



VAVRINEK, TRINE, DAY & CO., LLP
 Certified Public Accountants

VALUE THE *difference*

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 City of Chico, California (City) for the year ended June 30, 2018, and have issued our reports thereon dated as indicated below:

<u>Reporting Entity:</u>	<u>Audit Report Date:</u>
Comprehensive Annual Financial Report	January 22, 2019
Chico Urban Joint Powers Financing Authority	January 22, 2019
Chico Public Financing Authority	January 22, 2019

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, 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 dated April 13, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements. As described in Note I, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in Note III.F to the financial statements. We noted no transactions entered into by the City during the years 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 City’s financial statements were:

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

As described in Note II.H 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 disclosed in Note III.C 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 III.C, a 1% increase or decrease in the discount rate has a material effect on the City's net pension liability.

As disclosed in Note III.D 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 III.D, 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.

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 and Uncorrected 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 and each applicable opinion unit. The attached schedule 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 and each applicable opinion unit.

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. The attached schedule summarizes material misstatements that we identified as a result of our audit procedures and were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether 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 January 22, 2019.

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 auditor’s 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.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, and schedule of changes in the net pension liability and related ratios, schedule of changes in the total OPEB liability and related ratios, and budgetary comparison schedules, 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 funding financial statements and schedules, which accompany the financial statements but are not RSI. We were also engaged to report on the schedule of expenditures of federal awards. 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 or statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, 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 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
January 22, 2019

CITY OF CHICO
SCHEDULE OF CORRECTED MISTATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Number	Fund	Account/Description	Debit	Credit
1	CDBG & Housing Fund	Unavailable revenue Receivables - Intergovernmental	\$ 1,767,540	\$ 1,767,540
		<i>(To adjust for receivables not earned as of the fiscal year end)</i>		
2	Sewer Fund	Receivables - Accounts Charges for services	\$ 1,425,146	\$ 1,425,146
		<i>(To accrue for current year revenues received after fiscal year end)</i>		
3	Private Purpose Trust Fund	Long-term liabilities - due in more than one year Long-term liabilities - due in less than one year	\$ 4,605,000	\$ 4,605,000
		<i>(To adjust for liabilities due in less than one year related to long-term debt obligations)</i>		

CITY OF CHICO
SCHEDULE OF UNCORRECTED MISTATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Number	Fund	Account/Description	Debit	Credit
1	General Fund	Property taxes	\$ 399,186	
		Unavailable revenue		\$ 399,186

(To adjust for revenues collected outside of the City's period of availability of 60 days for property taxes)

