

**CHICO URBAN AREA JOINT POWERS  
FINANCING AUTHORITY**

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

**Annual Financial Report**

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**Year Ended June 30, 2016**

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

Independent Auditors' Report and  
Financial Statements

Year Ended June 30, 2016

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Year Ended June 30, 2016**

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## 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, 2016, and the related notes to the financial statements, which collectively comprise the Authority'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, 2016, 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.

**Emphasis of Matter**

As described in Note I-E to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

**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.

*Varrinck, Trine, Day & Co. LLP*

Sacramento, California  
November 28, 2016

**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, 2016**

|  | Capital Projects<br>Fund | Adjustments<br>(Note II D) | Statement<br>of Net<br>Position |
|--|--------------------------|----------------------------|---------------------------------|
| <b>Assets</b>  |                          |                            |                                 |
| Current assets:                                      |                          |                            |                                 |
| Restricted cash and investments                      | \$ 10,327,425            | \$ -                       | \$ 10,327,425                   |
| Interest receivable                                  | 13,341                   | -                          | 13,341                          |
| Prepaid expenses                                     | 773                      | -                          | 773                             |
| Total assets   | \$ 10,341,539            | \$ -                       | 10,341,539                      |
| <br><b>Liabilities and Fund Balance/Net Position</b> |                          |                            |                                 |
| Current liabilities:                                 |                          |                            |                                 |
| Accounts payable                                     | \$ 773                   | -                          | 773                             |
| Noncurrent liabilities:                              |                          |                            |                                 |
| Loans payable  | -                        | 23,059,478                 | 23,059,478                      |
| Total liabilities                                    | 773                      | 23,059,478                 | 23,060,251                      |
| <br><b>Fund Balance/Net Position</b>                 |                          |                            |                                 |
| Fund balances:                                       |                          |                            |                                 |
| Restricted for sewer projects                        | 10,340,766               | (10,340,766)               |                                 |
| Total Liabilities and Fund Balance                   | \$ 10,341,539            |                            |                                 |
| <br><b>Net Position:</b>                             |                          |                            |                                 |
| Unrestricted   |                          | (12,718,712)               | (12,718,712)                    |
| Total net position                                   |                          | \$ (12,718,712)            | \$ (12,718,712)                 |

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, 2016**

|  | Capital Projects<br>Fund | Adjustments<br>(Note II D) | Statement<br>of Activities |
|--|--------------------------|----------------------------|----------------------------|
| <b>Expenditures/Expenses:</b>                        |                          |                            |                            |
| Administrative expenses                              | \$ 26,173                | \$ -                       | \$ 26,173                  |
| Construction expenses                                | 191,289                  | (191,289)                  | -                          |
| Conveyance of capital assets                         | -                        | 191,289                    | 191,289                    |
| Interest accretion                                   | -                        | 450,002                    | 450,002                    |
|  | <u>217,462</u>           | <u>450,002</u>             | <u>667,464</u>             |
| <b>Program revenues:</b>                             |                          |                            |                            |
| Intergovernmental revenue                            | 1,900,000                | (1,900,000)                | -                          |
| Capital grants and contributions                     | -                        | 1,900,000                  | 1,900,000                  |
| Total program revenue                                | <u>1,900,000</u>         | <u>-</u>                   | <u>1,900,000</u>           |
| Net program (expense) revenue                        | 1,682,538                | (450,002)                  | 1,232,536                  |
| <b>General revenues:</b>                             |                          |                            |                            |
| Investment earnings                                  | <u>41,578</u>            | <u>-</u>                   | <u>41,578</u>              |
| Excess (deficiency) of revenues<br>over expenditures | 1,724,116                | (450,002)                  | 1,274,114                  |
| <b>Other financing sources (uses):</b>               |                          |                            |                            |
| Issuance of long-term debt                           | <u>2,249,960</u>         | <u>(2,249,960)</u>         | <u>-</u>                   |
| Change in fund balance/net position                  | 3,974,076                | (2,699,962)                | 1,274,114                  |
| <b>Fund balance/net position:</b>                    |                          |                            |                            |
| Beginning of the year                                | <u>6,366,690</u>         | <u>(20,359,516)</u>        | <u>(13,992,826)</u>        |
| End of the year                                      | <u>\$ 10,340,766</u>     | <u>\$ (23,059,478)</u>     | <u>\$ (12,718,712)</u>     |

See accompanying notes to the financial statements

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**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

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**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**

Capital Assets

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.

Long-Term Liabilities

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.

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**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.

**E. IMPLEMENTATION OF NEW GOVERNMENTAL ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the JPFA's financial reporting process. New standards applicable to the year ending June 30, 2016 are as follows:

Statement No. 72 - Fair - Value Measurement and Application. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The disclosures required by this Statement are included in Note II A.

Statement No. 73 – Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68. This statement provides additional guidance and clarification regarding provisions of GASB No. 68. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The JPFA has determined that the provisions of this Statement did not have a material impact on the JPFA's basic financial statements for the fiscal year ending June 30, 2016.

Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement provides a framework for the sources and authority of generally accepted accounting principles (GAAP). The JPFA has determined that the provisions of this Statement did not have a material impact on the JPFA's basic financial statements for the fiscal year ending June 30, 2016.

Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The JPFA has determined that the provisions of this Statement did not have a material impact on the JPFA's basic financial statements for the fiscal year ending June 30, 2016.

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. IMPLEMENTATION OF NEW GOVERNMENTAL ACCOUNTING STANDARDS (Continued)**

Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73.* This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The JPFA has determined that the provisions of this Statement did not have a material impact on the JPFA’s basic financial statements for the fiscal year ending June 30, 2016.

The JPFA is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of the following GASB statements:

Statement No. 73 – *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68.* This statement provides additional guidance and clarification regarding provisions of GASB No. 68. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The JPFA has not determined its effect on the financial statements for the provisions of this Statement effective for fiscal years beginning after June 15, 2016.

Statement No. 74 – *Financial Reporting for Postemployment benefit Plans Other Than Pension Plans.* This statement provides guidance for recording other postemployment benefits or OPEB. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2016. The JPFA has not determined its effect on the financial statements.

Statement No. 75 – *Accounting and Financial Reporting for Postemployment benefit Plans Other Than Pension Plans.* This statement provides additional guidance and clarification for recording other postemployment benefits or OPEB. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017. The JPFA has not determined its effect on the financial statements.

Statement No. 77 – *Tax Abatement Disclosures.* This statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The provisions of this statement are effective for financial statements for reporting periods beginning after December 15, 2015. The JPFA has not determined its effect on the financial statements.

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. IMPLEMENTATION OF NEW GOVERNMENTAL ACCOUNTING STANDARDS (Continued)**

Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to excluded pensions provided to employees of state or local governmental employers through a cost-sharing multiple-

employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The provisions of this statement are effective for financial statements for reporting periods beginning after December 15, 2015. The JPFA has not determined its effect on the financial statements.

Statement No. 79 – *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The JPFA has not determined its effect on the financial statements for the Statement's provisions applicable to years beginning after December 15, 2015.

Statement No. 80 – *Blending Requirements for Certain Component Units - An Amendment of Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The JPFA has not determined its effect on the financial statements.

Statement No. 81 – *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capability of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The JPFA has not determined its effect on the financial statements.

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**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.

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.

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**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**II. DETAILED NOTES (Continued)**

A. CASH AND INVESTMENTS (Continued)

*II. Custodial Credit Risk (Continued)*

The JPFA has an equity position in the City of Chico’s investment pool of \$118,937 at June 30, 2016. As of June 30, 2016, the JPFA had \$10,208,488 in LAIF.

*III. Concentration of Credit Risk*

The investment policy of the JPFA authorized by debt agreements 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.

As of June 30, 2016, the JPFA’s investments and credit ratings are as follows:

|  | Credit<br>rating<br>(S&P/Moody's) | Maturity<br>Under 30<br>Days | Fair<br>Value               |
|--|-----------------------------------|------------------------------|-----------------------------|
|  | <u>                    </u>       | <u>                    </u>  | <u>                    </u> |
| Cash held by fiscal agents:                  |                                   |                              |                             |
| Cash held with City of Chico Investment Pool |                                   | \$ 118,937                   | \$ 118,937                  |
| Investments held in City treasury:           |                                   |                              |                             |
| Local Agency Investment Fund                 | Not Rated                         | <u>10,208,488</u>            | <u>10,208,488</u>           |
| Total cash and investments by maturity       |                                   | <u>\$ 10,327,425</u>         | <u>\$ 10,327,425</u>        |

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**II. DETAILED NOTES (Continued)**

A. CASH AND INVESTMENTS (Continued)

*IV. Interest Rate and Credit Risk (Continued)*

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

The cash and investments as of June 30, 2016, are displayed on the JPFA's Statement of Net Position as follows:

Total Cash and Investments:                      \$ 10,327,425

**V. Fair Value Measurements**

Statement No. 72 of the Governmental Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes investment valuation techniques used to measure fair value. The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments in the City of Chico Investment Pool and LAIF are uncategorized as deposits and withdrawals are made on a basis of \$1 and not fair value. Accordingly, under the hierarchy, these investments are uncategorized.

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**II. DETAILED NOTES (Continued)**

**B. CONSTRUCTION EXPENDITURES**

During the current period, the JPFA constructed sewer related infrastructure totaling \$191,289. 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 (SWRCB) to finance the construction and installation of sewer facilities and improvements in the Greater 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 payment 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, 2016, \$17,100,000 has been received by the JPFA from the Redevelopment Agency and Successor Agency to the Redevelopment Agency.

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

|   |                        |
|---|------------------------|
| Total governmental fund balance   | \$ 10,340,766          |
| 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. | (23,059,478)           |
| Net position of governmental activities   | <u>\$ (12,718,712)</u> |

**CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY**  
**(A Component Unit of the City of Chico, California)**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016**

**II. DETAILED NOTES (Continued)**

**E. RECONCILIATION OF THE GOVERNMENTAL 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   | \$ 3,974,076 |
| 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.            | (2,249,960)  |
| 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. | (450,002)    |
| Change in net position of governmental activities   | \$ 1,274,114 |

**F. LONG-TERM DEBT**

Loans Payable

A loan in the amount of \$38,000,000, has been approved by the SWRCB for the JPFA's Nitrate Compliance Program. During the life of the project, the Loan Program allows the JPFA to 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 the cost of obtaining the 0% loan from the SWRCB. As of June 30, 2016, construction draws on the loan were \$2,249,960, while the local match totals \$450,002. 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.

Changes to the JPFA's long-term debt for the year ended June 30, 2016 were as follows:

|                           | July 1, 2015  | Additions    | June 30, 2016 | Due Within<br>One Year |
|---------------------------|---------------|--------------|---------------|------------------------|
| Loans Payable:            |               |              |               |                        |
| State Revolving Fund Loan | \$ 20,359,516 | \$ 2,699,962 | \$ 23,059,478 | \$ -                   |

Total accumulated accreted interest as of June 30, 2016 was \$3,843,323.

**SUPPLEMENTAL BUDGETARY COMPARISONS**

Schedules of Revenues, Expenditures, and Changes in Fund Balances, Budget to Actual  
(Capital Projects Fund)

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

**Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
Capital Projects Fund  
Year Ended June 30, 2016**

|  | Budgeted Amounts    |                      | Actual<br>Amounts    | Variance with<br>Final Budget |
|--|---------------------|----------------------|----------------------|-------------------------------|
|  | Original            | Final                |                      |                               |
| <b>Expenditures/Expenses:</b>                        |                     |                      |                      |                               |
| Administrative expenses                              | \$ 26,173           | \$ 26,173            | \$ 26,173            | \$ -                          |
| Construction expenses                                | 3,084,102           | 145,133              | 191,289              | (46,156)                      |
| Total expenditures/expenses                          | <u>3,110,275</u>    | <u>171,306</u>       | <u>217,462</u>       | <u>(46,156)</u>               |
| <b>Program revenues:</b>                             |                     |                      |                      |                               |
| Intergovernmental revenue                            | <u>1,900,000</u>    | <u>1,900,000</u>     | <u>1,900,000</u>     | <u>-</u>                      |
| Net program (expense) revenue                        | (1,210,275)         | 1,728,694            | 1,682,538            | (46,156)                      |
| <b>General revenues:</b>                             |                     |                      |                      |                               |
| Investment earnings                                  | <u>25,000</u>       | <u>35,000</u>        | <u>41,578</u>        | <u>6,578</u>                  |
| Excess (deficiency) of revenues<br>over expenditures | (1,185,275)         | 1,763,694            | 1,724,116            | (39,578)                      |
| <b>Other financing sources (uses):</b>               |                     |                      |                      |                               |
| Issuance of long-term debt                           | <u>2,892,559</u>    | <u>2,249,960</u>     | <u>2,249,960</u>     | <u>-</u>                      |
| Change in fund balance/net position                  | 1,707,284           | 4,013,654            | 3,974,076            | (39,578)                      |
| <b>Fund balance/net position:</b>                    |                     |                      |                      |                               |
| Beginning of the year                                | <u>6,366,690</u>    | <u>6,366,690</u>     | <u>6,366,690</u>     | <u>-</u>                      |
| End of the year                                      | <u>\$ 8,073,974</u> | <u>\$ 10,380,344</u> | <u>\$ 10,340,766</u> | <u>\$ (39,578)</u>            |