



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 (the City) for the year ended June 30, 2016, and have issued our reports thereon dated as indicated below:

<b><u>Reporting Entity:</u></b>	<b><u>Audit Report Date:</u></b>
Comprehensive Annual Financial Report	November 28, 2016
Chico Urban Joint Powers Financing Authority	November 28, 2016
Chico Public Financing Authority	November 28, 2016

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 24, 2016. 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 1-G to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. 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 estimate affecting the financial statements were:

Management estimates were used in estimating date of collection to comply with period of availability for certain revenues, fair value of investments, establishing self-insurance liabilities and reserves, depreciation expense, liability for other post-employment benefits, and amounts related to the net pension liability, and related deferred inflows of resources and deferred outflows of resources. We evaluated the key factors and assumptions used in developing these estimates in determining that they are 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 disclosures affecting the financial statements were:

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.

The disclosure of the City's defined benefit pension plan, net pension liability and related deferred inflows of resources and deferred outflows of resources in Note III-C to the financial statements. The valuation of the 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.

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.

#### *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 November 28, 2016.

#### *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, schedules of changes in net pension liability and related ratios, schedules of contributions, schedule of funding progress for the other-post employment benefit plan, 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 fund financial statements and schedules, which accompany the financial statements but are not RSI and the schedule of expenditures of federal awards. With respect to this supplementary information and the schedule of expenditures of federal awards, 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 and the schedule of expenditures of federal awards to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on 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  
November 28, 2016