



November 25, 2019

To the Honorable Mayor and City Council  
City of Chico, California

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Chico, California (City) as of and for the year ended June 30, 2019, and have issued our reports thereon dated as indicated below:

**Reporting Entity:**

Comprehensive Annual Financial Report of the City  
Chico Urban Joint Powers Financing Authority

**Audit Report Date:**

November 25, 2019  
November 25, 2019

Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards, *Government Auditing Standards* and the Uniform Guidance**

As communicated in our letter dated April 16, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our Independent Auditor's 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* dated November 25, 2019.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year ended June 30, 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are identified below:

Management's estimates were used in estimating the date of collection to comply with the period of availability for certain revenues, fair value of investments, valuation of investments, depreciation of capital assets, establishing self-insurance liability reserves, the total OPEB liability, the net pension liability, and deferred inflows/outflows of resources related to OPEB and net pension liability. We evaluated the key factors and assumptions used to develop the estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements were:

As disclosed in Note 11 of the financial statements, the valuation of the City's net pension liability and related deferred outflows/inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed in Note 11, a 1% increase or decrease in the discount rate has a material effect on the City's net pension liability.

As disclosed in Note 12 of the financial statements, the valuation of the City's total OPEB liability and related deferred outflows/inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return, discount rate, and the healthcare cost trend rate. As disclosed in Note 12, a 1% increase or decrease in the discount rate or healthcare cost trend rate has a material effect on the City's total OPEB liability.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The attached Schedule of Corrected Misstatements summarizes financial statement misstatements that we identified as a result of our audit procedures and were brought to the attention of, and corrected by, management.

The attached Schedule of Uncorrected Misstatements summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The effect of these uncorrected misstatements, including the effect of the reversal of prior year uncorrected misstatements as of and for the year ended June 30, 2019, is an overstatement of net income and net position of approximately \$261,890.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter dated November 25, 2019.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California

**CITY OF CHICO**  
**SCHEDULE OF CORRECTED MISSTATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Number	Fund	Account/Description	Debit	Credit
1	Private-purpose Trust Fund	Interest on bonds payable	\$ 51,872	
		Deferred amount on bond refunding		\$ 51,872
		<i>(To adjust deferred amounts on refunding for the correct amortization rate.)</i>		
2	Private-purpose Trust Fund	Use of money and property	\$ 42,788	
		Sale of capital asset		\$ 42,788
		<i>(To reflect the gain on sale of capital assets in fiscal year 2018/19.)</i>		

**CITY OF CHICO**  
**SCHEDULE OF UNCORRECTED MISSTATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Number	Fund	Account/Description	Debit	Credit
1	Capital Grants	Capital outlay - Operations Accounts payable	\$ 66,558	\$ 66,558
<i>(To adjust for expenditures paid in fiscal year 2019/20 related to fiscal year 2018/19)</i>				
2	Capital Improvements	Capital outlay - Operations Accounts payable	195,332	195,332
<i>(To adjust for expenditures paid in fiscal year 2019/20 related to fiscal year 2018/19)</i>				