

CITY OF CHICO
SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2006

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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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chico, California, as of and for the year ended June 30, 2006, which collectively comprise the City of Chico's basic financial statements, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chico's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Chico's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

September 22, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM,
INTERNAL CONTROL OVER COMPLIANCE AND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Chico, California

Compliance

We have audited the compliance of the City of Chico, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Chico's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Chico's management. Our responsibility is to express an opinion on the City of Chico's compliance based on our audit.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Chico'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. Our audit does not provide a legal determination on the City of Chico's compliance with those requirements.

In our opinion, the City of Chico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Chico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Chico's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chico, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Chico's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

September 22, 2006

CITY OF CHICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Expenditures
<u>U. S. Department of Housing and Urban Development:</u>		
Community Development Block Grants/Entitlement Grants	14.218	\$ 863,431
Home Investment Partnerships Program	14.239	974,434
Total Department of Housing and Urban Development		<u>1,837,865</u>
<u>U. S. Department of Justice:</u>		
Local Law Enforcement Block Grants Program	16.592	3,730
Bulletproof Vest Partnership Program	16.607	6,918
Community Prosecution and Project Safe Neighborhoods	16.609	2,956
Justice Assistance Grant Program	16.738	20,686
Total Department of Justice		<u>34,290</u>
<u>U. S. Department of Transportation:</u>		
Federal Aviation Administration:		
Airport Improvement Program	20.106	3,378,496
Passed through State Department of Transportation:		
Highway Planning and Construction Program		
Congestion Mitigation and Air		
Quality Improvement Program	20.205	692,271
Total Department of Transportation		<u>4,070,767</u>
Total Federal Assistance		<u>\$ 5,942,922</u>

Note: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. In addition, the amounts shown as expenditures above constitute all expenditures under the respective programs and thus include local match expenditures.

CITY OF CHICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of the City of Chico.
2. A reportable condition relating to the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City of Chico were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program, Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133.
5. The report on compliance for the major federal award programs for the City of Chico expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the City of Chico are reported in this Schedule.
7. The programs tested as major programs included Community Development Block Grant, CFDA No. 14.218 and Airport Improvement Program, CFDA No. 20.106.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Chico qualified as a low-risk auditee.

CITY OF CHICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

2006-1 – Misstatements

The City has a thorough understanding of financial statement reporting requirements and internal controls to meet those requirements. However, during our audit, we were required to post four adjustments to the City's financial statements in order for them to be in conformity with generally accepted accounting principles. These adjustments had not been posted as management either did not fully understand the substance of the related transactions or misunderstood the period to which they were related.

As a result, adjustments were required to correct material misstatements in the financial statements.

Though these adjustments are isolated instances and are not indicative of systemic flaws in the internal control structure, we recommend that the City revise its procedures to ensure that all transactions material to the financial statements are identified and posted prior to our audit.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None noted.

CITY OF CHICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

There were no prior audit findings.