

CHICO PUBLIC FINANCING AUTHORITY

Chico, California



Component Unit Financial Report

Year Ended June 30, 2006

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

Independent Auditors' Report,
Financial Statements and
Required Supplementary Information

Year Ended June 30, 2006

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

Honorable Chairman and Members
of the Board of Directors
Chico Public Financing Authority
Chico, California

We have audited the accompanying financial statements of the Chico Public Financing Authority, a component unit of the City of Chico, California, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Chico Public Financing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chico Public Financing Authority as of June 30, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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

August 30, 2006

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Management's Discussion and Analysis
June 30, 2006

The following discussion and analysis of the Chico Public Financing Authority's (the Authority) financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2006. The City Finance Department prepared this discussion and analysis. Please read it in conjunction with the Authority's financial statements, which begin on page 4. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest solely with management of the Authority. To the best of our knowledge and belief, the financial statements, as presented, are accurate in all material respects.

Financial Statements

The Authority's financial statements are those of a special-purpose government engaged only in providing debt financing for capital improvements benefiting the City. Under Governmental Accounting Standards Board (GASB) Statement No. 34, governments like the Authority that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net assets; (2) statement of revenues, expenses and changes in net assets; and (3) statement of cash flows.

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

The following table summarizes the changes in net assets:

| Statement of Net Assets | | | |
|--------------------------------|--------------|--------------|---------------------------|
| June 30, 2006 | | | |
| | 2006 | 2005 | Total Dollar Change |
| Current assets | \$ 2,506,761 | \$ 2,410,604 | \$ 96,157 |
| Noncurrent assets | 50,179,973 | 51,969,868 | (1,789,895) |
| Total assets | 52,686,734 | 54,380,472 | (1,693,738) |
| Current liabilities | 2,375,051 | 2,323,131 | 51,920 |
| Noncurrent liabilities | 49,075,000 | 50,805,000 | (1,730,000) |
| Total liabilities | 51,450,051 | 53,128,131 | (1,678,080) |
| Restricted net assets | \$ 1,236,683 | \$ 1,252,341 | \$ (15,658) |

The Authority has issued bonds, the proceeds of which have been loaned to the Chico Redevelopment Agency, to provide financing for capital improvements of the City of Chico.

Payment of \$1,660,000 from the Chico Redevelopment Agency on its loan from the Authority was used to make scheduled principal payments, thereby reducing both assets and liabilities.

During the year net assets decreased by \$15,658, due to amortization of bond issuance costs of \$59,895 and interest revenue from the Chico Redevelopment Agency that was in excess of the amount used to pay the bond interest.

**Statement of Activities
Year Ended June 30, 2006**

| | <u>2006</u> | <u>2005</u> | <u>Total Dollar Change</u> |
|-------------------------------|---------------------|---------------------|------------------------------------|
| Investment earnings | \$ 12,570 | \$ 4,001 | \$ 8,569 |
| Interest revenue | <u>2,671,020</u> | <u>2,789,220</u> | <u>(118,200)</u> |
| Total revenues | <u>2,683,590</u> | <u>2,793,221</u> | <u>(109,631)</u> |
| Interest expense | <u>2,699,248</u> | <u>2,769,567</u> | <u>(70,319)</u> |
| Change in net assets | (15,658) | 23,654 | (39,312) |
| Net assets, beginning of year | <u>1,252,341</u> | <u>1,228,687</u> | <u>23,654</u> |
| Net assets, end of year | <u>\$ 1,236,683</u> | <u>\$ 1,252,341</u> | <u>\$ (15,658)</u> |

Long-term Debt

The long-term debt of the Authority at June 30, 2006, included \$50,805,000 of outstanding tax allocation revenue bonds. The bonds will be repaid through lease agreements with the City that are structured to meet principal and interest requirements when due. During the 2005/06 fiscal year, long-term debt decreased by \$1,660,000 due to scheduled principal retirements.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Chico, P.O. Box 3420, Chico, California 95927.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Statement of Net Assets
June 30, 2006

Assets

Current assets:

| | |
|---|------------------|
| Restricted cash and investments (Note 3) | \$ 131,710 |
| Accrued interest receivable from Chico Redevelopment Agency | 645,051 |
| Loans receivable from Chico Redevelopment Agency | <u>1,730,000</u> |
| Total current assets | <u>2,506,761</u> |

Noncurrent assets:

| | |
|--|-------------------|
| Unamortized costs of issuance | 1,104,973 |
| Loans receivable from Chico Redevelopment Agency | <u>49,075,000</u> |
| Total noncurrent assets | <u>50,179,973</u> |
| Total assets | <u>52,686,734</u> |

Liabilities

Current liabilities:

| | |
|---------------------------|------------------|
| Bond interest payable | 645,051 |
| Bonds payable (Note 4) | <u>1,730,000</u> |
| Total current liabilities | 2,375,051 |

Noncurrent liabilities:

| | |
|------------------------|-------------------|
| Bonds payable (Note 4) | <u>49,075,000</u> |
| Total liabilities | <u>51,450,051</u> |

| | |
|---|----------------------------|
| Net assets restricted for debt service | <u><u>\$ 1,236,683</u></u> |
|---|----------------------------|

See accompanying notes to financial statements.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006

| | |
|--|----------------------------|
| Operating revenues: | |
| Interest - loans to Chico Redevelopment Agency | <u>\$ 2,671,020</u> |
| Nonoperating revenues (expenses): | |
| Investment earnings | 12,570 |
| Bond interest | (2,639,353) |
| Amortization | <u>(59,895)</u> |
| Total nonoperating revenues (expenses) | <u>(2,686,678)</u> |
| Change in net assets | (15,658) |
| Net assets, beginning of year | <u>1,252,341</u> |
| Net assets, end of year | <u><u>\$ 1,236,683</u></u> |

See accompanying notes to financial statements.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Statement of Cash Flows
Year Ended June 30, 2006

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Cash received from Chico Redevelopment Agency - interest and other | <u>\$ 2,689,100</u> |
| Cash flows from noncapital financing activities: | |
| Cash paid for principal on bonds | (1,660,000) |
| Cash paid for interest on bonds | <u>(2,657,433)</u> |
| Net cash used for noncapital financing activities | <u>(4,317,433)</u> |
| Cash flows from investing activities: | |
| Loan repayments from Chico Redevelopment Agency - principal portion | 1,660,000 |
| Investment income | <u>12,570</u> |
| Net cash provided by investing activities | <u>1,672,570</u> |
| Net increase in cash and cash equivalents | 44,237 |
| Cash and cash equivalents: | |
| Beginning of year | <u>87,473</u> |
| End of year | <u><u>\$ 131,710</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 2,671,020 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Changes in operating assets and liabilities: | |
| Accrued interest receivable from Chico Redevelopment Agency | <u>18,080</u> |
| Net cash provided by operating activities | <u><u>\$ 2,689,100</u></u> |
| Noncash investing, capital and financing activities: | |
| Amortization of costs of issuance | <u><u>\$ 59,895</u></u> |

See accompanying notes to financial statements.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements
Year Ended June 30, 2006

NOTE 1 – REPORTING ENTITY

The City of Chico (City) Council and the governing board of the Chico Redevelopment Agency (the Agency) established a joint powers agency known as the Chico Public Financing Authority (the Authority) to facilitate the financing of public improvements as well as other facilities and improvements that can be funded through the issuance of tax-exempt bonds. The Authority is authorized to issue bonds pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985 as set forth in the California Government Code for the purpose of making loans to the Agency to provide financing for public capital improvements of the City.

The City exercises significant management and financial control over the Authority. As such, the Authority is considered a component unit of the City, and its financial activities are blended into the City's basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

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

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

The Authority has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements (Continued)
Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Authority is interest revenue on loans to the Agency. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Assets

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

Cash Equivalents

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

Costs of Issuance

The costs of issuance of long-term debt issued by the Authority are deferred and amortized over the life of the related debt.

Loans Receivable

Debt service on the Authority's bonds is funded by the Agency's loan repayments. The loan agreements call for loan repayments in amounts that correspond to the Authority's debt service requirements. The loans receivable are equal to the outstanding bonds.

Use of Estimates

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

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

The Authority reports its investments at fair value. Investments have been made as permitted by specific statutes governing their investment, applicable Authority resolution or bond indenture. At June 30, 2006, the Authority's investments of \$131,710 are comprised of money market mutual funds. The money market mutual funds are rated AAA, and not subject to custodial credit risk. The weighted average maturity of the money market mutual funds is less than thirty days.

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements (Continued)
Year Ended June 30, 2006

NOTE 4 – LONG-TERM DEBT

2001 Tax Allocation Revenue Bonds

In July 2001, the Authority issued \$32,060,000 of 2001 Tax Allocation Revenue Bonds (2001 TARBS). The proceeds of the 2001 TARBS were loaned to the Agency to finance redevelopment projects in the Chico 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. 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

In February 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 from 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 Authority is subject to mandatory sinking fund payments ranging from \$650,000 to \$2,595,000 beginning 2014 and ending 2025.

Changes in the Authority’s long-term debt for the year ended June 30, 2006 were as follows:

| Bonds payable: | <u>July 1, 2005</u> | <u>Retirements</u> | <u>June 30, 2006</u> | <u>Due within one year</u> |
|-----------------------------------|----------------------|-----------------------|----------------------|--------------------------------|
| 2001 Tax Allocation Revenue Bonds | \$ 28,605,000 | \$ (920,000) | \$ 27,685,000 | \$ 950,000 |
| 1996 Tax Allocation Revenue Bonds | 23,860,000 | (740,000) | 23,120,000 | 780,000 |
| Total | \$ 52,465,000 | \$ (1,660,000) | \$ 50,805,000 | \$ 1,730,000 |

CHICO PUBLIC FINANCING AUTHORITY
(A Component Unit of the City of Chico, California)
Notes to Financial Statements (Continued)
Year Ended June 30, 2006

NOTE 4 – LONG-TERM DEBT (Continued)

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

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|----------------------|----------------------|----------------------|
| 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 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> |