



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

We have audited the following financial statements of the City of Chico, California (the City) and certain component units for the year ended June 30, 2014, and have issued our reports thereon dated as indicated below:

| <u>Reporting Entity</u>                      | <u>Audit Report Date</u> |
|--|--------------------------|
| Comprehensive Annual Financial Report        | December 23, 2014        |
| Chico Urban Joint Powers Financing Authority | December 23, 2014        |
| Chico Public Financing Authority             | December 23, 2014        |

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you on May 2, 2014. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. As described in Note I (F) to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 65 *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. The significant accounting policies used by the City and component units are described in Note I to the financial statements for each reporting entity.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management estimates were used in estimating date of collection to comply with period of availability for certain revenues, establishing self-insurance liabilities and reserves, depreciation expense, liability for other post employment benefits, and pension disclosures. We evaluated the key factors and assumptions used in developing these estimates and they appeared reasonable in relation to the basic financial statements taken as a whole.

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 financial statements were:

As described in Note II(G) to the financial statements, the City has deficit fund equity in numerous funds of the City. If future revenues are not sufficient, it is likely the General Fund will be responsible for any remaining deficits in other funds with deficit equity.

As described in Note II(F) to the financial statements, the General Fund has recognized a due to other funds in the amount of \$4,900,000 and an advance payable of \$2,800,000 to represent the General Funds borrowing to cover its own deficit cash balances as of June 30, 2014.

As described in Note III(C) to the financial statements, the City is experiencing a period of significant financial stress as evidenced by the General Fund deficit fund balance. Management has disclosed their plans to address the City's financial condition.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected Misstatements*

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. Management has corrected all such misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Material misstatements detected as a result of audit procedures were corrected by management and are summarized in the attached Schedule of Corrected Misstatements.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, where or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 23, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate report dated December 6, 2014

### Other Matters

We applied certain limited procedures to management's discussion and analysis, schedules of funding progress, and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

### Restriction on Use

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

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
December 23, 2014

**CITY OF CHICO, CALIFORNIA**  
**Schedule of Corrected Misstatements**  
**For the Fiscal Year Ended June 30, 2014**

| Number | Fund                    | Account/Description              | Debit        | Credit       |
|--------|-------------------------|----------------------------------|--------------|--------------|
| 1      | Governmental Activities | Capital Grants and Contributions | \$ 5,574,001 |              |
|        |                         | Capital Assets - Infrastructure  |              | \$ 5,574,001 |
|        | Sewer Fund              | Capital Contributions            | 1,053,665    |              |
|        |                         | Capital Assets - Infrastructure  |              | 1,053,665    |

*To adjust the value of instructure capitalized as part of donations for developers. The valuation had been based on a GIS map including assets acquired other than those donated by developers. The assets not donated by developers were acquired by the City's CIP program and were being double counted which required the estimate for assets donated by developers to be adjusted.*

---

|   |   |                            |              |              |
|---|---|----------------------------|--------------|--------------|
| 2 | Chico Urban Area Joint Powers Financing Authority | Net Position - Beginning   | \$ 2,354,458 |              |
|   |   | Long-Term Liabilities      |              | \$ 2,354,458 |
|   |   | Issuance of Long-Term Debt | 839,636      |              |
|   |   | Long-Term Liabilities      |              | 839,636      |

*To adjust the value of the State Water Resources Control Board (SWRCB) Loan to reflect the full amount of principal payable to the SWRCB based on the terms and conditions of the loan agreement.*

---