

CITY OF WILLOWS  
GLENN COUNTY, CALIFORNIA  
FINANCIAL STATEMENTS  
TOGETHER WITH AUDITOR'S OPINION  
FOR THE YEAR ENDED  
JUNE 30, 2012

CITY OF WILLOWS  
GLENN COUNTY, CALIFORNIA  
JUNE 30, 2012

TABLE OF CONTENTS

EXHIBIT

Independent Auditor's Report

Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with Government  
Auditing Standards

Management's Discussion and Analysis

Basic Financial Statements:

Statement of Net Assets	ONE
Statement of Activities	TWO
Balance Sheet-Governmental Funds	THREE
Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds	FOUR
Statement of Net Assets-Proprietary Funds	FIVE
Statement of Revenues, Expenses and Changes in Fund Net Assets and Changes In Retained Earnings-Proprietary Funds	SIX
Statement of Cash Flows-Proprietary Funds	SEVEN
Statement of Net Assets-Fiduciary Funds	EIGHT
Statement of Revenues, Expenses and Changes In Fund Net Assets and Changes in Retained Earnings-Fiduciary Funds	NINE

Notes to Financial Statements

CITY OF WILLOWS  
GLENN COUNTY, CALIFORNIA  
JUNE 30, 2012

TABLE OF CONTENTS

STATEMENT

REQUIRED SUPPLEMENTARY INFORMATION:

Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual	ONE
Schedule of Funding Progress	TWO

OTHER SUPPLEMENTARY INFORMATION:

Schedule of Changes in Individual Funds	THREE
---	-------

**ROY R. SEILER**  
***CERTIFIED PUBLIC ACCOUNTANT***

---

201C North Tehama  
Willows, CA 95988

Phone: 530-934-8841  
Fax: 530-934-8849

**INDEPENDENT AUDITOR'S REPORT**

Members of the City Council  
City of Willows  
Glenn County, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willows, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willows, California, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 11, 2012, on my consideration of the City of Willows, California's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of

that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important in assessing the results of my audit.

The Management's Discussion and Analysis and the required supplementary information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

I have also performed tests to determine that expenditures paid by the City were made in accordance with the allocation instructions and resolutions of the Glenn County Transportation Commission and in conformance with the California Transportation Development Act. Specifically, I performed each of the specific tasks identified in California Code of Regulations Section 6666 that are applicable to the City.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Willows' basic financial statements. The schedule of changes in individual funds is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Willows. The schedule of changes in individual funds has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 11, 2012

  
\_\_\_\_\_  
Roy R. Seiler, CPA

**ROY R. SEILER**  
**CERTIFIED PUBLIC ACCOUNTANT**

---

201 C. North Tehama  
Willows, CA 95988

Phone: 530-934-8841  
Fax: 530-934-8849

**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**

To the City Council  
City of Willows  
Glenn County, California

I 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 Willows, California (the City), as of and for the year ended June 30, 2012, and have issued my report thereon dated December 11, 2012. I conducted my 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

Management of the City of Willows, California, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, I considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*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.

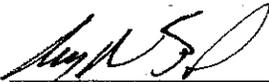
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 management, City Council, others within the entity, 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.

December 11, 2012



---

Roy R. Seiler, CPA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Willows (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. Please read it in conjunction with the accompanying basic financial statements.

### FINANCIAL HIGHLIGHTS

The City's overall net assets decreased 1.1 % to \$13,476,736 as a result of this year's operations. Net assets decreased 1.1% in discretionary and non-discretionary Government activities and decreased 1.1% in business type activities as well.

During the year, the City's expenses exceeded taxes, other governmental revenues and business activity revenues by \$150,847, including the effect of depreciation, a non-cash expense, of \$587,211.

Governmental net assets ended the year at \$6,634,995.

The total revenues from all sources were \$5,594,870.

The total cost of all City programs was \$5,745,717.

The General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$62,389.

Actual resources received in the General Fund were greater than the final budget by \$26,341, while actual expenditures and operating transfers were \$135,027 less than final budget.

At the end of the fiscal year, fund balance for the General Fund was \$1,201,784 or 38.1% of total General Fund expenditures.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are:

1. Government-wide financial statements, which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole.
2. Fund financial statements describe how City services are financed in the short term as well as what resources are available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.
3. Notes to the financial statements.

#### Reporting the City as a Whole

##### The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the city's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector

companies. All of the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

These two statements report the City's net assets and changes thereto. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in the net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads and other infrastructure assets to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities present information about the following.

**Governmental activities** - All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, and community services. Property taxes, sales taxes, Vehicle License Fees (VLF), transient occupancy taxes, and franchise fees finance most of these activities.

**Business (proprietary fund) type activities** - The City charges a fee to customers to cover all or most of the cost of the services provided. The City's sewer and water services are reported in this category.

**Component unit** - The City's governmental activities include the blending of one separate legal entity: The successor entity to the Willows Community Redevelopment Agency. Although legally separate, this "component unit" is important because the City is financially accountable for it until its complete dissolution and distribution per State Statute.

## Reporting the City's Most Significant Funds

### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds--not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, management establishes many other funds that aid in the administration of resources for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's three kinds of funds, governmental, proprietary, and fiduciary use different accounting approaches as explained below.

**Governmental funds** - Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

**Business Type (Proprietary) funds** - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds- Fiduciary funds are used to account for resources held for the benefit of parties outside the government or for specific contributions, gifts, or bequests made on the government's behalf by non-public entities. Fiduciary funds are not reflected in the government-wide financial statements, as those funds are not available to support general City programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

## THE CITY AS A WHOLE

The net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business activities are presented in total on these tables.

Table 1  
City of Willows' Net Assets  
(Full Accrual)

	Governmental Activities 2012	%	Governmental Activities 2011	%
Current and Other Assets	\$3,856,356	48.6	\$3,928,987	48.7
Capital Assets	4,074,357	51.4	4,142,929	51.3
Total Assets	7,930,713	100.0	8,071,916	100.0
Current and Other Liabilities	\$1,106,779	14.0	\$1,130,226	14.0
Long-Term Debt	188,939	2.4	231,252	2.9
Total Liabilities	1,295,718	16.4	1,361,478	16.9
Net Assets:				
Invested in Capital Assets Net of Debt	\$3,843,105	48.5	\$3,871,167	47.9
Committed for Working Capital	200,000	2.5	200,000	2.5
Committed for Surplus Property	5,000	0.1	5,000	0.1
Uncommitted	848,563	10.7	830,348	10.3
Restricted For:				
Parks, Recreation, Public Works	1,325,967	16.6	1,286,552	15.9
Library	29,479	0.4	7,213	0.1
Public Safety	78,337	1.0	27,794	0.3
Housing & Community Development	304,544	3.8	482,364	6.0
Total Net Assets	\$6,634,995	83.6	\$6,710,438	83.1
	Business-Type Activities 2012	%	Business-Type Activities 2011	%
Current and Other Assets	\$ 2,304,116	17.0	\$ 2,241,196	16.3
Capital Assets	11,261,387	83.0	11,526,946	81.7
Total Assets	13,565,503	100.0	13,768,142	100.0
Current and Other Liabilities	\$ 264,205	1.9	\$ 268,042	1.9
Long-Term Debt	6,459,557	47.6	6,582,955	47.8
Total Liabilities	6,723,762	49.5	6,850,997	49.7
Net Assets:				
Invested in Capital Assets Net of Debt	\$ 4,678,432	34.5	\$ 4,824,717	35.0
Restricted For:				
Debt Service	256,885	1.9	219,922	1.6
Utility Service	1,906,424	14.1	1,872,506	13.7
Total Net Assets	\$ 6,841,741	50.5	\$ 6,974,455	50.3

Table 2  
City of Willows Changes in Net Assets  
(Full Accrual)

	Governmental Activities 2012	Business-Type Activities 2012	Total	Governmental Activities 2011	Business-Type Activities 2011	Total	\$ Change
<b>REVENUES:</b>							
<b>Program Revenues:</b>							
Charges for Services	\$ 113,895	\$ 1,568,897	\$ 1,682,792	\$ 115,174	\$ 1,599,578	\$ 1,714,752	\$ (31,960)
Operating Grants/Contributions	\$ 602,706		\$ 602,706	\$ 1,158,451		\$ 1,158,451	\$ (555,745)
Capital Grants/Contributions	\$ 225,782	\$ 10,000	\$ 235,782	\$ 146,711	\$ -	\$ 146,711	\$ 89,071
<b>General Revenues:</b>							
Taxes	\$ 2,282,776		\$ 2,282,776	\$ 2,243,127		\$ 2,243,127	\$ 39,649
Intergovernmental (Non-Restricted)	\$ 473,311		\$ 473,311	\$ 510,908		\$ 510,908	\$ (37,597)
Investment Income	\$ 40,898	\$ 9,708	\$ 50,606	\$ 53,982	\$ 17,774	\$ 71,676	\$ (21,070)
Other	\$ 266,897		\$ 266,897	\$ 456,136		\$ 456,136	\$ (189,239)
<b>TOTAL REVENUES</b>	<b>\$ 4,006,265</b>	<b>\$ 1,588,605</b>	<b>\$ 5,594,870</b>	<b>\$ 4,684,409</b>	<b>\$ 1,617,352</b>	<b>\$ 6,301,761</b>	<b>\$ (706,891)</b>
<b>EXPENSES:</b>							
General Government	\$ 645,334		\$ 645,334	\$ 548,448		\$ 548,448	\$ 96,886
Public Safety	\$ 2,095,571		\$ 2,095,571	\$ 2,206,404		\$ 2,206,404	\$ (110,833)
Parks and Public Works	\$ 837,573		\$ 837,573	\$ 1,401,475		\$ 1,401,475	\$ (563,902)
PPW Contributions to Business Type Activities			\$ -			\$ -	\$ -
Library	\$ 207,339		\$ 207,339	\$ 280,301		\$ 280,301	\$ (72,962)
Recreation	\$ 141,340		\$ 141,340	\$ 129,899		\$ 129,899	\$ 11,441
Housing/Community Development	\$ 223,486		\$ 223,486	\$ 180,093		\$ 180,093	\$ 43,393
Sewer		\$ 1,588,161	\$ 1,588,161		\$ 1,596,336	\$ 1,596,336	\$ (8,175)
Water		\$ 6,913	\$ 6,913		\$ 9,392	\$ 9,392	\$ (2,479)
<b>TOTAL EXPENSES</b>	<b>\$ 4,150,643</b>	<b>\$ 1,595,074</b>	<b>\$ 5,745,717</b>	<b>\$ 4,746,620</b>	<b>\$ 1,605,728</b>	<b>\$ 6,352,348</b>	<b>\$ (606,631)</b>
<b>INCREASE IN NET ASSETS BEFORE TRANSFERS</b>	<b>\$ (144,378)</b>	<b>\$ (6,469)</b>	<b>\$ (150,847)</b>	<b>\$ (62,211)</b>	<b>\$ 11,624</b>	<b>\$ (50,587)</b>	<b>\$ (100,260)</b>
Transfers	\$ 68,935	\$ (68,935)	\$ -	\$ 68,935	\$ (68,935)	\$ -	\$ -
<b>INCREASE IN NET ASSETS</b>	<b>\$ (75,443)</b>	<b>\$ (75,404)</b>	<b>\$ (150,847)</b>	<b>\$ 6,724</b>	<b>\$ (57,311)</b>	<b>\$ (50,587)</b>	<b>\$ -</b>
<b>NET ASSETS-July 1</b>	<b>\$ 6,710,438</b>	<b>\$ 6,917,146</b>	<b>\$ 13,627,584</b>	<b>\$ 6,703,714</b>	<b>\$ 6,974,456</b>	<b>\$ 13,678,170</b>	<b>\$ -</b>
<b>NET ASSETS-June 30</b>	<b>\$ 6,634,995</b>	<b>\$ 6,841,742</b>	<b>\$ 13,476,737</b>	<b>\$ 6,710,438</b>	<b>\$ 6,917,146</b>	<b>\$ 13,627,583</b>	<b>\$ -</b>

The City's combined net assets for the fiscal year ended June 30, 2012, were \$13,476,737 a 1.1% decrease from prior year. Specifically, the City's net assets for governmental activities decreased from \$6,710,438 to \$6,634,995 (1.1%), while business-type activities net assets decreased from \$6,917,146 to \$6,841,742 (1.1%).

The City experienced a decrease in revenues from operating grants and contributions of \$556K due to ARRA grants received (\$679K) in 2011-12 for the resurface and landscaping of South Tehama Street. Other revenues decreased \$189K, with weed abatement assessments in 2010-11 being \$70K higher than in 2011-12.

Public Safety expenditures were \$111K less than the previous year as a number of Police and Fire Personnel were involved in a 5% furlough program during the first half of 2011-12. In addition, one Police Patrol position was vacated 7 months into the fiscal year, and the position was not replaced during the balance of the year. General Government expenditures were \$96K greater than previous year. This was due to expensing the balance of depreciation of the 1995 roof installation at City Hall (\$103K) upon the replacement of said roof during 2011-12. The reduction in Parks and Public Works expenditures (\$563K) is due to the ARRA project noted earlier.

The City adopted the tenants of Government Accounting Standards Board Statement No. 45, *Accounting For Other Post Employment Benefits* for the fiscal year ending June 30, 2010. In doing so, the City incurred governmental fund type expenses (and corresponding addition to liability) of \$45,977 for Governmental Activities and \$6,130 for Business Type Activities for the period.

One transfer is included in the City-wide Statement of Activities. \$68,935 is transferred annually to the General Fund from the Sewer Fund for administrative services provided by City personnel not directly funded by the Sewer Fund.

Table 3  
Statement of Inter-fund Transfers  
(Full Accrual, in Whole Dollars)

	Governmental Activities 2012	Business-Type Activities 2012	Total 2012
Interfund Transfer In (Out)			
General Fund	\$ 68,935		\$ 68,935
Sewer Fund		\$ (68,935)	\$ (68,935)
Net Transfer	\$ 68,935	\$ (68,935)	\$ 0

Table 4  
Statement of Inter-Fund Transfers and Due To/From Fund Transactions  
(Modified Accrual, Per Fund Statements)

	Governmental Activities 2012	Business-Type Activities 2012	Total 2012
Interfund Transfers In (by Fund):			
(1) General	\$ 68,935		\$ 68,935
(2) Community Discretionary	\$ 10,077		\$ 10,077
(4) Swimming Pool	\$ 4,433		\$ 4,433
Interfund Transfers Out (By Fund)			
(1) Sewer		\$ (68,935)	\$ (68,935)
(2) 1992 CDBG Housing Loans	\$ (3,218)		\$ (3,218)
(2) 1990 CDBG Housing Loans	\$ (1,110)		\$ (1,110)
(2) 1997 CDBG Housing Loans	\$ (1,055)		\$ (1,055)
(2) 2000 CDBG Housing Loans	\$ (1,078)		\$ (1,078)
(2) 2003 CDBG Housing Loans	\$ (3,616)		\$ (3,616)
(4) General Fund	\$ (4,433)		\$ (4,433)
Net Transfers In and Out	\$ 68,935	\$ (68,935)	\$ -
Amounts Due from Other Funds:			
(3) General	\$ 44,636		\$ 44,636
Amounts Due to Other Funds:			
(3) 2003 CDBG Housing Loans	\$ (1)		\$ (1)
(3) 1992 CDBG Housing Loans	\$ (4)		\$ (4)
(3) 1990 CDBG Housing Loans	\$ (1)		\$ (1)
(3) NCCSIF-Safety/ADA	\$ (2)		\$ (2)
(3) Used Oil Block Grant	\$ (312)		\$ (312)
(3) ARRA Light Replacement	\$ (31,725)		\$ (31,725)
(3) Gateway Signage	\$ (12,332)		\$ (12,332)
(3) CDBG-Tower Theater	\$ (259)		\$ (259)
Net Amounts Due to/from Other Funds	\$ -	\$ -	\$ -

- (1) Annual transfer to the General Fund from the Sewer Fund for administrative services provided by City personnel not directly funded by the Sewer Fund.
- (2) Transfer of loan payments received on CDBG housing rehabilitation loans that are not subject to CDBG revolving requirements.
- (3) Due to General Fund from various funds where receivable balances are recorded at 6/30/10, but funds have not yet been received to cover cash deficits.
- (4) Transfer of swimming pool receipts at the close of the 2011 swim season held for 2012 swim pool related expenditures

Items (2), (3), and (4) are included on the modified accrual Balance Sheet or Statement of Revenues, Expenditures and Changes in Fund Balance but are eliminated in the full accrual statements.

Table 5  
Schedule of Changes in Individual Funds  
Full Accrual-Enterprise Funds  
Modified Accrual-Other Funds

FUND	FUND BALANCE June 30, 2011	NET RECEIPTS (EXPENDITURES)	TRANSFERS IN	TRANSFERS OUT	FUND BALANCE June 30, 2012
<b>GENERAL FUND</b>					
General Fund	934,395	(2,113)	68,935	4,433	996,784
General Fund-Working Reserve	200,000	0			200,000
General Fund-Surplus Property	5,000	0			5,000
<b>TOTAL GENERAL FUND</b>	<b>1,139,395</b>	<b>(2,113)</b>	<b>68,935</b>	<b>4,433</b>	<b>1,201,784</b>
<b>PARKS AND PUBLIC WORKS FUNDS</b>					
Proposition 1B	329,303	(207,898)			121,405
Willows Lighting and Landscape Distr	1,629	1,048			2,677
TDA-Local Transportation Funds	79,836	66,455			146,291
TEA-Transportation	3,378	35			3,413
Storm Drainage Impact	125,393	31,137			156,530
Street Development Impact	364	11,260			11,624
Park Facilities Impact	111,867	32,480			144,347
I-5 Interchange Impact	260,166	8,745			268,911
ARRA-TANF Employment Grant	5,356	0			5,356
CA Recycle Grant	1,776	5,135			6,911
Used Oil Block Grant	0	3,034			3,034
ARRA-Light Replacement Grant	0	0			0
CA-Park Bond Act	0	0			0
Gateway Sign Grant	0	0			0
<b>TOTAL PARKS AND PUBLIC WORK</b>	<b>919,068</b>	<b>(48,569)</b>	<b>0</b>	<b>0</b>	<b>870,499</b>
<b>GAS TAX FUNDS</b>					
RSTP	18,468	0			18,468
Gas Tax 2105	209,804	14,462			224,266
Gas Tax 2106	15,368	(1,601)			13,767
Gas Tax 2107	44,662	(9,738)			34,924
Gas Tax 2107.5	1,102	2,032			3,134
Gas Tax 2103	53,282	88,395			141,677
<b>TOTAL GAS TAX</b>	<b>342,686</b>	<b>93,550</b>	<b>0</b>	<b>0</b>	<b>436,236</b>
<b>HOUSING AND COMMUNITY DEVELOPMENT</b>					
Community Discretionary	193,265	(109,977)	10,077		93,365
Redevelopment-Successor Entity	63,002	(63,002)			0
2003 CDBG Housing Loans	2	1,053		1,055	0
Economic Development	62,512	(21,617)			40,895
1992 CDBG Housing Loans	4	3,214		3,218	0
1990 CDBG Housing Loans	0	1,110		1,110	0
1997 CDBG Housing Loans	2	1,076		1,078	0
2000 CDBG Housing Loans	5	3,611		3,616	0
RLA - Housing Rehab	39,225	1,754			40,979
HOME Program Revolving Loan	83,072	4,000			87,072
Discretionary Revolving Loan	41,275	429			41,704
CDBG-Tower Theater Feasibility	0	0			0
<b>TOTAL HOUSING AND COMMUNIT</b>	<b>482,364</b>	<b>(178,349)</b>	<b>10,077</b>	<b>10,077</b>	<b>304,015</b>
<b>RECREATION</b>					
Recreation Reimbursable	19,003	(4,923)			14,080
Recreation Cultural	4,279	(108)			4,171
Swimming Pool	0	(3,452)	4,433		981
<b>TOTAL RECREATION</b>	<b>23,282</b>	<b>(8,483)</b>	<b>4,433</b>	<b>0</b>	<b>19,232</b>

Table 5 (Cont'd)  
 Schedule of Changes in Individual Funds  
 Full Accrual-Enterprise Funds  
 Modified Accrual-Other Funds

FUND	FUND BALANCE June 30, 2011	NET RECEIPTS (EXPENDITURES)	TRANSFERS IN	TRANSFERS OUT	FUND BALANCE June 30, 2012
<b>LIBRARY</b>					
County Library	6,335	300			6,635
LTSA-Technology Grant	10	0			10
CLA-Packard	0	62			62
CCH-Library	0	0			0
Library First 5	160	(160)			0
Summer Library	0	139			139
Literacy Passthrough	0	0			0
Library-Development Impact	708	21,925			22,633
<b>TOTAL LIBRARY</b>	<b>7,213</b>	<b>22,266</b>	<b>0</b>	<b>0</b>	<b>29,479</b>
<b>PUBLIC SAFETY</b>					
Asset Forfeiture	545	(196)			349
NCCSIF-Safety ADA Grant	1,516	(1,516)			0
Fire-Development Impact	769	23,802			24,571
Fire Activity	5,062	(4,598)			464
Fire Rescue	1,252	11,597			12,849
FEMA Fitness Grant	0	2,932			2,932
SLESF	20,161	17,011			37,172
CHRP-Hiring Grant	0	0			0
ABC Grant	0	0			0
FEMA Fire Grant	5	(5)			0
OTS-Avoid the 5	0	0			0
USDA-Canine	0	0			0
AB 109 Overtime	0	0			0
OTS-Click it or Ticket	0	0			0
<b>TOTAL PUBLIC SAFETY</b>	<b>29,310</b>	<b>49,027</b>	<b>0</b>	<b>0</b>	<b>78,337</b>
<b>FIDUCIARY FUNDS</b>					
Non-Expendible Trust Funds	128,092	(3,828)			124,264
Agency Funds	193,640	(705)			192,935
<b>TOTAL FIDUCIARY FUNDS</b>	<b>321,732</b>	<b>(4,533)</b>	<b>0</b>	<b>0</b>	<b>317,199</b>
<b>ENTERPRISE FUNDS</b>					
Sewer Enterprise	6,823,874	(14,961)		68,935	6,739,978
Water Enterprise	103,270	(1,507)			101,763
<b>TOTAL ENTERPRISE FUNDS</b>	<b>6,927,144</b>	<b>(16,468)</b>	<b>0</b>	<b>68,935</b>	<b>6,841,741</b>
<b>TOTALS</b>	<b>10,192,194</b>	<b>(93,672)</b>	<b>0</b>	<b>83,445</b>	<b>10,098,522</b>

Major fund balance changes during the year include the General Fund (\$62,389) as revenues outpaced expenditures during the course of the year. Proposition 1B funds decreased \$208K as the City underwent a number of street resurface projects utilizing these funds. Community Discretionary decreased \$109 K due to the Civic Center re-roof project.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were greater than the final adopted budget. Total revenues were \$26,341 (.8%) over budget. Sales tax revenue (\$34K greater than projected) was the primary factor in the favorable revenue outcome.

All General Fund expenditures finished the year under budget with a total cost savings of 4.2% or \$139,460. Booking fee costs in the Police Department were not utilized as the State continued

booking fee subvention programs. The transition from a staff Library Director to a contract management format led to savings as well. A February, 2012 Police Department vacancy that was not filled as of fiscal year end also contributed. General fiscal conservatism in a number of departments also led to reductions in actual vs. budgeted expenditures.

The final impact on the General Fund's fund balance was an increase of \$62,389, reflecting revenues totaling \$3,148,293, expenditures totaling \$3,150,406, an operating transfer in in the amount of \$68,935, and an operating transfer out in the amount of \$4,433.

Table 6  
Schedule of Budgetary Expenditure Changes

Fund	Amount of Increase/(Decrease) From Original Budget
(1) General Fund	\$ ( 41,446)
(2) Community Discretionary	118,294
(3) AB 109 Overtime	1,000
(4) SLESF	100,000
(5) California Public Library Fund	(4,777)

- (1) Various General Fund Activities, including the following:
- |  |            |
|--|------------|
| Transfer of Police Position to SLESF Fund      | \$(98,646) |
| Furlough Restoration-Police/Fire               | 21,300     |
| Utility Costs-Water                            | 1,800      |
| Survey-Sales Tax Measure                       | 18,500     |
| Training Costs-Library and Finance Departments | 5,000      |
| Retirement Date Extension                      | 10,000     |
| Training/Travel                                | 600        |
- (2) Re-roof of Civic Center  
 (3) Pass-through from County for Police overtime cost  
 (4) Restoration by State of CA for Supplemental Law Enforcement Services Fund  
 (5) Funding cut by State of CA

## CASH MANAGEMENT

The City utilizes internal management of cash and investments, utilizing informal advisory relationships with Stiefel Nicolaus and Edward Jones Investments, and maintains flexibility by utilizing a pooled cash system. Under the pooled cash concept, the City invests the cash of all funds with maturities planned to coincide with cash needs. Cash is invested in certain eligible securities as constrained by law and further limited by the City's investment policy. The goals of the City's investment policy are safety, liquidity and yield. Cash Management is subject to oversight by the Finance Committee, consisting of the City Manager, Finance Director/City Treasurer, and two appointed members of the City Council.

## CAPITAL ASSETS

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital assets include equipment, buildings, land, park facilities,

and roads. GASB-34 allows the City of Willows to report infrastructure assets in process or completed after June 15, 2003; reporting of infrastructure assets prior to June 15, 2003 is not required, and, therefore is not included in capital asset totals.

At June 30, 2012, net capital assets of the governmental activities totaled \$4,074,357 and the net capital assets of the business-type activities totaled \$11,261,387. Depreciation on capital assets is recognized in the Government-wide financial statements but not in the fund financial statements.

Table 7  
Schedule of Significant Capital Acquisitions  
And Projects

Description	Expenditure Amount	Status at June 30, 2012
Civic Center Re-Roof	\$125,172	Complete

#### CURRENT LIABILITIES AND LONG-TERM DEBT

The City has total governmental type liabilities of \$1,295,718 which includes \$412,180 in long-term liabilities, consisting of lease liabilities for a fire engine and compensated absences deemed to be payable in a year or more. Business type liabilities total \$6,723,762 which includes \$6,474,950 in long-term liabilities pertaining to wastewater treatment facility renovations completed in 2007, renovations to the facility that were completed in 1994 and accrued compensated absences deemed to be payable in a year or more. The total liabilities-to-net-asset ratio for the City is 59.51% vs. 60.26% for the prior year.

#### NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's Budget for fiscal year 2012/13, the City Council and management recognized the ongoing cost of maintaining operations, is of paramount concern. The City has previously undertaken a number of cost cutting measures, from salary adjustments, salary deferrals, layoffs, retirement incentives, and reductions in staffing levels to stem the tide of excess expenditures over revenues.

The General Fund budget for 2012/13 includes an operating deficit of \$203,835, utilizing existing General Fund reserves (\$1,201,784 available at July 1, 2012) to cover the projected deficit.

#### WILLOWS COMMUNITY REDEVELOPMENT AGENCY ("AGENCY")-DISSOLUTION AND SUCCESSOR ENTITY

The Willows Community Redevelopment Agency was established on June 24, 1969, pursuant to the provisions of the Community Redevelopment Law of the State of California. The purpose of the Agency was to issue tax-exempt bonds to be used for redevelopment projects within the Willows Redevelopment Area. Separate financial statements are available from the City, upon request.

In accordance with State of California Statute, the Willows Community Redevelopment Agency dissolved on February 1, 2012. The Willows City Council serves as the oversight board for the successor entity during the finalization of the dissolution process. The Redevelopment Agency

was inactive at the time of dissolution, with closing procedures and distribution of remaining funds to the County of Glenn Auditor/Controller remaining as of June 30, 2012. Final dissolution is anticipated to be completed in the 2012-2013 fiscal year.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department:

By mail

City of Willows  
201 North Lassen Street  
Willows, California 95988

By Phone

530-934-7041

By E-Mail

[tsailsbe@cityofwillows.org](mailto:tsailsbe@cityofwillows.org)

## BASIC FINANCIAL STATEMENTS

CITY OF WILLOWS  
STATEMENT OF NET ASSETS  
June 30, 2012

	Governmental Activities	Business-Type Funds	Total
<b>ASSETS</b>			
Cash and Investments	3,155,032	2,074,284	5,229,316
Receivable:			
Accounts		227,592	227,592
Interest	6,787	2,240	9,027
Intergovernmental/Other	160,584		160,584
Deferred Loans	532,376		532,376
Prepaid Expenses	1,577		1,577
Capital Assets (Net of Depreciation)	<u>4,074,357</u>	<u>11,261,387</u>	<u>15,335,744</u>
<b>TOTAL ASSETS</b>	<u><b>7,930,713</b></u>	<u><b>13,565,503</b></u>	<u><b>21,496,216</b></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable	123,940	37,220	161,160
Interest Payable	10,290	68,094	78,384
Other Current Liabilities			
Compensated Absences			
Payable Withing One Year	24,805	1,710	26,515
Due in More Than One Year	223,241	15,393	238,634
Other	795		795
Deferred Revenue	543,464		543,464
OPEB Liability	137,931	18,390	156,321
Notes Payable			
Due Within One Year	42,313	123,398	165,711
Due in More Than One Year	188,939	6,459,557	6,648,496
<b>TOTAL LIABILITIES</b>	<u><b>1,295,718</b></u>	<u><b>6,723,762</b></u>	<u><b>8,019,480</b></u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	3,843,105	4,678,432	8,521,537
Committed for Working Capital	200,000		200,000
Committed for Surplus Property	5,000		5,000
Uncommitted	848,563		848,563
Restricted For:			
Parks, Recreation, Public Works, and Streets	1,325,967		1,325,967
Library	29,479		29,479
Public Safety	78,337		78,337
Housing and Community Development	304,544		304,544
Utility Service		1,906,424	1,906,424
Debt Service		256,885	256,885
<b>TOTAL NET ASSETS</b>	<u><b>6,634,995</b></u>	<u><b>6,841,741</b></u>	<u><b>13,476,736</b></u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT TWO

CITY OF WILLOWS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

	PROGRAM REVENUE				Net Revenue (Expense) And Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	645,334	47,264	245,315	66,114	(645,334)		(645,334)
Public Safety	2,095,571	3,935	265,101	135,973	(1,736,878)		(1,736,878)
Parks and Public Works	837,573	45,282	65,659	23,695	(432,564)		(432,564)
Library	207,339	17,414			(117,985)		(117,985)
Recreation	141,340				(96,058)		(96,058)
Housing and Community Development	223,486		26,631		(179,441)		(179,441)
<b>Total Governmental Activities</b>	<b>4,150,643</b>	<b>113,895</b>	<b>602,706</b>	<b>225,782</b>	<b>(3,208,260)</b>		<b>(3,208,260)</b>
Business Type Activities							
Sewer	1,588,161	1,563,685		10,000		(14,476)	(14,476)
Water	6,913	5,212				(1,701)	(1,701)
<b>Total Business-Type Activities</b>	<b>1,595,074</b>	<b>1,568,897</b>	<b>0</b>	<b>10,000</b>	<b>0</b>	<b>(16,177)</b>	<b>(16,177)</b>
General Revenues:							
Taxes					2,282,776		2,282,776
Intergovernmental Not For Restricted Use					473,311		473,311
Investment Income					40,898	9,708	50,606
Other					266,897		266,897
Net Activity Transfers In/(Out)					68,935	(68,935)	0
<b>Total General Revenues and Transfers</b>					<b>3,132,817</b>	<b>(59,227)</b>	<b>3,073,590</b>
Change in Net Assets					(75,443)	(75,404)	(150,847)
Net Assets, Beginning					6,710,438	6,917,145	13,627,583
Net Assets, Ending					6,634,995	6,841,741	13,476,736

The notes to financial statements are an integral part of this statement.

CITY OF WILLOWS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Investments	1,354,849	1,800,183	3,155,032
Receivables:			
Intergovernmental	111,374	49,210	160,584
Interest	3,811	2,976	6,787
Deferred Loans		532,376	532,376
From Other Funds	44,636		44,636
Other	1,577		1,577
<b>TOTAL ASSETS</b>	<b>1,516,247</b>	<b>2,384,745</b>	<b>3,900,992</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES:</b>			
Current Liabilities			
Accounts Payable	54,534	69,406	123,940
Due to Other Funds		44,636	44,636
Compensated Absences	248,046		248,046
Deferred Revenue	11,088	532,376	543,464
Other	795		795
<b>TOTAL LIABILITIES</b>	<b>314,463</b>	<b>646,418</b>	<b>960,881</b>
<b>FUND EQUITY</b>			
Fund Balances:			
Committed for Working Capital	200,000		200,000
Committed for Surplus Property	5,000		5,000
Uncommitted	996,784		996,784
Restricted for:			
Parks, Recreation, Public Works, and Streets		1,325,967	1,325,967
Library		29,479	29,479
Public Safety		78,337	78,337
Housing and Community Development		304,544	304,544
<b>TOTAL FUND BALANCE</b>	<b>1,201,784</b>	<b>1,738,327</b>	<b>2,940,111</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>1,516,247</b>	<b>2,384,745</b>	<b>3,900,992</b>

The notes to the financial statements are an integral part of this statement.

CITY OF WILLOWS  
Reconciliation of the Balance Sheet  
Of Government Funds to the  
Statement of Net Assets  
June 30, 2012

Total Fund Balance-Total Governmental Funds Amounts Reported For Governmental Activities in the Statement of Net Assets are Different Because:	2,940,111
Capital Assets, Net of Accumulated Depreciation and Related Debt, Are Not Financial Resources, and, Therefore, Are Not Reported in the Funds	3,843,105
Accrued Interest Expense is treated as an Expenditure in the Year of Payments in Funds, and Therefore, Not Reported until Paid in Funds	(10,290)
The unpaid annual contribution for accrued other post employment benefits is a long term obligation not due and payable in the current period, and, therefore, not reported in governmental funds	(137,931)
Net Assets of Governmental Activities	<u>6,634,995</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WILLOWS  
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	2,282,776		2,282,776
Licenses, Permits and Franchise	228,502		228,502
Fines Forfeitures and Penalties	17,103		17,103
Intergovernmental	473,311	657,026	1,130,337
Charges for Services	100,779	13,116	113,895
Interest	24,530	16,368	40,898
Other	21,292	171,462	192,754
<b>Total Revenue</b>	<b>3,148,293</b>	<b>857,972</b>	<b>4,006,265</b>
<b>EXPENDITURES</b>			
General Government	523,957		523,957
Public Safety	1,802,624	231,893	2,034,517
Parks and Public Works	424,732	317,195	741,927
Recreation	117,987	21,820	139,807
Library	137,115	67,294	204,409
Housing and Community Development	123,613	99,874	223,487
Capital Outlay	20,378	189,927	210,304
<b>Total Expenditures</b>	<b>3,150,406</b>	<b>928,003</b>	<b>4,078,409</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(2,113)</b>	<b>(70,030)</b>	<b>(72,143)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	68,935	14,510	83,445
Transfers Out	(4,433)	(10,077)	(14,510)
<b>Total Other Financing Sources (Uses)</b>	<b>64,502</b>	<b>4,433</b>	<b>68,935</b>
<b>Net Change in Fund Balances</b>	<b>62,389</b>	<b>(65,597)</b>	<b>(3,208)</b>
Fund Balance, July 1, 2011	1,139,395	1,803,924	2,943,319
Fund Balance, June 30, 2012	1,201,784	1,738,327	2,940,111

The notes to the financial statements are an integral part of this statement.

CITY OF WILLOWS  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances of Governmental Funds to  
 Statement of Activities  
 For The Year Ended June 30, 2012

Amounts Reported For Governmental Activities  
 in the Statement of Activities are Different Because:

Net Change in Fund Balances: Total Governmental Funds	(3,208)
Governmental Funds Reported Capital Outlays as Expenditures	210,304
In the Statement of Activities, the Cost of Capital Assets is Allocated Over their Estimated Useful Lives as Depreciation Expense	(278,875)
In Statement of Activities, Capital Lease Payment is Reported in Interest Expense and Reduction In Outstanding Debt Components. It is treated as an expenditure for Governmental Fund purposes.	52,603
Accrued Interest pertaining to the Capital Lease is treated as an expense when accrued on the Statement of Activities. It will not be treated as an expenditure until paid for Governmental Fund purposes.	(10,290)
Accrued Other Post Employment Benefit is treated as an expense when accrued on the Statement of Activities. It will not be treated as an expenditure until paid for Governmental Fund purposes.	(45,977)
Change in Net Assets of Governmental Activities	<u><u>(75,443)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF WILLOWS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012

	Sewer Enterprise Funds	Water Enterprise Fund	Totals
<b>ASSETS:</b>			
<b>Current Assets</b>			
Cash	2,054,086	20,198	2,074,284
<b>Receivables:</b>			
Accounts	227,592		227,592
Interest	2,205	35	2,240
<b>Total Current Assets</b>	<b>2,283,883</b>	<b>20,233</b>	<b>2,304,116</b>
<b>Non-Current Assets</b>			
<b>Capital Assets</b>			
Systems and Improvements	12,897,180	137,610	13,034,790
Licensed Vehicles	526,045		526,045
Equipment	76,099		76,099
Accumulated Depreciation	(2,319,467)	(56,080)	(2,375,547)
<b>Total Non-Current Assets</b>	<b>11,179,857</b>	<b>81,530</b>	<b>11,261,387</b>
<b>TOTAL ASSETS</b>	<b>13,463,740</b>	<b>101,763</b>	<b>13,565,503</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	37,220		37,220
Accrued Compensated Absences	17,103		17,103
Accrued Interest Payable	68,094		68,094
Notes Payable- Current Portion	123,398		123,398
<b>Total Current Liabilities</b>	<b>245,815</b>	<b>0</b>	<b>245,815</b>
<b>Non-Current Liabilities</b>			
OPEB Payable	18,390		18,390
Notes Payable	6,582,955		6,582,955
Less: Current Portion	(123,398)		(123,398)
<b>Total Non-Current Liabilities</b>	<b>6,477,947</b>	<b>0</b>	<b>6,477,947</b>
<b>TOTAL LIABILITIES</b>	<b>6,723,762</b>	<b>0</b>	<b>6,723,762</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	4,596,902	81,530	4,678,432
Restricted for Debt Service	256,885		256,885
Restricted for Utility Service	1,886,191	20,233	1,906,424
<b>TOTAL NET ASSETS</b>	<b>6,739,978</b>	<b>101,763</b>	<b>6,841,741</b>

The notes to the financial statements are an integral part of this statement.

CITY OF WILLOWS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
AND CHANGES IN RETAINED EARNINGS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	SEWER ENTERPRISE FUND	WATER ENTERPRISE FUND	TOTALS
<b>OPERATING REVENUES:</b>			
Charges for Services	1,541,118	5,212	1,546,330
Connection Fees	7,121		7,121
Development Impact Fees	15,446		15,446
<b>TOTAL OPERATING REVENUES</b>	<b>1,563,685</b>	<b>5,212</b>	<b>1,568,897</b>
<b>OPERATING EXPENSES:</b>			
Salaries and Benefits	322,149		322,149
Maintenance	32,910	380	33,290
Utilities	92,541	1,937	94,478
Professional Fees	536,290	234	536,524
Depreciation	304,829	3,505	308,334
Other	27,443	857	28,300
<b>TOTAL OPERATING EXPENSES</b>	<b>1,316,162</b>	<b>6,913</b>	<b>1,323,075</b>
<b>OPERATING INCOME (LOSS)</b>	<b>247,523</b>	<b>(1,701)</b>	<b>245,822</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Income	9,514	194	9,708
Interest Expenses	(271,999)		(271,999)
<b>TOTAL NON-OPERATING REVENUES AND EXPENSES</b>	<b>(262,485)</b>	<b>194</b>	<b>(262,291)</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>(14,962)</b>	<b>(1,507)</b>	<b>(16,469)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfer Out	(68,935)		(68,935)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(68,935)</b>	<b>0</b>	<b>(68,935)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(83,897)</b>	<b>(1,507)</b>	<b>(85,404)</b>
NET ASSETS, July 1, 2011	6,813,875	103,270	6,917,145
ADD: Contributed Capital	10,000		10,000
<b>NET ASSETS, June 30, 2012</b>	<b>6,739,978</b>	<b>101,763</b>	<b>6,841,741</b>

The notes to financial statements are an integral part of this statement.

CITY OF WILLOWS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	Sewer Enterprise	Water Enterprise	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Sewer Services and Connections	1,564,694		1,564,694
Cash Received from Water Services		5,789	5,789
Cash Payments for Employee and Related Expenses	(319,152)		(319,152)
Cash Payments for Repairs and Maintenance	(30,057)	(649)	(30,706)
Cash Payments for Utilities	(77,533)	(2,757)	(80,290)
Cash Payments for Professional and Contract Services	(567,065)	(234)	(567,299)
Cash Payments for Other Expenses	(27,272)	(857)	(28,129)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>543,616</b>	<b>1,292</b>	<b>544,908</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Operating Transfers In	0	0	0
Operating Transfers Out	(68,935)	0	(68,935)
<b>NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(68,935)</b>	<b>0</b>	<b>(68,935)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of Capital Assets	(38,295)		(38,295)
Interest Paid	(273,604)		(273,604)
Payment on Long Term Debt	(119,274)		(119,274)
Receipt of Contributed Capital	10,000		10,000
<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(421,173)</b>	<b>0</b>	<b>(421,173)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest Received	10,180	197	10,377
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>10,180</b>	<b>197</b>	<b>10,377</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>63,688</b>	<b>1,489</b>	<b>65,177</b>
<b>CASH AND CASH EQUIVALENTS, JULY 1, 2011</b>	<b>1,990,398</b>	<b>18,709</b>	<b>2,009,107</b>
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2012</b>	<b>2,054,086</b>	<b>20,198</b>	<b>2,074,284</b>

The notes to financial statements are an integral part of this statement.

CITY OF WILLOWS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	Sewer Enterprise	Water Enterprise	Total
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities			
Operating Income	247,523	(1,701)	245,822
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	304,829	3,505	308,334
Decrease (Increase) in Receivables	1,010	577	1,587
Increase (Decrease) in Payables	(11,562)	(1,089)	(12,651)
Increase (Decrease) in Accrued Compensated Absences	(4,314)		(4,314)
Increase (Decrease) in OPEB Liability	6,130		6,130
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>543,616</b>	<b>1,292</b>	<b>544,908</b>

The notes to financial statements are an integral part of this statement.

CITY OF WILLOWS  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2012

	Non Expendible Trust Fund	Agency Funds	Totals
<b>ASSETS:</b>			
Cash and Investments	124,027	197,509	321,536
Receivables:			
Interest	237	108	345
<b>TOTAL ASSETS</b>	<b>124,264</b>	<b>197,617</b>	<b>321,881</b>
<b>LIABILITIES</b>			
Accounts Payable		4,682	4,682
<b>TOTAL LIABILITIES</b>	<b>0</b>	<b>4,682</b>	<b>4,682</b>
<b>NET ASSETS</b>			
Held for Trust Designation Purposes	124,264	192,935	317,199
<b>TOTAL NET ASSETS</b>	<b>124,264</b>	<b>192,935</b>	<b>317,199</b>

The notes to financial statements are an integral part of this statement.

CITY OF WILLOWS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
AND CHANGES IN RETAINED EARNINGS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	NON-EXPENDIBLE		TOTALS
	TRUST FUND	AGENCY FUNDS	
<b>ADDITIONS</b>			
Contributions		26,812	26,812
Use of Money	1,305	556	1,861
Service Fees		17,115	17,115
Other		5,875	5,875
<b>Total Additions</b>	<b>1,305</b>	<b>50,358</b>	<b>51,663</b>
<b>DEDUCTIONS</b>			
Library	5,133	12,305	17,438
Parks and Recreation		3,604	3,604
Housing and Community Development		17,291	17,291
Other		17,863	17,863
<b>Total Deductions</b>	<b>5,133</b>	<b>51,063</b>	<b>56,196</b>
<b>CHANGE IN NET ASSETS</b>	<b>(3,828)</b>	<b>(705)</b>	<b>(4,533)</b>
NET ASSETS, July 1, 2011	128,092	193,640	321,732
NET ASSETS, June 30, 2012	124,264	192,935	317,199

The notes to financial statements are an integral part of this statement.

CITY OF WILLOWS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The City of Willows, California (the "City") was incorporated in 1886, under the provisions of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety (police and fire), streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City complies with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting principles and practices are discussed in subsequent sections of this note. All other notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2012.

1. The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Willows. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements, in the Special Revenue Funds, blended:

Willows Community Redevelopment Agency (Agency)-Dissolution and Successor Entity

The Willows Community Redevelopment Agency was established on June 24, 1969, pursuant to the provisions of the Community Redevelopment Law of the State of California. The purpose of the Agency was to issue tax-exempt bonds to be used for redevelopment projects within the Willows Redevelopment Area. Separate financial statements are available from the City, upon request.

In accordance with State of California Statute, the Willows Community Redevelopment Agency dissolved on February 1, 2012. The Willows City Council serves as the oversight board for the successor entity during the finalization of the dissolution process. The Redevelopment Agency was inactive at the time of dissolution, with closing procedures and distribution of remaining funds to the County of Glenn Auditor/Controller remaining as of June 30, 2012. Final dissolution is anticipated to be completed in the 2012-2013 fiscal year.

B. Government Wide and Fund Financial Statements.

The government wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information of all the nonfiduciary activities of the City and its component units. For the most part, the effect of inter fund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific

function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues if received within 60 days of year-end. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All governmental funds are accounted for using the "current financial resources measurement focus" and the modified accrual basis of accounting. This means that (generally) only current assets and current liabilities are included on their balance sheets. Statements of revenue, expenditures and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Revenues are recognized when they are both measurable and available (generally within 60 days) and expenses are recorded when the liability is incurred.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those that are required to be accounted for in another fund.

Special Revenue Funds- Are utilized to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Project Funds- Are utilized to account for financial resources to be used for the acquisition or construction of major facilities other than those financed by proprietary or trust funds for individuals, private organizations, or other governments.

Debt Service Funds-To account for and report resources that are restricted, committed, or assigned to expenditure for principal or interest.

The City reports the following major proprietary funds:

Sewer Enterprise Fund- This fund accounts for sewer connection, collection, and treatment operations.

Water Enterprise Fund- This fund accounts for the water distribution operations.

#### D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for all funds. These budgets, except as stated below, are adopted on the cash basis of accounting.

2. The encumbrance system of budgetary accounting is not utilized.
3. The City Council approves, by motion, total budget appropriations. Any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Govt, Public Safety, etc).
4. Unused appropriations for all of the above annually budgeted funds lapse at the end of year, unless specifically appropriated to the following year by the City Council.
5. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

E. Assets, Liabilities and Net Assets or Equity:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are deposits and investments readily convertible into known amounts of cash with original maturities at date of purchase or deposit of less than three months.

INVESTMENTS

The City records its investment at original cost, with applicable premium or discounts from par value amortized over the period to maturity of the investment. Cost vs. fair market value of such investments are presented at Note 2, but are not reflected in the financial statements. Fair market value has been determined based on quoted market prices

RECEIVABLES AND PAYABLES:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year is referred to as either due to or due from other funds. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which management has determined to be zero. Property taxes attach as an enforceable lien on property as of the first Monday in March. Property taxes are payable in two installments on December 10 and April 10. The City collects its share of property taxes through the County of Glenn. The City relies on the competency of the County in determining its share of the overall property tax collections.

PREPAID ITEMS:

Certain payments to vendors and others reflect costs applicable to future accounting periods and are recorded as prepaid items in both government wide and fund financial statements.

CAPITAL ASSETS:

Property, plant and equipment of all funds and component units are stated at historical cost or estimated historical cost and are reported in the applicable governmental or business type column in the government wide financial statements. Capital assets are defined by the city as assets with an individual cost of more than \$500 and an estimated useful life of more than two years. Capital assets, except for land, are depreciated using estimated lives of five to fifty years. When capital assets are disposed, the cost and related depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

As permitted by GASB Statement No. 34, the City has elected to not report infrastructure, other than those in business type funds, that is pre-existing as of June 1, 2003, and began prospective reporting of infrastructure assets acquired or constructed during the current fiscal period.

#### HOUSING AND REHABILITATION LOAN PROGRAM:

The City has entered into an agreement with the State of California where by the City will loan, for qualifying rehabilitation projects, funds to individuals within the City of Willows.

#### ACCRUED COMPENSATED ABSENCES

The City provides for accrued compensatory absences for vacation, certain holidays, and in-lieu of overtime compensation. The range of allowed accrual of said types of compensation vary based upon the classification of compensatory absence. The City accrues the liability associated with the available accrued compensatory absences on an annual basis. As of June 30, 2012, said accrual was \$265,149.

#### LONG-TERM DEBT:

In the government wide financial statements, and proprietary fund types in the fund financial statements, long term debt and other obligations are reported as liabilities in the applicable governmental activities, business type activities or proprietary fund type statements of net assets.

#### FUND BALANCES:

In accordance with Government Accounting Standards Board Statement No. 54, the City utilizes the following fund balance classifications:

Restricted- Fund balance amounts that are constrained for the specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation

Committed-Fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision making authority and does not lapse at year-end

Uncommitted-Positive fund balances within the General fund which has not been classified with above mentioned categories.

The City uses restricted funds to be expended first when both restricted funds be spent first when both restricted and uncommitted fund balances are available unless legal documents prohibit doing this, such as grant agreements that require uncommitted funds be spent first or require dollar for dollar spending.

The City does not have a formal minimum fund balance policy.

A schedule of fund balances is disclosed in Statement Three of this financial statement.

#### F. USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents at June 30, 2012 are reported at cost (fair market value differences are immaterial on cash equivalent deposit and investments) and consisted of the following:

Cash Held on Premises	\$ 150
Cash In Bank	923,043
Bank Money Market Accounts	398,917
Local Agency Investment Fund	<u>2,306,741</u>
Total Cash and Cash Equivalents	<u>\$ 3,628,851</u>

Custodial Credit Risk

As of June 30, 2012, Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized under the provisions of the California Government Code, California banks and savings and loan associations are required to secure a City's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110 percent of the City's deposits. It is the City's policy not to waive the collateral requirements.

California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of a city's total deposits. It is the City's policy to accept this form of collateral.

At June 30, 2012, the carrying amount of the City's cash accounts was \$1,321,960 and the bank balances were \$1,421,307. The carrying value and the bank balances differ due to outstanding checks. Of the bank balance, \$921,307 was not covered by FDIC insurance but was subject to collateralization.

California Local Agency Investment Fund:

The Local Agency Investment Fund (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The City and the Agency each may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

Investments

Investments at June 30, 2012 are presented at cost and fair value as follows:

	<u>Rating</u>	<u>Cost</u>	<u>Fair Value</u>
Negotiable Certificates of Deposit	FDIC Insured	\$1,567,000	\$1,577,900
United States Agency-FHLMC, FHLB	AAA	\$ 255,000	\$ 254,737
State of California	A	\$ 100,000	\$ 102,806
Total		<u>\$1,922,000</u>	<u>\$1,935,443</u>

The City's investment policy limits the maturity of investments to five years from date of purchase in accordance with California Government code 53600. Maturities of investments held at June 30, 2012 consist of the following:

	<u>Par</u>	<u>Maturity Less Than One Year</u>	<u>Maturity Greater Than One Year</u>
Negotiable Certificates of Deposit	\$1,567,000	\$255,000	\$1,312,000
United States Agency Notes	255,000		255,000
State of California Notes	100,000		100,000
Total	<u>\$1,922,000</u>	<u>\$255,000</u>	<u>\$1,667,000</u>

Authorized Investments:

In accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Securities of the US Government, or its agencies
- Certificates of deposit placed with commercial banks and savings and loan institutions
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund Demand Deposits
- Passbook Savings Account Demand Deposits
- Medium Term Corporate Note

Such investments are subject to minimum credit rating standards at the time of purchase by the City's Investment Policy in accordance with Section 53600 of the California Government Code.

Safekeeping Arrangements of Investments:

Under Section 53601 of the California Government Code, as amended, the collateral underlying a city's investments must be "delivered" to the City. Under California Senate Bill No 2115, passed by the California Legislature in 1986, when a bank is used as a third-party custodial agent, the bank is permitted to maintain the underlying securities in either a "Trust Department" or a separate "Safekeeping Department". Substantially all of the City's investments are maintained in the "Safekeeping Departments" of applicable banks or investment broker

Concentration of Investment Credit Risk

The City's investment policy does not place limits on the amount that may be invested in any one issuer. At June 30, the City had the following investments that represent more than five percent of the funds total investments:

Federal Nat'l Mortgage Assn.	13%
Goldman Sachs Bank	12%
Discover Bank	10%
GE Money Bank	10%
Sallie Mae Bank	9%
State of CA	5%
Ally Bank	5%

Allocation of Interest Income Among Funds

Interest income from pooled investments is allocated 1) to those funds that are required by law or administrative action to receive interest and 2) to the proprietary funds. Interest is allocated on an annual basis based on the cash balance in each fund receiving interest.

NOTE 3 PROPERTY TAXES

The City's ad Val Orem property tax is levied each July 1 on the assessed value listed as of March 1 for all real and business personal property located within the City. The assessed value of the roll on January 1, 2011 upon which the levy for the 2011-12 year was based was \$280,519,684..

Property taxes attach as an enforceable lien on property as of the first Monday in March. Property taxes are payable in two installments on December 10 and April 10. The City collects its share of property taxes through the County of Glenn. The City relies on the competency of the County in determining its share of the overall property tax collections.

NOTE 4 CHANGES IN CAPITAL ASSETS

Governmental Capital Assets

A summary of changes in Governmental Capital Assets (Land, buildings, equipment, infrastructure and rolling stock only) follows: Please also refer to Note 1.

July 1	\$7,373,502
Additions	210,304
Deletions	<u>( 921)</u>
June 30	\$7,582,885
Less: Accumulated Depreciation	<u>( 3,508,528)</u>
Net Property, Plant, Infrastructure and Equipment	<u><u>\$ 4,074,357</u></u>

Business Type Capital Assets

A summary of changes in business type capital assets is as follows:

Property, Plant and Equipment July 1	\$13,594,159
<u>Additions</u>	<u>42,775</u>
Property, Plant & Equipment June 30	\$13,636,934
Less: Accumulated Depreciation	<u>(2,375,547)</u>
Net Property, Plant and Equipment	<u><u>\$11,261,387</u></u>

With respect to leased purchase assets, it is the City's policy to capitalize the cost of these assets in accordance with generally accepted accounting principles.

NOTE 5 CHANGES IN LONG-TERM DEBT

The following is a summary of the long-term debt transactions of the City of Willows for the Year ended June 30, 2012

Governmental Funds Long Term Debt Transactions

	<u>Fire Equipment Capital Lease</u>
Long term Debt July 1	\$ 271,762
Additions	-0-
Repayment	<u>(40,510)</u>
Long term Debt June 30	<u><u>\$ 231,252</u></u>

Interest expense for the year ended June 30, 2012 was \$12,093.

Capitalized Lease-Fire Equipment:

On October 4, 2006, the City entered into a capital lease/purchase with Municipal Finance Corporation for the acquisition of a fire engine for the Willows Fire Department. The term of the financing is for 10 years at a rate of 4.45%. The annual requirements to amortize debt outstanding as of June 30, 2012, are as follows:

<u>Fiscal Year</u>	<u>Interest Payment</u>	<u>Principal Payment</u>	<u>Total Payment</u>
2012/13	10,290	42,313	52,603
2013/14	8,407	44,196	52,603
2014/15	6,441	46,162	52,603
2015/16	4,338	48,265	52,603
2016/17	2,287	50,316	52,603
Total	31,763	231,252	263,015

Business Type Long Term Debt Transactions

	<u>Wastewater Treatment Construction Loans</u>
Long term Debt July 1	\$6,702,229
Additions	-0-
Repayment	(119,274)
Long term Debt June 30	<u>\$6,582,955</u>

Interest expense for the year ended June 30, 2012 was \$271,999.

State Construction Loan Payable:

On July 9, 1992, the City was notified that it was awarded a loan in the amount of \$637,008, for the improvement of its wastewater facilities. The loan will be amortized, over a 20-year period commencing with the completion of the construction project that occurred during the 1994-95 fiscal year. The loan bears an interest rate of 3.1 percent. The annual requirements to amortize debt outstanding as of June 30, 2012, are as follows:

<u>Due Date</u>	<u>Interest Payment</u>	<u>Principal Payment</u>	<u>Total Payment</u>
12/31/12	2,355	37,398	39,753
12/31/13	1,196	38,556	39,752
TOTALS	<u>\$ 3,551</u>	<u>\$ 75,954</u>	<u>\$ 79,505</u>

Federal Construction Loan Payable:

On August 10, 2004 the City Council entered into a loan agreement with the United States Department of Agriculture- Rural Development Services (USDA-RD) for a loan for the improvement of its Wastewater Facilities (See Note 9). The maximum loan amount is \$6,889,000 to be repaid over 40 years at an interest rate of 4.125%.

The annual requirements to amortize the loan as of June 30, 2012, are as follows:

Fiscal Year	Interest Payment	Principal Payment	Total Payment
2012/13	266,640	86,000	352,640
2013/14	263,010	90,000	353,010
2014/15	259,236	93,000	352,236
2015/16	255,317	97,000	352,317
2016/17	251,233	101,000	352,233
2017/18-2021/22	1,188,516	573,000	1,761,516
2022/23-2026/27	1,057,671	701,000	1,758,671
2027/28-2031/32	897,352	858,000	1,755,352
2032/33-2036/37	701,353	1,049,000	1,750,353
2037/38-2041/42	461,402	1,285,000	1,746,402
2042/43-2046/47	167,557	1,574,000	1,741,557
Total	\$5,769,287	\$6,507,000	\$12,276,287

NOTE 6 OTHER REQUIRED FUND DISCLOSURES

A. Excesses of Expenditures over Appropriations in Individual Funds

	<u>Expenditures</u>	<u>Appropriations</u>
Gas Tax 2107	53,900	53,181
Willows Community Redevelopment-Successor	63,646	4,649
County Library	65,359	64,985
Fire Activity	4,627	2,500
Used Oil Block Grant	312	-0-

All expenditures in excess of appropriations were funded via existing fund balances, 2011-12 revenue within the given fund, or temporary coverage from the General Fund.

B. Deficit Fund Balances or Retained Earnings Balance of Individual Funds

At June 30, 2012, no Fund Balances within the City stood in a deficit balance.

These deficits, if any, are primarily the result of the unique accounting requirements of these funds. Management believes that they do not represent a significant financial burden at this time and is closely monitoring the activities in these funds to insure improved financial position.

C. Pooled Cash Interfund Receivable and Payable Balances:

Such balances at June 30, 2012 were:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 44,636	
CDBG 2003 Housing Loans		1
CDBG 1992 Housing Loans		4
CDBG 1990 Housing Loans		1
NCCSIF-Safety/ADA		2
Used Oil Block Grant		312
ARRA Light Replacement		31,725
Gateway Signage		12,332
CDBG-Tower Theater Study		259
Totals	<u>\$ 44,636</u>	<u>\$ 44,636</u>

D. Individual Fund Operating Transfers

for the year Ended June 30, 2012 transfers were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
To General Fund	\$ 68,935	
From Sewer Enterprise Fund		\$ 68,935
To: Swimming Pool Fund	\$ 4,433	
From: General Fund		\$ 4,433
To Community Discretionary Fund	\$ 10,077	
From 1992 CDBG Housing Loans		\$ 3,218
1990 CDBG Housing Loans		1,110
2003 CDBG Housing Loans		1,055
1997 CDBG Housing Loans		1,078
2000 CDBG Housing Loans		3,616
Totals	<u>\$ 83,445</u>	<u>\$ 83,445</u>

**NOTE 7 DEFINED BENEFIT PENSION PLAN**

A. Plan Description

The City of Willows contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provided retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by the state statute and the City. Copies of PERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814

B. Funding Policy

City participants are required to contribute 8% for the miscellaneous plan and 9% for safety plan of their annual covered salary. The City makes the first 7% of the contribution required of the City members on their behalf and for the account. The City is required to contribute at an actuarially determined rate. The

rate for 2011-12 is 19.564% for miscellaneous employees, and 36.288% for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

C. Annual Pension Costs

For 2011-2012, the City's annual pension cost of \$511,636 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that may vary by duration of service, and (c) 3.25% per year payroll growth. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period (smoothed market value). The PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a closed twenty year amortization period.

Three-Year Trend Information  
Combined Total for Safety and Miscellaneous Plan Members

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/10	533,991	100%	-0-
06/30/11	516,485	100%	-0-
06/30/12	511,636	100%	-0-

NOTE 8- JOINT VENTURE

The City is a member of the Northern California Cities Self Insurance Fund Joint Powers Authority (Authority) for liability insurance purposes.

The following joint venture disclosures are made in compliance with GASB Code Section J50.103:

A. Description of Joint Powers Authority

The Authority is comprised of 18 Northern California Cities and is organized under a joint powers agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess liability coverage.

Each member City has a representative on the Board of Directors. Officers are elected annually.

B. Self-Insurance Program

General Liability Insurance: Annual deposits are paid by member cities and are adjusted retrospectively to cover costs. Each member city, including Willows, self-insures for the first \$50,000 of each loss for liability and \$100,000 for workers' compensation. Participating cities shared in loss occurrences in excess up to \$1,000,000 for fiscal year 2012, \$39,000,000 in excess coverage for liability and \$4,000,000 in workers compensation, per occurrence, was purchased by the Authority. Specific coverage includes: comprehensive and general liability, personal injury, contractual liability, errors and omissions, and auto liability.

C. Condensed Financial Information of the Authority

Noted below is a condensed audited balance sheet of the Authorities Combined Worker's Compensation Insurance and Liability Insurance Fund as of June 30, 2012 (Latest available):

Assets	<u>\$ 49,107,389</u>
Liabilities	35,943,447
Net Assets-Reserved for Insurance Claims and Losses:	
Co-Participants	12,963,182
City of Willows	<u>200,760</u>
Total Liabilities and Net Assets	<u>\$49,107,389</u>

D. Claims and Judgments

The City accounts for material liability claims and judgment in accordance with GASB Code Section C50.110. When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2012, the City, in the opinion of the City Attorney, had no material claims, which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenditures when paid.

NOTE 9 POST EMPLOYMENT (RETIREE) HEALTH BENEFITS

Plan Description

The City provides a defined benefit healthcare plan (the "Retiree Health Plan"). The Retiree Health Plan provides lifetime healthcare insurance for eligible retirees through the CalPERS Health Benefit Program, which covers both active and retired members. Spouses are also covered throughout his or her life. The City only pays up to the required minimum employer premium contribution calculated using the unequal contribution method. Under this method, the City's contribution for the retiree is calculated by the number of years the City has participated in CalPERS, multiplied by at least five percent (5%), and multiplied by the current employer contribution toward active employees, which is adjusted based on the medical care portion of the Consumer Price Index. Benefit provisions are established by the City Council.

Funding Policy

The City's Council will not be funding the plan in the current year. The Council will review the funding requirements and policy annually.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

Annual Required Pension Contribution	\$56,127
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
	<hr/>
Annual OPEB Cost (Expense)	\$56,127
Contributions Made	<u>(4,020)</u>
Net Increase in OPEB Obligation	\$52,107
Net OPEB Obligation-Beginning of the Year	<u>104,214</u>
Net OPEB Obligation-End of the Year	<u>\$156,321</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current fiscal year is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/12	\$56,127	7%	\$52,107

Funding Status and Funding Progress

As of July 1, 2009, the actuarial accrued liability (AAL) for benefits was \$349,551, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

*Marital status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website ([www.cdc.gov](http://www.cdc.gov)). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

*Turnover* – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

*Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premiums was set at 4%, which is within the range recommended by CalPERS OPEB Assumption Model.

*Health insurance premiums* – 2009 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

*Payroll increase* – Changes in the payroll for current employees are expected to increase at a rate of approximately 1.0% annually.

*Discount rate* – The calculation uses an annual discount rate of 5%. This is based on the assumed long-term return on plan assets or employer assets.

*Actuarial cost method* – The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2009, was thirty years.

Plan for Funding

On an ongoing basis, the City will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

Required Supplementary Information: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ((a-b)/c)
7/1/2009	\$349,551	\$0	\$ 349,551	0%	\$ 1,900,871	18.4%

**NOTE 10 LITIGATION**

Other than described below, the City estimates that potential claims not covered by insurance resulting from such litigation will not materially affect the financial statements of the City.

A claim dated October 17, 2012 was received pertaining to employment practices issues. The potential financial effect or outcome is unknown.

**NOTE 11 CONTINGENCIES**

The City participates in a number of Federal and State assisted grant programs. These programs are subject to program compliance audits by the grantors. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. While the contingency for un-reimbursed

expenditures could potentially be material, the amount, if any, of which may be disallowed by the granting agencies cannot be determined at this time.

#### NOTE 12 DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, available to City employees, permits them to defer a portion of their salary until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the beneficiary participant's rights under the plan are equal to the fair market value of the deferred account for each participant.

It is the opinion of the City that the City has no liability for losses under the plan but does have the duty of due care that would be required of the ordinary prudent investor.

#### NOTE 13 SUBSEQUENT EVENTS

The City has evaluated subsequent events through the date that the financial statements were issued, December 11, 2012, and determined that no events have occurred that meet the requirements for disclosure set for the by FASB Statement No. 165.

#### NOTE 14 SOLAR POWER AGREEMENT

The City entered into an agreement with Solar Power Partners, LP ("SPP") to provide solar power at the City's Wastewater Treatment Plant. Under the agreement, SPP provided solar array equipment and the City provided the underlying real property for the solar array. The City will purchase the power generated by the array for a period of 20 years from SPP, with an option to take ownership of the array at the end of the 20 year period.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLOWS  
GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		General Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Taxes	2,255,500	2,259,500	2,282,776	23,276
Licenses, Permits and Franchise	195,750	221,963	228,502	6,539
Fines Forfeitures and Penalties	31,500	31,500	17,103	(14,397)
Intergovernmental	500,000	477,053	473,311	(3,742)
Charges for Services	86,936	86,936	100,779	13,843
Interest	25,000	25,000	24,530	(470)
Other	20,000	20,000	21,292	1,292
<b>Total Revenue</b>	<b>3,114,686</b>	<b>3,121,952</b>	<b>3,148,293</b>	<b>26,341</b>
<b>EXPENDITURES</b>				
General Government	505,485	527,085	523,957	3,128
Public Safety	1,924,700	1,847,354	1,802,624	44,730
Parks and Public Works	494,360	506,160	424,732	81,428
Recreation	116,234	116,234	117,987	(1,753)
Library	169,446	171,946	137,115	34,831
Housing and Community Development	118,587	118,587	123,613	(5,026)
Capital Outlay	2,500	2,500	20,378	(17,878)
<b>Total Expenditures</b>	<b>3,331,312</b>	<b>3,289,866</b>	<b>3,150,406</b>	<b>139,460</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(216,626)</b>	<b>(167,914)</b>	<b>(2,113)</b>	<b>165,801</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	68,935	68,935	68,935	0
Transfers Out	0	0	(4,433)	(4,433)
<b>Total Other Financing Sources (Uses)</b>	<b>68,935</b>	<b>68,935</b>	<b>64,502</b>	<b>(4,433)</b>
<b>Net Change in Fund Balances</b>	<b>(147,691)</b>	<b>(98,979)</b>	<b>62,389</b>	<b>161,368</b>
<b>Fund Balance, July 1, 2011</b>	<b>1,139,395</b>	<b>1,139,395</b>	<b>1,139,395</b>	<b>0</b>
<b>Fund Balance, June 30, 2012</b>	<b>991,704</b>	<b>1,040,416</b>	<b>1,201,784</b>	<b>161,368</b>

The notes to the financial statements are an integral part of this statement.

CITY OF WILLOWS  
 SCHEDULE OF FUNDING PROGRESS  
 (REQUIRED SUPPLEMENTARY INFORMATION)  
 FOR THE YEAR ENDED JUNE 30, 2012

California Public Employees Retirement System (PERS):

The table below shows a three-year analysis of the actuarial value of asset as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30. The City of Willows participates in two statewide asset risk pools (miscellaneous and public safety) within PERS for agencies with less than 100 participants. The City entered into the risk pools as mandated by State law on July 1, 2004. The latest available funding progress information is for the June 30, 2010 valuation date.

SCHEDULE OF FUNDING PROGRESS FOR PERS (Dollar Amounts in Thousands):  
 (latest available information)

	Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Annual Funded Ratio	Covered Payroll	Unfunded Liability as a % of Payroll
Miscellaneous							
	06/30/08	776,167	641,168	134,999	82.6%	155,115	87.0%
	06/30/09	883,394	694,385	189,009	78.6%	161,972	116.7%
	06/30/10	945,221	754,859	190,362	79.9%	159,157	119.6%
Public Safety							
	06/30/08	8,700,468	7,464,928	1,235,540	85.8%	914,841	135.1%
	06/30/09	9,721,675	8,027,159	1,694,516	82.6%	973,814	174.0%
	06/30/10	10,165,475	8,470,235	1,695,240	83.3%	955,981	177.3%

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WILLOWS  
SCHEDULE OF CHANGES IN INDIVIDUAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

FUND	FUND BALANCE June 30, 2011	NET RECEIPTS (EXPENDITURES)	TRANSFERS IN	TRANSFERS OUT	FUND BALANCE June 30, 2012
<b>GENERAL FUND</b>					
General Fund	934,395	(2,113)	68,935	4,433	996,784
General Fund-Working Reserve	200,000	0			200,000
General Fund-Surplus Property	5,000	0			5,000
<b>TOTAL GENERAL FUND</b>	<b>1,139,395</b>	<b>(2,113)</b>	<b>68,935</b>	<b>4,433</b>	<b>1,201,784</b>
<b>PARKS AND PUBLIC WORKS FUNDS</b>					
Proposition 1B	329,303	(207,898)			121,405
Willows Lighting and Landscape District	1,629	1,048			2,677
TDA-Local Transportation Funds	79,836	66,455			146,291
TEA-Transportation	3,378	35			3,413
Storm Drainage Impact	125,393	31,137			156,530
Street Development Impact	364	11,260			11,624
Park Facilities Impact	111,867	32,480			144,347
I-5 Interchange Impact	260,166	8,745			268,911
ARRA-TANF Employment Grant	5,356	0			5,356
CA Recycle Grant	1,776	5,135			6,911
Used Oil Block Grant	0	3,034			3,034
ARRA-Light Replacement Grant	0	0			0
CA-Park Bond Act	0	0			0
Gateway Sign Grant	0	0			0
<b>TOTAL PARKS AND PUBLIC WORKS</b>	<b>919,068</b>	<b>(48,569)</b>	<b>0</b>	<b>0</b>	<b>870,499</b>
<b>GAS TAX FUNDS</b>					
RSTP	18,468	0			18,468
Gas Tax 2105	209,804	14,462			224,266
Gas Tax 2106	15,368	(1,601)			13,767
Gas Tax 2107	44,662	(9,738)			34,924
Gas Tax 2107.5	1,102	2,032			3,134
Gas Tax 2103	53,282	88,395			141,677
<b>TOTAL GAS TAX</b>	<b>342,686</b>	<b>93,550</b>	<b>0</b>	<b>0</b>	<b>436,236</b>
<b>HOUSING AND COMMUNITY DEVELOPMENT</b>					
Community Discretionary	193,265	(109,977)	10,077		93,365
Redevelopment-Successor Entity	63,002	(63,002)			0
2003 CDBG Housing Loans	2	1,053		1,055	0
Economic Development	62,512	(21,617)			40,895
1992 CDBG Housing Loans	4	3,214		3,218	0
1990 CDBG Housing Loans	0	1,110		1,110	0
1997 CDBG Housing Loans	2	1,076		1,078	0
2000 CDBG Housing Loans	5	3,611		3,616	0
RLA - Housing Rehab	39,225	2,283			41,508
HOME Program Revolving Loan	83,072	4,000			87,072
Discretionary Revolving Loan	41,275	429			41,704
CDBG-Tower Theater Feasibility	0	0			0
<b>TOTAL HOUSING AND COMMUNITY DEVELOPMENT</b>	<b>482,364</b>	<b>(177,820)</b>	<b>10,077</b>	<b>10,077</b>	<b>304,544</b>
<b>RECREATION</b>					
Recreation Reimbursable	19,003	(4,923)			14,080
Recreation Cultural	4,279	(108)			4,171
Swimming Pool	0	(3,452)	4,433		981
<b>TOTAL RECREATION</b>	<b>23,282</b>	<b>(8,483)</b>	<b>4,433</b>	<b>0</b>	<b>19,232</b>

CITY OF WILLOWS  
SCHEDULE OF CHANGES IN INDIVIDUAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

FUND	FUND BALANCE June 30, 2011	NET RECEIPTS (EXPENDITURES)	TRANSFERS IN	TRANSFERS OUT	FUND BALANCE June 30, 2012
<b>LIBRARY</b>					
County Library	6,335	300			6,635
LTSA-Technology Grant	10	0			10
CLA-Packard	0	62			62
CCH-Library	0	0			0
Library First 5	160	(160)			0
Summer Library	0	139			139
Literacy Passthrough	0	0			0
Library-Development Impact	708	21,925			22,633
<b>TOTAL LIBRARY</b>	<b>7,213</b>	<b>22,266</b>	<b>0</b>	<b>0</b>	<b>29,479</b>
<b>PUBLIC SAFETY</b>					
Asset Forfeiture	545	(196)			349
NCCSIF-Safety ADA Grant	1,516	(1,516)			0
Fire-Development Impact	769	23,802			24,571
Fire Activity	5,062	(4,598)			464
Fire Rescue	1,252	11,597			12,849
FEMA Fitness Grant	0	2,932			2,932
SLESF	20,161	17,011			37,172
CHRP-Hiring Grant	0	0			0
ABC Grant	0	0			0
FEMA Fire Grant	5	(5)			0
OTS-Avoid the 5	0	0			0
USDA-Canine	0	0			0
AB 109 Overtime	0	0			0
OTS-Click it or Ticket	0	0			0
<b>TOTAL PUBLIC SAFETY</b>	<b>29,310</b>	<b>49,027</b>	<b>0</b>	<b>0</b>	<b>78,337</b>
<b>FIDUCIARY FUNDS</b>					
Non-Expendible Trust Funds	128,092	(3,828)			124,264
Agency Funds	193,640	(705)			192,935
<b>TOTAL FIDUCIARY FUNDS</b>	<b>321,732</b>	<b>(4,533)</b>	<b>0</b>	<b>0</b>	<b>317,199</b>
<b>ENTERPRISE FUNDS</b>					
Sewer Enterprise	6,823,874	(14,961)		68,935	6,739,978
Water Enterprise	103,270	(1,507)			101,763
<b>TOTAL ENTERPRISE FUNDS</b>	<b>6,927,144</b>	<b>(16,468)</b>	<b>0</b>	<b>68,935</b>	<b>6,841,741</b>
<b>TOTALS</b>	<b>10,192,194</b>	<b>(93,143)</b>	<b>83,445</b>	<b>83,445</b>	<b>10,099,051</b>