

CITY OF CHICO  
SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2007

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

Honorable Mayor and City Council  
City of Chico, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chico, California, as of and for the year ended June 30, 2007, which collectively comprise the City of Chico's basic financial statements, and have issued our report thereon dated November 28, 2007. 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 City of Chico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chico'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. 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 management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nystrom & Company LLP*

November 28, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM,  
INTERNAL CONTROL OVER COMPLIANCE AND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council  
City of Chico, California

Compliance

We have audited the compliance of the City of Chico, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Chico's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Chico's management. Our responsibility is to express an opinion on the City of Chico's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Chico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Chico's compliance with those requirements.

In our opinion, the City of Chico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The management of the City of Chico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Chico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chico, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 28, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Chico, California's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nystrom & Company LLP*

November 28, 2007

CITY OF CHICO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Expenditures
<u>U. S. Department of Housing and Urban Development:</u>		
Community Development Block Grants/Entitlement Grants Passed through County of Butte:	14.218	\$ 1,245,246
Community Development Block Grants/Entitlement Grants	14.218	<u>250,933</u>
		1,496,179
Home Investment Partnerships Program	14.239	<u>485,167</u>
Total Department of Housing and Urban Development		<u>1,981,346</u>
<u>U. S. Department of Justice:</u>		
Local Law Enforcement Block Grants Program	16.592	4,899
Bulletproof Vest Partnership Program	16.607	7,530
Community Prosecution and Project Safe Neighborhoods	16.609	8,241
Justice Assistance Grant Program	16.738	<u>17,594</u>
Total Department of Justice		<u>38,264</u>
<u>U. S. Department of Transportation:</u>		
Federal Aviation Administration:		
Airport Improvement Program	20.106	1,708,132
Passed through State Department of Transportation:		
Highway Planning and Construction Program	20.205	364,572
Passed through Town of Paradise:		
State and Community Highway Safety	20.600	4,655
Passed through State Office of Traffic Safety:		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	<u>174,734</u>
Total Department of Transportation		<u>2,252,093</u>
Total Federal Assistance		<u>\$ 4,271,703</u>

Note: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. In addition, the amounts shown as expenditures above constitute all expenditures under the respective programs and thus include local match expenditures.

CITY OF CHICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

**A. SUMMARY OF AUDITORS' RESULTS**

1. The independent auditors' report expresses an unqualified opinion on the financial statements of the City of Chico.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Chico were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program, Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133.
5. The report on compliance for the major federal award programs for the City of Chico expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the City of Chico are reported in this Schedule.
7. The programs tested as major programs included Airport Improvement Program, CFDA No. 20.106, and Highway Planning and Construction Program, CFDA No. 20.205.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Chico qualified as a low-risk auditee.

CITY OF CHICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

None noted.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None noted.

CITY OF CHICO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2007

**REPORTABLE CONDITIONS**

**2006-1 – Misstatements**

The City has a thorough understanding of financial statement reporting requirements and internal controls to meet those requirements. However, during our prior audit, we were required to post four adjustments to the City's financial statements in order for them to be in conformity with generally accepted accounting principles. These adjustments had not been posted as management either did not fully understand the substance of the related transactions or misunderstood the period to which they were related.

As a result, adjustments were required to correct material misstatements in the financial statements.

Though these adjustments were isolated instances and were not indicative of systemic flaws in the internal control structure, we recommended that the City revise its procedures to ensure that all transactions material to the financial statements were identified and posted prior to our audit.

During our audit of the current year, we noted improvements in the City's internal controls over financial reporting and accounting for significant and unusual transactions. Furthermore, we did not identify any adjustments that were required in order for the financial statements to be in conformity with generally accepted accounting principles. Accordingly, this finding has been resolved.