

CITY OF CHICO, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

CITY OF CHICO, CALIFORNIA

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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**INDEPENDENT AUDITORS' 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Chico (the City), California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2016. Our report includes an emphasis of matter regarding the City's significant deficit fund equity in numerous funds and adoption of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, effective July 1, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrinik, Trine, Day & Co. LLP

Sacramento, California
November 28, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Mayor and City Council
City of Chico, California

Report on Compliance for Each Major Federal Program

We have audited the City of Chico, California's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining funding information of the City as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 28, 2016, which contained unmodified opinions on those financial statements. Our report includes an emphasis of matter regarding the City's significant deficit fund equity in numerous funds and an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, effective July 1, 2015. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
November 28, 2016

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS THROUGH IDENTIFYING NUMBER	FEDERAL EXPENDITURES	EXPENDITURES TO SUBRECIPIENTS
<u>U. S. Department of Housing and Urban Development:</u>				
<u>Direct Programs:</u>				
<u>CDBG - Entitlement Grants Cluster:</u>				
Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-06-0031	\$ 559,547	\$ 166,910
Home Investment Partnerships Program	14.239	M-07-MC-06-0232	368,446	123,307
Home Investment Partnerships Program	14.239	Loans	5,523,632	
Total Department of Housing and Urban Development			6,451,625	290,217
<u>U. S. Department of Justice:</u>				
<u>Direct Program:</u>				
Bulletproof Vest Partnership Program	16.607	N/A	9,749	
Edward Byrne Memorial Justice Assistance Grant Program (JAG 13)	16.738	2013-DJ-BX-1096	16,342	
Edward Byrne Memorial Justice Assistance Grant Program (JAG 14)	16.738	2014-DJ-BX-1176	20,591	
Equitable Sharing Program	16.922	CA0040200	9,125	
<u>Total Direct Programs:</u>			<u>55,807</u>	
<u>Passed Through Board of State and Community Corrections:</u>				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	BSCC 827-13	108,382	
Total Department of Justice			164,189	
<u>U. S. Department of Transportation:</u>				
<u>Direct Program:</u>				
Airport Improvement Program - AIP 34 - Reconstruct Taxiway	20.106	3-06-0041-34	181,183	
Airport Improvement Program - AIP 35 - Airport Layout Plan	20.106	3-06-0041-35	21,300	
Airport Improvement Program - AIP 36 - Pavement Maintenance Management Plan	20.106	3-06-0041-36	24,596	
Airport Improvement Program - AIP 37 - Rehabilitate Taxiways	20.106	3-06-0041-37	2,867	
Airport Improvement Program - AIP 38 - Reconstruct Aircraft Parking	20.106	3-06-0041-38	40,379	
<u>Total Direct Programs:</u>			<u>270,325</u>	
<u>Passed Through California Department of Transportation:</u>				
<u>Highway Planning and Construction Cluster:</u>				
Highway Planning and Construction - Salem Street @ LCC	20.205	BRLO-5037 (022)	15,831	
Highway Planning and Construction - Guynn Rd @ Lindo Channel	20.205	BRLO-5037 (023)	15,891	
Highway Planning and Construction - Pomona Rd @ LCC	20.205	BRLO-5037 (024)	15,857	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-32-CHC/5037 (026)	27,723	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (019)	3,164	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (028)	15,305	
Highway Planning and Construction - Safe Routes to School	20.205	03-BUT-0-CHC/5037(025)	10,627	
<u>Total Highway Planning and Construction Cluster:</u>			<u>104,398</u>	
<u>Total Passed Through California Department of Transportation:</u>			<u>104,398</u>	
<u>Highway Safety Cluster/Passed Through Federal Highway Administration (FHWA):</u>				
State and Community Highway Safety - Walnut Ave (SR32) Road Diet	20.600	HSIPL-5037 (029)	155	
State and Community Highway Safety - Emergency Vehicle Preemptive System	20.600	HSIPL-5037 (030)	155	
<u>Total Passed Through Federal Highway Administration (FHWA):</u>			<u>310</u>	
<u>Passed Through National Highway Traffic Safety Admin (NHTSA):</u>				
State and Community Highway Safety - Selective Traffic Enforcement Program (STEP)	20.600	PT1571	15,863	
State and Community Highway Safety - Selective Traffic Enforcement Program (STEP)	20.600	PT1571	10,649	
<u>Total Passed Through National Highway Traffic Safety Admin (NHTSA):</u>			<u>26,512</u>	
<u>Passed Through Town of Paradise:</u>				
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL1413	6,995	
<u>Total Highway Safety Cluster:</u>			<u>33,817</u>	
Total Department of Transportation			408,540	

See notes to schedule of expenditures of federal awards.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS THROUGH IDENTIFYING NUMBER	FEDERAL EXPENDITURES	EXPENDITURES TO SUBRECIPIENTS
<u>U.S. Environmental Protection Agency</u>				
<u>Direct Program:</u>				
Brownsfields Assessment and Cleanup Cooperative Agreements	66.818	00T93301	32,125	9,696
Total Environmental Protection Agency			<u>32,125</u>	<u>9,696</u>
<u>U. S. Department of Homeland Security</u>				
<u>Direct Program:</u>				
Assistance to Firefighters Grant	97.044	EMW-2013-FO-06316	25,398	
Assistance to Firefighters Grant	97.044	EMW-2014-FO-06072	93,026	
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00506	2,031,428	
Total Department of Homeland Security			<u>2,149,852</u>	
Total Expenditures of Federal Awards			\$ 9,206,331	\$ 299,913

See notes to schedule of expenditures of federal awards.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the City of Chico, California (City) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in the prior years.

NOTE #2 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

NOTE #3 – INDIRECT COST RATE

The City has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance

NOTE #4 – LOAN PROGRAM WITH CONTINUING COMPLIANCE REQUIREMENTS

The City administers loans that are made from funds provided by the Home Investment Partnerships Program (CFDA No. 14.239). As of June 30, 2016, the outstanding loan receivables balance is as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2016</u>
14.239	Home Investment Partnerships Program	\$ 5,523,632

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u>No</u>

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Clusters</u>
<u>14.239</u>	<u>Home Investment Partnerships Program</u>
<u>97.083</u>	<u>Staffing for Adequate Fire and Emergency Response (SAFER)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

II. FINANCIAL STATEMENT FINDINGS

None reported

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None Reported.

CITY OF CHICO, CALIFORNIA

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2016**

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of findings and questioned costs.

Finding No.	Finding	CFDA No.	Compliance Requirement	Status of Corrective Action
2015-001	Procurement Policies and Procedures	N/A	N/A	Implemented