
<b>Total revenues</b>	<b>23,811,129</b>	<b>612,871</b>	<b>8,437</b>	<b>206,230</b>
<b>Expenditures</b>				
<b>Current:</b>				
Administrative	1,784,750	131,926	-	-
Pass-through agreements	5,459,366	-	-	-
Community development	378,791	327,448	-	-
Redevelopment	14,230,383	132,154	61,560	-
Capital outlay	1,200,000	-	-	-
<b>Debt service:</b>				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Bond issuance costs	1,328,259	-	-	-
<b>Total expenditures</b>	<b>24,381,549</b>	<b>591,528</b>	<b>61,560</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	(570,420)	21,343	(53,123)	206,230
<b>Other financing sources (uses):</b>				
Transfers in	-	4,644,818	125,159	-
Transfers out	(13,765,353)	(385,817)	-	-
Debt issuance	68,500,000	-	-	-
Premium on debt issuance	998,536	-	-	-
Proceeds from sale of capital assets	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>55,733,183</b>	<b>4,259,001</b>	<b>125,159</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>55,162,763</b>	<b>4,280,344</b>	<b>72,036</b>	<b>206,230</b>
Fund balances, beginning of year	14,124,539	18,277,629	256,128	180,762
Fund balances, end of year	<u>\$ 69,287,302</u>	<u>\$ 22,557,973</u>	<u>\$ 328,164</u>	<u>\$ 386,992</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, 2006**

	Debt Service Funds					
	1996 Tax Allocation Revenue Bonds	2001 Tax Allocation Revenue Bonds	2005 Tax Allocation Bonds	Chico Merged RPA Low and Moderate Income Housing	Chico Merged RPA Reserves	Total
<b>Revenues</b>						
Property tax increment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,230,697
Investment earnings	7,112	5,457	2,926	-	294,572	2,333,411
Intergovernmental revenue	-	-	-	-	-	208,000
Other revenue	-	-	-	-	-	176,626
<b>Total revenues</b>	<b>7,112</b>	<b>5,457</b>	<b>2,926</b>	<b>-</b>	<b>294,572</b>	<b>24,948,734</b>
<b>Expenditures</b>						
Current:						
Administrative	-	-	-	-	-	1,916,676
Pass-through agreements	-	-	-	-	-	5,459,366
Community development	-	-	-	-	-	706,239
Redevelopment	-	-	-	-	-	14,424,097
Capital outlay	-	-	-	-	-	1,200,000
Debt service:						
Principal retirement	740,000	765,532	-	154,468	-	1,660,000
Interest and fiscal charges	1,279,540	1,146,545	1,205,303	231,349	-	3,862,737
Bond issuance costs	-	-	-	-	-	1,328,259
<b>Total expenditures</b>	<b>2,019,540</b>	<b>1,912,077</b>	<b>1,205,303</b>	<b>385,817</b>	<b>-</b>	<b>30,557,374</b>
Excess (deficiency) of revenues over (under) expenditures	(2,012,428)	(1,906,620)	(1,202,377)	(385,817)	294,572	(5,608,640)
Other financing sources (uses):						
Transfers in	2,039,557	1,923,728	1,218,099	385,817	4,092,746	14,429,924
Transfers out	-	-	-	-	(278,754)	(14,429,924)
Debt issuance	-	-	-	-	-	68,500,000
Premium on debt issuance	-	-	-	-	-	998,536
Proceeds from sale of capital assets	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>2,039,557</b>	<b>1,923,728</b>	<b>1,218,099</b>	<b>385,817</b>	<b>3,813,992</b>	<b>69,498,536</b>
<b>Net change in fund balances</b>	<b>27,129</b>	<b>17,108</b>	<b>15,722</b>	<b>-</b>	<b>4,108,564</b>	<b>63,889,896</b>
Fund balances, beginning of year	77,061	10,412	-	-	4,422,966	37,349,497
Fund balances, end of year	<u>\$ 104,190</u>	<u>\$ 27,520</u>	<u>\$ 15,722</u>	<u>\$ -</u>	<u>\$ 8,531,530</u>	<u>\$ 101,239,393</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, 2006**

Net change in fund balances - total governmental funds (page 16)		\$ 63,889,896
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.		1,200,000
Net effect of donation of capital assets is to increase net assets		304,920
Revenues previously deferred in the governmental funds because they were not collected within the Agency's availability period, were recognized in the statement of activities. However, in the current year those revenues represent a current financial resource for the governmental funds and were recognized as revenue.		3,793
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.		
Long-term debt issued	(68,500,000)	
Premium on debt issuance	(998,536)	
Deferred charges on bond issuance costs	1,328,259	
Principal retirement	<u>1,660,000</u>	(66,510,277)
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		(3,266)
Change in interest payable		(791,452)
Amortization of debt premium		36,983
Amortization of bond issuance costs		<u>(109,090)</u>
Change in net assets of governmental activities (page 11)		<u>\$ (1,978,493)</u>

See accompanying notes to the basic financial statements.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Reporting Entity

The Chico Redevelopment 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.

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 4, Chapter 5, Division 7, Title 1, of the California Government Code (commencing with Government Code Section 6500). The CPFA is authorized, among other things, to issue bonds pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, as set forth in Article 4, Chapter 5, Division 7, Title 1, of the California Government Code (commencing with Government Code Section 6584) for the purpose of financing facilities and improvements. The financing activity of the Authority is included in the Agency's financial statements in the debt service funds.

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 not properly included among program revenues, are reported instead as general revenues.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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.

Substantially all taxes and 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:

Capital Projects Funds:

- Chico Amended and Merged Redevelopment – Accounts for tax increment revenue, bond proceeds and expenditures for eligible redevelopment projects and program administration within the project area.
- Chico Merged Low and Moderate Income Housing – Accounts for the 20% housing set-aside monies and expenditures for improvements to the low-and moderate-income housing stock and related activities within the project area.
- Chico Merged Arts – Accounts for the tax increment set-aside pursuant to Council policy for funding of public arts projects within the project area.
- 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.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Debt Service Funds:

- 1996 Tax Allocation Revenue Bonds (1996 TARBS) – Accounts for the accumulation of resources for the payment of debt service on the related bonds.
- 2001 Tax Allocation Revenue Bonds (2001 TARBS) – Accounts for the accumulation of resources for the payment of debt service on the related bonds.
- 2005 Tax Allocation Bonds (2005 TABS) – Accounts for the accumulation of resources for the payment of debt service on the related bonds.
- Chico Merged RPA Low and Moderate Income Housing Funds – Accounts for the accumulation of resources for the payment of debt service on the related bonds.
- Chico Merged RPA Reserves – Accounts for reserves as required by the Indentures of Trust for the 1996 and 2001 Tax Allocation Revenue Bonds and the 2005 Tax Allocation Bonds.

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.

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. 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 total expenditures of any fund requires approval by the Board of Directors. The legal level of budgetary control is at the fund level.

Budget information is adopted on an annual basis for the debt service funds and on a project length basis for capital projects funds. Original appropriations are adjusted for supplemental appropriations and budget modifications made during the year. The actual results of revenues and expenditures are

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

estimated for the current fiscal year. These estimates are adopted as the final budget for the current fiscal year with the adoption by the Board of Directors of the budget for the upcoming fiscal year.

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 reappropriated in the subsequent fiscal year.

Property Taxes

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.

Capital Assets

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

Restricted Assets

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

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 tentative management plans that are subject to change.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE B – CASH AND INVESTMENTS**

***I. Authorized Investments***

The table below identifies the investment types that are authorized for the Agency by California Government Code 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.

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

***II. Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency’s 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, 2006, none of the City’s deposits with financial institutions in excess of federal depository insured amounts (\$1,848,650) were held in uncollateralized accounts. 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.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE B – CASH AND INVESTMENTS (Continued)**

***III. 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 include \$64,477,682 in unrestricted cash and investments reported in the Chico Amended and Merged RPA Fund, which are held in a guaranteed investment contract issued by Rabobank.

***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 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. As of June 30, 2006, 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	Over 5 Years	
Investments held by City Treasurer:						
Cash on Hand						\$ 13,960
Local Agency Investment Fund	N/A	\$ -	\$ 7,724,347	\$ -	\$ -	7,724,347
Securities in City of Chico Pool	N/A	783,009	1,672,244	8,338,334	-	<u>10,793,587</u>
Total Investments held by City Treasurer:						<u>18,531,894</u>
Investments held by Fiscal Agents:						
Guaranteed Investment Contract	Not Rated	-	-	64,477,682	-	64,477,682
Money Market Mutual Fund	AAA	4,586,216	-	-	-	4,586,216
Guaranteed Investment Contract	AAA/Aaa	-	-	-	4,092,746	<u>4,092,746</u>
Total Investments held by Fiscal Agents:						<u>73,156,644</u>
Total Cash and Investments:						<u>\$ 91,688,538</u>

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE B – CASH AND INVESTMENTS (Continued)**

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, 2006, are displayed on the governmental funds balance sheet as follows:

Cash and Investments	\$ 83,009,576
Restricted Cash and Investments	8,678,962
Total Cash and Investments:	\$ 91,688,538

**NOTE C – RECEIVABLES**

Receivables at June 30, 2006, consist of the following:

	Chico Amended and Merged Redevelopment	Chico Merged Low and Moderate Income Housing	CalHome Grant	Total
Interest	\$ --	\$ 930,614	\$ 8,602	\$ 939,216
Taxes	384,610	--	--	384,610
Accounts	71,880	--	--	71,880
Intergovernmental	--	--	125,000	125,000
Loans	2,042,744	13,015,649	388,000	15,446,393
Total Receivables:	\$ 2,499,234	\$13,946,263	\$ 521,602	\$ 16,967,099

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

Loans receivable of \$15,446,393 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 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. Of the receivables at June 30, 2006, \$16,229,634 is not expected to be received within one year.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE D – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 1,365,918	\$ 1,504,920	\$ --	\$ 2,870,838

**NOTE E – INTERFUND BALANCES**

Interfund balances as of June 30, 2006, consist of the following:

Due to/from other funds:

<u>Receivable Fund:</u>	<u>Payable Fund:</u>	<u>Amount</u>
Chico Amended and Merged Redevelopment	Cal Home Grant	\$ 14,008

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2006, and will be repaid early in fiscal year 2007.

**NOTE F – PAYABLES**

Payables at June 30, 2006, consist of the following:

	<u>Chico Amended and Merged Redevelopment</u>	<u>Chico Merged Low and Moderate Income Housing</u>	<u>Total</u>
Accounts Payable	\$ 1,918,585	\$ 1,092,643	\$ 3,011,228
Accrued Wages and Benefits	6,442	3,982	10,424
Intergovernmental Payable	4,078,898	147	4,079,045
<b>Total Payables:</b>	<b>\$ 6,003,925</b>	<b>\$ 1,096,772</b>	<b>\$ 7,100,697</b>

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE G – INTERFUND TRANSACTIONS**

For the year ended June 30, 2006, transfers in and out were comprised of the following:

Transfers To	Transfers from			Totals
	Capital Projects Funds	Chico Merged Low and Moderate Income Housing	Debt Service Fund	
Chico Merged Redevelopment Low and Moderate Income Housing	\$ 4,644,818	\$ --	\$ --	\$ 4,644,817
Chico Merged Art	125,159	--	--	125,129
1996 Tax Allocation Revenue Bonds	1,864,908	--	174,649	2,039,557
2001 Tax Allocation Revenue Bonds	1,863,883	--	59,845	1,923,728
Chico Merged RPA Low and Moderate Income Housing Debt Service Fund	--	385,817	--	385,817
2005 Tax Allocation Bonds	1,173,839	--	44,260	1,218,099
Chico Merged RPA Reserves	4,092,746	--	--	4,092,746
Totals:	\$ 13,765,353	\$ 385,817	\$ 278,754	\$ 14,429,924

Transfers between funds were made primarily to set aside resources for low and moderate income housing as required by law and for the payment of debt service on the outstanding tax allocation revenue bonds.

**NOTE H – LONG-TERM LIABILITIES**

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, 2025. 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.

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 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, 2019.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE H – LONG-TERM LIABILITIES (Continued)**

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.

1996 Tax Allocation Revenue Bonds

On February 14, 1996, the Authority issued \$29,285,000 of 1996 Tax Allocation Revenue Bonds (1996 TARBS). The proceeds of the 1996 TARBS were loaned to the Agency to finance redevelopment projects in the Chico Merged Redevelopment Project Area and to repay the Agency's prior loans to the Authority relating to the Authority's 1986 Tax Allocation Bonds and 1991 Revenue Bonds, Series B. Interest rates for the remaining term of the 1996 TARBS range from 4.875%-5.50%, and payments are due in semi-annual installments on October 1 and April 1, through April 1, 2025. Additionally, term bonds of \$3,560,000, \$2,045,000 and \$11,135,000 are due April 1, 2016, 2019, and 2025, respectively. The Agency is subject to mandatory sinking fund payments ranging from \$650,000 to \$2,595,000 beginning 2014 and ending 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 and 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.

Changes in the Agency's long-term liabilities during the year ended June 30, 2006, were as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>	<u>Due within One year</u>
Revenue Bonds Payable:					
2005 TABS	\$ --	\$ 68,500,000	\$ --	\$ 68,500,000	\$ 165,000
2001 TARBS	28,605,000	--	(920,000)	27,685,000	950,000
1996 TARBS	23,860,000	--	(740,000)	23,120,000	780,000
Plus deferred amounts:					
Original issue premiums	--	998,536	(36,983)	961,553	--
Total bonds payable	52,465,000	69,498,536	(1,696,983)	120,266,553	1,895,000
Compensated absences	93,279	127,231	(123,965)	96,545	9,099
Total long-term liabilities	<u>\$ 52,558,279</u>	<u>\$ 69,625,767</u>	<u>\$ (1,820,948)</u>	<u>\$ 120,363,098</u>	<u>\$ 1,904,099</u>

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE H – LONG-TERM LIABILITIES (Continued)**

Future annual debt service requirements for the 2005 TABS loans are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 165,000	\$ 3,238,127	\$ 3,403,127
2008	490,000	3,232,353	3,722,353
2009	785,000	3,215,202	4,000,202
2010	890,000	3,187,728	4,077,728
2011	920,000	3,156,577	4,076,577
2012-2016	5,165,000	15,212,988	20,377,988
2017-2021	6,445,000	14,070,354	20,515,354
2022-2026	13,010,000	12,497,106	25,507,106
2027-2031	33,005,000	7,017,750	40,022,750
2032	7,625,000	381,250	8,006,250
	<u>\$ 68,500,000</u>	<u>\$ 65,209,435</u>	<u>\$ 133,709,435</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 950,000	\$ 1,338,374	\$ 2,288,374
2008	995,000	1,300,374	2,295,374
2009	1,025,000	1,260,574	2,285,574
2010	1,075,000	1,219,574	2,294,574
2011	1,115,000	1,176,572	2,291,572
2012-2016	6,340,000	5,028,041	11,368,041
2017-2021	12,295,000	2,925,169	15,220,169
2022-2024	3,890,000	404,875	4,294,875
	<u>\$ 27,685,000</u>	<u>\$ 14,653,553</u>	<u>\$ 42,338,553</u>

Future annual debt service requirements for the 1996 TARBS loans are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 780,000	\$ 1,241,830	\$ 2,021,830
2008	815,000	1,203,805	2,018,805
2009	865,000	1,163,055	2,028,055
2010	900,000	1,118,940	2,018,940
2011	950,000	1,072,815	2,022,815
2012-2016	5,630,000	4,553,120	10,183,120
2017-2021	3,595,000	3,244,970	6,839,970
2022-2025	9,585,000	1,353,825	10,938,825
	<u>\$ 23,120,000</u>	<u>\$ 14,952,360</u>	<u>\$ 38,072,360</u>

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE I – 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 Community College District, and the Butte County Superintendent of Schools. The agreements call for payments to the entities for varying amounts.

The Chico Redevelopment Agency recently 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.

**NOTE J – 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 is a part of the City's general liability and workers' compensation liability self-insurance programs that finance its uninsured risks of loss. 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. Settled claims resulting from these programs have not exceeded insurance coverage in any of the past three fiscal years.

The City is also a member of the California Joint Powers Risk Management Authority (JPA) for liability insurance purposes. The JPA 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 JPA 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 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 adjusted 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 up to \$5,000,000, and purchase insurance to provide additional coverage up to \$40,000,000. The auto/general liability program of the JPA 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 JPA's auto physical damage program which provides property damage coverage for vehicles valued in excess of \$25,000.

**CHICO REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE K – CONTINGENCIES**

The Agency has assumed some financial responsibility for resolving the toxic contamination at one of the contamination sites located within the City. The cost of the remaining remedial work at this site is estimated to be approximately \$2,500,000.

**NOTE L – RESTATEMENT OF NET ASSETS**

During the year ended June 30, 2006, the Agency recorded a prior period adjustment to record cost of issuance for the 1996 and 2001 Tax Allocation Revenue Bonds not reflected in its financial statements. The adjustment had no impact on the Agency's operations. The impact of the restatement on net assets as previously reported is presented below:

Net assets (deficit), June 30, 2005, as previously reported	\$ (13,570,573)
Cost of Issuance	1,164,868
Net assets (deficit), July 1, 2005, as restated	<u>\$ (12,405,705)</u>

## **OTHER REPORT**

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS (INCLUDING THE PROVISIONS CONTAINED  
IN THE *GUIDELINES FOR COMPLIANCE AUDITS OF  
REDEVELOPMENT AGENCIES*) BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Chico Redevelopment Agency  
Chico, California

We have audited the financial statements of the governmental activities and each major fund of the Chico Redevelopment Agency (Agency), a component unit of the City of Chico, California, as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Agency's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the City's schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

### Compliance and Other Matters

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 grant agreements, 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 *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, Division of Accounting and Reporting. 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 audit committee, management, Board of Directors, and the State Controller's Office, Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

*Nystrom & Company LLP*

September 22, 2006