
**CITY OF WILLOWS
GLENN COUNTY, CALIFORNIA
FINANCIAL STATEMENTS
TOGETHER WITH AUDITOR'S OPINION
FOR THE YEAR ENDED
JUNE 30, 2013**

CITY OF WILLOWS
 GLENN COUNTY, CALIFORNIA
 JUNE 30, 2013

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GLENN COUNTY, CALIFORNIA
JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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 Willow, California, as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

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.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's 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.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplemental schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2013, on my consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*.

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 Willow's' 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 Willow's. 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 20, 2013



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**INDEPENDENT AUDITOR'S 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, California

I have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of City of Willows, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Willows, California's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

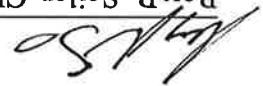
As part of obtaining reasonable assurance about whether City of Willows, California's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

December 20, 2013

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, 2013. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The City's overall net position decreased 1.6% to \$13,260,821 as a result of this year's operations. Net position increased .4% in discretionary and non-discretionary Government activities and decreased 3.5% in business type activities.

During the year, the City's expenses exceeded taxes, other governmental revenues and business activity revenues by \$217,415 including the effect of depreciation, a non-cash expense, of \$486,429.

Governmental net assets ended the year at \$6,660,192.

The total revenues from all sources were \$5,537,046.

The total cost of all City programs was \$5,754,461.

The General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$107,461.

Actual resources received in the General Fund were greater than the final budget by \$28,887, while actual expenditures and operating transfers were \$230,762 less than final budget.

At the end of the fiscal year, fund balance for the General Fund was \$1,309,245 or 40.7% 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 Position 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 Position 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 position and changes thereto. Net position, 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 position 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 Position 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.

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 Position
(Full Accrual)

	2013		2012	
	Governmental Activities	%	Governmental Activities	%
Current and Other Assets	\$3,776,927	48.4	\$3,856,356	48.6
Capital Assets	4,027,297	51.6	4,074,357	51.4
Total Assets	7,804,224	100.0	7,930,713	100.0
Current and Other Liabilities	\$ 999,290	12.8	\$1,106,779	14.0
Long-Term Debt	144,742	1.8	188,939	2.4
Total Liabilities	1,144,032	14.6	1,295,718	16.4
Net Position:				
Invested in Capital Assets	\$3,838,360	49.2	\$3,843,105	48.5
Net of Debt	200,000	2.6	200,000	2.5
Committed for Working Capital	5,000	0.1	5,000	0.1
Uncommitted	948,841	12.2	848,563	10.7
Restricted For:				
Parks, Recreation, Public Works	1,266,047	16.2	1,325,967	16.6
Library	30,914	0.4	29,479	0.4
Public Safety	64,226	0.8	78,337	1.0
Housing & Community Development	306,804	3.9	304,544	3.8
Total Net Position	\$6,660,192	85.4	\$6,634,995	83.6
Business-Type Activities	%		Business-Type Activities	%
Current and Other Assets	\$2,270,797	17.2	\$ 2,304,116	17.0
Capital Assets	10,965,866	82.8	11,261,387	83.0
Total Assets	13,236,683	100.0	13,565,503	100.0
Current and Other Liabilities	\$ 305,797	2.3	\$ 264,205	1.9
Long-Term Debt	6,331,000	47.8	6,459,557	47.6
Total Liabilities	6,636,797	50.1	6,723,762	49.5
Net Position:				
Invested in Capital Assets	\$ 4,506,309	34.1	\$ 4,678,432	34.5
Net of Debt	293,581	2.2	256,885	1.9
Debt Service	1,800,739	13.6	1,906,424	14.1
Utility Service	6,600,629	49.9	\$ 6,841,741	50.5

The City's combined net assets for the fiscal year ended June 30, 2013, were \$13,260,821, a 1.6% decrease from prior year. Specifically, the City's net assets for governmental activities increased from \$6,634,995 to \$6,660,192 (.4%), while business-type activities net assets decreased from \$6,841,741 to \$6,600,629 (3.5%).

The City experienced a decrease in revenues from operating grants and contributions of \$100.8K due primarily to the wind down of the Federal COPS Hiring Grant during 2012-13 (\$51K less received), timing of receipt of Supplemental Law Enforcement Services Funding (\$30K less received in 2012-13 as 2011-12 contained overpayment by State of CA), and the completion of the Tower Theater Feasibility Study (\$30K less in 2012-13). Capital Grant Revenue decreased \$112K primarily to the completion of the re-roof project of City Hall (\$109K) utilizing discretionary CDBG loan repayment funding in 2011-12.

General Government expenditures were \$112K less than the previous year due, in part, to consulting expenditures in 2011-12 pertaining to a sales tax measure survey (\$18K) and a one-time, depreciation (non-cash) expensing (\$103K) of the basis of the previous City Hall roof prior to the re-roofing project. Sewer expenses were \$170K greater than the prior year, due to a full year utility cost expense in 2012-13 associated with solar generation (\$30K greater as the City was not charged for solar generation during the start-up phase in 2011-12 and \$30K greater associated with the purchase of outside power during service interruption during 2012-13). Contractual services were approximately \$80K greater than the prior year as increased commitment to maintenance issues and testing of outfall from the plant occurred in 2012-13.

Program Revenues:	2013		2012		Change
	Governmental Activities	Total	Governmental Activities	Business-Type Activities	
Charges for Services	\$ 105,737	\$ 1,589,663	\$ 113,895	\$ 1,568,897	\$ 1,682,792
Operating Grants/Contributions	\$ 501,873	\$ -	\$ 602,706	\$ -	\$ 602,706
Capital Grants/Contributions	\$ 123,772	\$ -	\$ 225,782	\$ 10,000	\$ 235,782
General Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	\$ 2,419,426	\$ 2,419,426	\$ 2,282,776	\$ 2,282,776	\$ 136,650
Intergovernmental (Non-Restricted)	\$ 470,836	\$ -	\$ 473,311	\$ -	\$ 473,311
Investment Income	\$ 32,378	\$ 10,764	\$ 40,898	\$ 9,708	\$ 50,606
Other	\$ 282,597	\$ -	\$ 266,897	\$ -	\$ 266,897
TOTAL REVENUES	\$ 3,936,619	\$ 1,600,427	\$ 4,006,265	\$ 1,588,605	\$ 5,594,870
EXPENSES:					
General Government	\$ 533,169	\$ 533,169	\$ 645,334	\$ 645,334	\$ (112,165)
Public Safety	\$ 2,122,332	\$ 2,122,332	\$ 2,095,571	\$ 2,095,571	\$ 26,761
Parks and Public Works	\$ 738,937	\$ 738,937	\$ 837,573	\$ 837,573	\$ (98,636)
PPW Contributions to Business Type Activities	\$ -	\$ -	\$ -	\$ -	\$ -
Library	\$ 263,397	\$ 263,397	\$ 207,339	\$ 207,339	\$ 56,058
Recreation	\$ 146,204	\$ 146,204	\$ 141,340	\$ 141,340	\$ 4,864
Housing/Community Development	\$ 184,617	\$ 184,617	\$ 223,486	\$ 223,486	\$ (38,869)
Sewer	\$ 1,758,805	\$ 1,758,805	\$ 1,588,161	\$ 1,588,161	\$ 170,644
Water	\$ 7,000	\$ 7,000	\$ 6,913	\$ 6,913	\$ 87
TOTAL EXPENSES	\$ 3,988,656	\$ 1,765,805	\$ 4,150,643	\$ 1,595,074	\$ 5,745,717
INCREASE IN NET POSITION	\$ (52,037)	\$ (165,378)	\$ (144,378)	\$ (6,469)	\$ (150,847)
BEFORE TRANSFERS	\$ 77,234	\$ (77,234)	\$ 68,935	\$ (68,935)	\$ -
Transfers	\$ 25,197	\$ (242,612)	\$ (75,443)	\$ (75,404)	\$ (150,847)
NET POSITION-July 1	\$ 6,634,995	\$ 6,841,741	\$ 6,710,438	\$ 6,917,144	\$ 13,627,582
PRIOR PERIOD ADJUSTMENT	\$ 1,500	\$ 1,500	\$ -	\$ -	\$ 1,500
NET POSITION-June 30	\$ 6,660,192	\$ 6,600,629	\$ 6,634,995	\$ 6,841,741	\$ 13,476,736

(Full Accrual)

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 \$9,066 for Governmental Activities and \$1,209 for Business Type Activities for the current period.

One transfer is included in the City-wide Statement of Activities. \$77,234 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	Business-Type Activities	Total
Interfund Transfer In (Out)	\$ 77,234	\$ (77,234)	\$ 0
General Fund	\$ 77,234	\$ (77,234)	\$ 0
Sewer Fund			
Net Transfer	\$ 77,234	\$ (77,234)	\$ 0

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

	Governmental Activities	Business-Type Activities	Total
Interfund Transfers In (by Fund):			
(1) General	\$ 77,234	\$	\$ 77,234
(2) Community Discretionary	\$ 3,159	\$	\$ 3,159
(2) 2000 CDBG Housing Loans	\$ 1,076	\$	\$ 1,076
Interfund Transfers Out (By Fund)			
(1) Sewer	\$ (3,159)	\$ (77,234)	\$ (80,393)
(2) 1992 CDBG Housing Loans	\$ (1,076)	\$	\$ (1,076)
(2) 2003 CDBG Housing Loans	\$ 77,234	\$ (77,234)	\$ 0
Net Transfers In and Out	\$ 77,234	\$ (77,234)	\$ 0
Amounts Due from Other Funds:			
(3) General	\$ 107,053	\$	\$ 107,053
Amounts Due to Other Funds:			
(3) Gas Tax 2107.5	\$ (5)	\$	\$ (5)
(3) Supplemental Law Enforcement Services	\$ (25,858)	\$	\$ (25,858)
(3) Gateway Signage	\$ (69,333)	\$	\$ (69,333)
(3) USDA-Camino	\$ (11,857)	\$	\$ (11,857)
Net Amounts Due to/from Other Funds	\$ (107,053)	\$	\$ (107,053)

- (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 6/30/13, but funds have not yet been received to cover cash deficits.

Items (2) and (3) 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	NET POSITION June 30, 2012	PRIOR PERIOD ADJUSTMENT	RECEIPTS (EXPENDITURES)		NET TRANSFERS IN	NET TRANSFERS OUT	NET POSITION June 30, 2013
			RECEIPTS	EXPENDITURES			
GENERAL FUND	996,784	30,227	77,234	0	0	0	1,104,245
General Fund	200,000	0	0	0	0	0	200,000
General Fund-Working Reserve	5,000	0	0	0	0	0	5,000
General Fund-Surplus Property	1,201,784	30,227	77,234	0	0	0	1,309,245
TOTAL GENERAL FUND	1,201,784	30,227	77,234	0	0	0	1,309,245
PARKS AND PUBLIC WORKS FUNDS	121,405	(121,405)	0	0	0	0	0
Proposition 1B	121,405	(121,405)	0	0	0	0	0
Willows Lighting and Landscape District	2,677	(48,704)	5,004	0	0	0	7,681
TDA-Local Transportation Funds	146,291	(48,704)	5,004	0	0	0	1,681
TDA-Transportation	3,413	(48,704)	5,004	0	0	0	7,681
TEA-Transportation	3,413	(48,704)	5,004	0	0	0	7,681
Storm Drainage Impact	156,530	1,428	1,428	0	0	0	157,958
Street Development Impact	11,624	106	106	0	0	0	11,730
Park Facilities Impact	144,347	1,317	1,317	0	0	0	145,664
F5 Interchange Impact	268,911	2,490	2,490	0	0	0	271,401
ARRA-TANF Employment Grant	5,356	2,490	2,490	0	0	0	7,846
CA Recycle Grant	6,911	(2,091)	(2,091)	0	0	0	4,820
CA Tire Derived	0	0	0	0	0	0	0
Lead Oil Block Grant	3,034	(3,034)	0	0	0	0	0
Gateway Sign Grant	0	0	0	0	0	0	0
TOTAL PARKS AND PUBLIC WORKS	870,499	(65,625)	(170,759)	0	0	0	634,115
GAS TAX FUNDS	18,468	65,625	47,001	0	0	0	131,094
RSTP	18,468	65,625	47,001	0	0	0	131,094
Gas Tax 2105	224,266	27,211	27,211	0	0	0	251,477
Gas Tax 2106	13,767	(1,846)	(1,846)	0	0	0	11,921
Gas Tax 2107	34,924	(5,614)	(5,614)	0	0	0	29,310
Gas Tax 2107.5	3,134	(3,134)	(3,134)	0	0	0	0
Gas Tax 2103	141,677	53,769	53,769	0	0	0	195,446
TOTAL GAS TAX	436,236	65,625	117,387	0	0	0	619,248
HOUSING AND COMMUNITY DEVELOPMENT	0	0	0	0	0	0	0
Certified Access Specialist	0	261	261	0	0	0	261
Community Discretionary	93,365	9,775	9,775	3,160	0	0	106,300
2003 CDBG Housing Loans	0	1,076	1,076	0	0	0	1,076
Economic Development	40,895	1,076	1,076	0	0	0	41,971
1992 CDBG Housing Loans	0	(22,755)	(22,755)	0	0	0	(22,755)
1990 CDBG Housing Loans	0	3,160	3,160	0	0	0	3,160
1997 CDBG Housing Loans	0	230	230	0	0	0	230
2000 CDBG Housing Loans	0	1,097	1,097	0	0	0	1,097
RLA - Housing Rehab	0	3,691	3,691	1,076	0	0	4,767
HOME Program Revolving Loan	41,508	2,172	2,172	0	0	0	43,680
Discretionary Revolving Loan	87,072	3,171	3,171	0	0	0	90,243
CDBG-Tower Theater Feasibility	41,704	382	382	0	0	0	42,086
TOTAL HOUSING AND COMMUNITY DEVELOPMENT	304,544	0	2,260	4,236	0	0	306,804
RECREATION	14,080	(4,832)	(4,832)	0	0	0	9,248
Recreation Reimbursable	14,080	(4,832)	(4,832)	0	0	0	9,248
Recreation Cultural	4,171	(735)	(735)	0	0	0	3,436
Swimming Pool	981	(981)	(981)	0	0	0	0
TOTAL RECREATION	19,232	(6,548)	(6,548)	0	0	0	12,684

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

FUND	POSITION	June 30, 2012	ADJUSTMENT (EXPENDITURES)			POSITION	June 30, 2013
			PERIOD	RECEIPTS	IN		
	NET	PRIOR	NET	TRANSFERS	TRANSFERS	NET	

LIBRARY	County Library	6,635	1,404	0	0	8,039
	LTSA-Technology Grant	10	0	0	0	10
	CLA-Packard	62	0	0	0	62
	Summer Library	139	(139)	0	0	0
	Literacy Passthrough	0	0	0	0	0
	Library-Development Impact	22,633	170	0	0	22,803
	TOTAL LIBRARY	29,479	1,435	0	0	30,914
PUBLIC SAFETY	Asset Forfeiture	349	(348)	0	0	1
	NCCSIF-Safety ADA Grant	0	0	0	0	0
	Fire-Development Impact	24,571	224	0	0	24,795
	Fire Activity	464	(433)	0	0	31
	Fire Rescue	12,849	135	0	0	12,984
	REVA Fitness Grant	2,932	(2,723)	0	0	209
	SLESF	37,172	(10,966)	0	0	26,206
	CHRP-Hiring Grant	0	0	0	0	0
	OTS-Avoid the 5	0	0	0	0	0
	USDA-Canine	0	0	0	0	0
	AB 109 Overtime	0	0	0	0	0
	TOTAL PUBLIC SAFETY	78,337	(14,111)	0	0	64,226
FIDUCIARY FUNDS	Agency Funds	124,264	988	0	0	125,252
	Non-Dependable Trust Funds	192,935	7,797	0	0	200,732
	TOTAL FIDUCIARY FUNDS	317,199	8,785	0	0	325,984
ENTERPRISE FUNDS	Sewer Enterprise	6,739,978	(165,540)	0	0	6,498,704
	Water Enterprise	101,763	162	0	0	101,925
	TOTAL ENTERPRISE FUNDS	6,841,741	(165,378)	0	0	6,600,629
TOTALS		10,099,051	(196,702)	81,470	81,470	9,903,849

Major fund balance changes during the year include the General Fund (\$107,461) as revenues outpaced expenditures during the course of the year. Proposition 1B funds decreased \$121K as the City underwent a number of street resurface projects utilizing these funds. Sewer Enterprise decreased \$165K due to increased utility and contract project costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were greater than the final adopted budget. Total revenues were \$28,887 (.9%) over budget. Sales and property tax revenue (\$50K greater than projected in total) were the primary factors in the favorable revenue outcome. Fines, forfeitures, and penalties were approximately \$14K less than budgeted.

All General Fund expenditures finished the year under budget with a total cost savings of 5.9% or \$201,875. Public Safety experienced a savings of \$107.4K as the Police staffing level was reduced by one position during a portion of the year and vacancies were experienced. Parks and Public Works experienced savings of \$73.7K as Gas Tax funds were able to be utilized in several areas rather than General Fund dollars and several anticipated expenditure items did not materialize.

The final impact on the General Fund's fund balance was an increase of \$107,461, reflecting revenues totaling \$3,244,373, expenditures totaling \$3,214,146, and an operating transfer in in the amount of \$77,234.

Table 6
Schedule of Budgetary Expenditure Change

Amount of Increase/(Decrease)	Fund
\$37,024	(1) Literacy Passthrough
	From Original Budget

(1) Greater than anticipated funding received for literacy projects. Funds are received by the City of Willows but are transferred to the Glenn County Office of Education for administration and operation of programs.

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, 2013, net capital assets of the governmental activities totaled \$4,027,297 and the net capital assets of the business-type activities totaled \$10,965,866. 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, 2013
Gateway Signage	\$79,070	Complete

CURRENT LIABILITIES AND LONG-TERM DEBT

The City has total governmental type liabilities of \$1,144,032 which includes \$339,652 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 \$6,636,797 which includes \$6,348,744 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-position ratio for the City is 58.68% vs. 59.51% for the prior year.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's Budget for fiscal year 2013/14, the City Council and management recognized the ongoing cost of maintaining operations, is of paramount concern, primarily in the areas of future pension cost and health care. 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 2013/14 includes an operating deficit of \$26,159 utilizing existing General Fund reserves (\$1,309,245 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.

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 was completed in the 2012-2013 fiscal year, and the Agency, and its Successor have ceased existence.

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 tsalisbe@cityofwillows.org

BASIC FINANCIAL STATEMENTS

CITY OF WILLOWS
STATEMENT OF NET POSITION
June 30, 2013

	Governmental	Business-Type	Total
	Activities	Funds	
ASSETS			
Cash and Investments	2,960,322	2,043,558	5,003,880
Receivable:			
Accounts	5,556	225,370	225,370
Interest	300,303	1,889	7,445
Intergovernmental/Other	509,396		300,303
Deferred Loans	1,350		509,396
Prepaid Expenses	4,027,297	10,965,866	14,993,163
Capital Assets (Net of Depreciation)	7,804,224	13,236,683	21,040,907
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts Payable	62,613	70,552	133,165
Interest Payable	8,407	66,631	75,038
Other Current Liabilities			
Compensated Absences	21,657	1,971	23,628
Payable Within One Year	194,910	17,744	212,654
Other	104		104
Deferred Revenue	520,407		520,407
OPER Liability	146,997	19,599	166,596
Notes Payable	44,195	128,557	172,752
Due Within One Year	144,742	6,331,000	6,475,742
Due in More Than One Year			
TOTAL LIABILITIES	<u>1,144,032</u>	<u>6,636,054</u>	<u>7,780,086</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	3,838,360	4,506,309	8,344,669
Committed for Working Capital	200,000		200,000
Committed for Surplus Property	5,000		5,000
Uncommitted	948,841		948,841
Restricted For:			
Parks, Recreation, Public Works, and Streets	1,266,047		1,266,047
Library	30,914		30,914
Public Safety	64,226		64,226
Housing and Community Development	306,804		306,804
Utility Service		1,800,739	1,800,739
Debt Service		293,581	293,581
TOTAL NET POSITION	<u>6,660,192</u>	<u>6,600,629</u>	<u>13,260,821</u>

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

CITY OF WILLOWS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT TWO

	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	533,169				(533,169)		(533,169)
Public Safety	2,122,332	45,133	140,419	8,349	(1,928,431)		(1,928,431)
Parks and Public Works	738,937	1,968	201,287	115,423	(420,259)		(420,259)
Library	263,397		125,427		(137,970)		(137,970)
Recreation	146,204	46,112			(100,092)		(100,092)
Housing and Community Development	184,617	12,524	34,740		(137,353)		(137,353)
Total Governmental Activities	3,988,656	105,737	501,873	123,772	(3,257,274)		(3,257,274)
Business Type Activities							
Sewer	1,758,805	1,582,674				(176,131)	(176,131)
Water	7,000	6,989				(11)	(11)
Total Business-Type Activities	1,765,805	1,589,663	0	0	0	(176,142)	(176,142)
General Revenues:							
Taxes					2,419,426		2,419,426
Intergovernmental Not For Restricted Use					470,836		470,836
Investment Income					32,378	10,764	43,142
Other					282,597		282,597
Net Activity Transfers In/(Out)					77,234	(77,234)	0
Total General Revenues and Transfers					3,282,471	(66,470)	3,216,001
Change in Net Assets					25,197	(242,612)	(217,415)
Net Position, Beginning					6,634,995	6,841,741	13,476,736
Prior Period Adjustment					1,500	1,500	1,500
Net Assets, Ending					6,660,192	6,600,629	13,260,821

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

CITY OF WILLOWS
 STATEMENT OF POSITION-GOVERNMENTAL FUNDS
 June 30, 2013

	Other Funds	General Governmental Funds	Total
ASSETS			
Cash and Investments	1,662,376	1,297,946	2,960,322
Receivables:			
Intergovernmental	135,877	164,426	300,303
Interest	2,230	3,326	5,556
Deferred Loans	509,396	509,396	1,018,792
From Other Funds		107,053	107,053
Other		1,350	1,350
TOTAL ASSETS	2,309,879	1,574,101	3,883,980

LIABILITIES AND FUND EQUITY

	Other Funds	General Governmental Funds	Total
LIABILITIES:			
Current Liabilities			
Accounts Payable	25,439	37,174	62,613
Due to Other Funds	107,053	107,053	214,106
Compensated Absences		216,567	216,567
Deferred Revenue	509,396	11,011	520,407
Other		104	104
TOTAL LIABILITIES	641,888	264,856	906,744

NET POSITION

	Other Funds	General Governmental Funds	Total
Fund Balances:			
Committed for Working Capital		200,000	200,000
Committed for Surplus Property		5,000	5,000
Uncommitted		1,104,245	1,104,245
Restricted for:			
Parks, Recreation, Public Works, and Streets	1,266,047	30,914	1,296,961
Library		30,914	30,914
Public Safety	64,226	64,226	128,452
Housing and Community Development	306,804	306,804	613,608
TOTAL NET POSITION	1,667,991	1,309,245	2,977,236

TOTAL LIABILITIES AND NET POSITION

1,574,101	2,309,879	3,883,980
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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 Position
June 30, 2013

Total Fund Balance-Total Governmental Funds	2,977,236
Amounts Reported For Governmental Activities	3,838,360
in the Statement of Net Assets are Different Because:	
Capital Assets, Net of Accumulated Depreciation and	
Related Debt, Are Not Financial Resources, and,	
Therefore, Are Not Reported in the Funds	
Accrued Interest Expense is treated as an Expenditure	
in the Year of Payments in Funds, and Therefore, Not	
Reported until Paid in Funds	(8,407)
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	(146,997)
Net Assets of Governmental Activities	<u>6,660,192</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, 2013**

	General	Other	Total
	Fund	Governmental	Governmental
	Funds	Funds	Funds
REVENUES			
Taxes	2,419,426		2,419,426
Licenses, Permits and Franchise	205,945		205,945
Fines Forfeitures and Penalties	17,540		17,540
Intergovernmental	470,836	625,645	1,096,481
Charges for Services	91,351	14,386	105,737
Interest	19,261	13,117	32,378
Other	20,014	39,098	59,112
Total Revenue	3,244,373	692,246	3,936,619
EXPENDITURES			
General Government	511,061		511,061
Public Safety	1,934,099	154,921	2,089,020
Parks and Public Works	372,800	276,897	649,697
Recreation	125,116	21,088	146,204
Library	138,010	124,162	262,172
Housing and Community Development	122,876	61,741	184,617
Capital Outlay	10,184	123,772	133,956
Total Expenditures	3,214,146	762,581	3,976,727
Excess (Deficiency) of Revenues	30,227	(70,335)	(40,108)
OTHER FINANCING SOURCES (USES)			
Transfers In	77,234	9,256	86,490
Transfers Out		(9,256)	(9,256)
Total Other Financing Sources (Uses)	77,234	0	77,234
Net Change in Position	107,461	(70,335)	37,126
Net Position, July 1, 2012	1,201,784	1,738,326	2,940,110
Prior Period Adjustment			0
Net Position, June 30, 2013	1,309,245	1,667,991	2,977,236

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, 2013

Amounts Reported For Governmental Activities	
in the Statement of Activities are Different Because:	
Net Change in Fund Balances: Total Governmental Funds	37,126
Governmental Funds Reported Capital Outlays as	
Expenditures	133,956
In the Statement of Activities, the Cost of Capital Assets is	
Allocated Over their Estimated Useful Lives as Depreciation	(181,015)
Expense	
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 expens	
when accrued on the Statement of Activities. It will not be treated as	
an expenditure until paid for Governmental Fund purposes.	(8,407)
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.	(9,066)
Change in Net Assets of Governmental Activities	<u>25,197</u>

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

**CITY OF WILLOWS
STATEMENT OF POSITION
PROPRIETARY FUNDS
June 30, 2013**

EXHIBIT FIVE

	Sewer Enterprise Funds	Water Enterprise Fund	Totals
ASSETS:			
Current Assets			
Cash	2,019,712	23,846	2,043,558
Receivables:			
Accounts	225,091	279	225,370
Interest	1,859	30	1,889
Total Current Assets	2,246,662	24,155	2,270,817
Non-Current Assets			
Capital Assets			
Systems and Improvements	12,907,074	137,610	13,044,684
Licensed Vehicles	526,045		526,045
Equipment	76,099		76,099
Accumulated Depreciation	(2,621,377)	(59,585)	(2,680,962)
Total Non-Current Assets	10,887,841	78,025	10,965,866
TOTAL ASSETS	13,134,503	102,180	13,236,683
LIABILITIES			
Current Liabilities:			
Accounts Payable	70,297	255	70,552
Accrued Compensated Absences	19,715		19,715
Accrued Interest Payable	66,631		66,631
Notes Payable- Current Portion	128,557		128,557
Total Current Liabilities	285,200	255	285,455
Non-Current Liabilities			
OPER Payable	19,599		19,599
Notes Payable	6,459,557		6,459,557
Less: Current Portion	(128,557)		(128,557)
Total Non-Current Liabilities	6,350,599	0	6,350,599
TOTAL LIABILITIES	6,635,799	255	6,636,054
NET POSITION			
Invested in Capital Assets, Net of Related Debt	4,428,284	78,025	4,506,309
Restricted for Debt Service	293,581		293,581
Restricted for Utility Service	1,776,839	23,900	1,800,739
TOTAL NET POSITION	6,498,704	101,925	6,600,629

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

**CITY OF WILLOWS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	SEWER ENTERPRISE FUND	WATER ENTERPRISE FUND	TOTALS
OPERATING REVENUES:			
Charges for Services	1,577,003	6,989	1,583,992
Connection Fees	5,671		5,671
Development Impact Fees	0		0
TOTAL OPERATING REVENUES	1,582,674	6,989	1,589,663
OPERATING EXPENSES:			
Salaries and Benefits	313,285	1,264	313,285
Maintenance	66,880		66,880
Utilities	159,470	973	160,443
Professional Fees	611,602	398	612,000
Depreciation	301,909	3,505	305,414
Other	38,127	860	38,987
TOTAL OPERATING EXPENSES	1,491,273	7,000	1,498,273
OPERATING INCOME (LOSS)	91,401	(11)	91,390
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	10,591	173	10,764
Interest Expenses	(267,532)		(267,532)
TOTAL NON-OPERATING REVENUES AND EXPENSES	(256,941)	173	(256,768)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(165,540)	162	(165,378)
OTHER FINANCING SOURCES (USES):			
Operating Transfer Out	(77,234)		(77,234)
TOTAL OTHER FINANCING SOURCES (USES)	(77,234)	0	(77,234)
CHANGE IN NET POSITION	(242,774)	162	(242,612)
NET POSITION, July 1, 2012	6,739,978	101,763	6,841,741
ADD: Prior Period Adjustment	1,500		1,500
NET POSITION, June 30, 2013	6,498,704	101,925	6,600,629

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, 2013

	Sewer Enterprise	Water Enterprise	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Sewer Services and Connections	1,585,175	6,710	1,585,175
Cash Received from Water Services	(310,630)		(310,630)
Cash Payments for Employee and Related Expenses	(66,743)	(1,009)	(67,752)
Cash Payments for Repairs and Maintenance	(160,621)	(973)	(161,594)
Cash Payments for Utilities	(569,772)	(398)	(570,170)
Cash Payments for Professional and Contract Services	(38,719)	(860)	(39,579)
Cash Payments for Other Expenses			
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	438,689	3,470	442,159
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating Transfers In	0	0	0
Operating Transfers Out	(77,234)	0	(77,234)
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	(77,234)	0	(77,234)
CASH FLOWS FROM OPERATING AND RELATED FINANCING ACTIVITIES:			
Operating Transfers In	14,373		14,373
Interest Paid	(268,995)		(268,995)
Acquisition of Capital Assets	(123,398)		(123,398)
Payment on Long Term Debt	(14,373)		(14,373)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(406,766)	0	(406,766)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	10,937	178	11,115
NET CASH FLOWS FROM INVESTING ACTIVITIES	10,937	178	11,115
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, JULY 1, 2012	(34,374)	3,648	(30,726)
CASH AND CASH EQUIVALENTS, JUNE 30, 2013	2,019,712	23,846	2,043,558
CASH AND CASH EQUIVALENTS, JULY 1, 2012	2,054,086	20,198	2,074,284

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, 2013

	Sewer Enterprise	Water Enterprise	Total
Operating Income	91,401	(11)	91,390
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	301,909	3,505	305,414
Decrease (Increase) in Receivables	2,501	(279)	2,222
Increase (Decrease) in Payables	39,057	255	39,312
Increase (Decrease) in Accrued Compensated Absences	2,612		2,612
Increase (Decrease) in OPEB Liability	1,209		1,209
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	438,689	3,470	442,159

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

CITY OF WILLOWS
 STATEMENT OF POSITION
 FIDUCIARY FUNDS
 June 30, 2013

	Non Expendible	Trust	Agency	Funds	Totals
ASSETS:					
Cash and Investments	125,053		204,088		329,141
Receivables:					
Interest	199		101		300
TOTAL ASSETS	125,252		204,189		329,441
LIABILITIES					
Accounts Payable			3,457		3,457
TOTAL LIABILITIES		0	3,457		3,457
NET POSITION					
Restricted for Trust Designated Purposes	125,252		200,732		325,984
TOTAL NET POSITION	125,252		200,732		325,984

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

**CITY OF WILLOWS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

NON-EXPENDIBLE	FUND		TOTALS
	TRUST	FUNDS	
AGENCY			
ADDITIONS			
Contributions	28,788	28,788	28,788
Use of Money			
Service Fees	1,133	574	1,707
Other		24,423	24,423
Total Additions	1,133	56,799	57,932
DEDUCTIONS			
Library	145	17,375	17,520
Parks and Recreation		9,196	9,196
Housing and Community Development		20,542	20,542
Other		1,889	1,889
Total Deductions	145	49,002	49,147
CHANGE IN NET POSITION	988	7,797	8,785
NET POSITION, July 1, 2012	124,264	192,935	317,199
NET POSITION, June 30, 2013	125,252	200,732	325,984

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

CITY OF WILLOWS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013.

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.

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 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 are payable in two installments on December 10 and April 10. 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, 2013, 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, 2013 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		948,255
Bank Money Market Accounts		414,201
Local Agency Investment Fund		2,313,417
Total Cash and Cash Equivalents		\$ 3,676,023

Custodial Credit Risk

As of June 30, 2013, 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, 2013, the carrying amount of the City's cash accounts was \$1,362,456 and the bank balances were \$1,522,812. The carrying value and the bank balances differ due to outstanding checks. Of the bank balance, \$1,022,812 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, 2013 are presented at cost and fair value as follows:

Rating	Cost	Fair Value
AAA	\$1,407,000	\$1,422,220
FDIC Insured	\$150,000	\$149,120
AAA	\$100,000	\$100,598
A	\$1,657,000	\$1,671,938
Total		\$3,720,518

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:

Par	Maturity Less Than One Year	Maturity Greater Than One Year
Negotiable Certificates of Deposit	\$1,407,000	\$1,182,000
United States Agency Notes	150,000	150,000
State of California Notes	100,000	100,000
Total	\$1,657,000	\$325,000

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:

Discover Bank	15%
Goldman Sachs Bank	14%
GE Money Bank	12%
Federal Nat'l Mortgage Assn.	9%
Sallie Mae Bank	8%
State of CA	6%
Ally Bank	6%

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 Valorem 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, 2012 upon which the levy for the 2012-13 year was based was \$274,639,390..

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	\$7,582,885
Additions	133,956
Deletions	(186,900)
June 30	\$7,529,941

Less: Accumulated Depreciation
 Net Property, Plant, Infrastructure and Equipment

(3,502,644)
\$ 4,027,297

Business Type Capital Assets

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

Property, Plant and Equipment July 1	\$13,636,936
Additions	9,892
Property, Plant & Equipment June 30	\$13,646,828

Less: Accumulated Depreciation
 Net Property, Plant and Equipment

(2,680,962)
\$10,965,866

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, 2013

Governmental Funds Long Term Debt Transactions

Long term Debt July 1	\$ 231,252
Additions	-0-
Repayment	(42,313)
Long term Debt June 30	\$ 188,939

Interest expense for the year ended June 30, 2013 was \$10,290.

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, 2013, are as follows:

Fiscal Year	Interest	Principal	Total
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	21,473	188,939	210,412

Business Type Long Term Debt Transactions

Wastewater Treatment
Construction Loans

\$6,582,955	-0-	(123,398)	\$6,459,557
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Long term Debt July 1
Additions
Repayment
Long term Debt June 30

Interest expense for the year ended June 30, 2013 was \$267,532.

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, 2013, are as follows:

Due Date	Interest	Principal	Total
12/31/13	1,196	38,556	39,752

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
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	246,964	106,000	352,964
2018/19-2022/23	1,164,405	596,000	1,760,405
2023/24-2027/28	1,028,156	730,000	1,758,156
2028/29-2032/33	861,238	893,000	1,754,238
2033/34-2037/38	657,174	1,093,000	1,750,174
2038/39-2042/43	407,302	1,338,000	1,745,302
2043/44-2046/47	108,611	1,284,000	1,392,611
Total	\$5,502,647	\$6,421,000	\$11,923,647

NOTE 6 OTHER REQUIRED FUND DISCLOSURES

A. Excesses of Expenditures over Appropriations in Individual Funds

Expenditures	Appropriations
Certified Access Specialist	-0-
Sewer Enterprise	1,785,935
Fire Activity	454

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, 2013, 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, 2013 were:

Due From Other Funds	Due to Other Funds
General Fund	5
Gas Tax 2107.5	25,858
Supplemental Law Enforcement Services	69,333
Gateway Signage	11,857
USDA-Canine	\$107,053
Totals	\$107,053

D. Individual Fund Operating Transfers

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 150.103:

A. Description of Joint Powers Authority

The Authority is comprised of 19 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 2013, \$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 Statement of Net Position of the Authorities Combined Workers Compensation Insurance and Liability Insurance Fund as of June 30, 2013 (Latest available):

Assets	
Liabilities	\$ 44,618,476
Net Position	37,224,968
Co-Participants	7,242,606
City of Willows	150,902
Total Net Position	<u>\$ 7,393,508</u>

D. Claims and Judgments

The City accounts for material liability claims and judgment in accordance with GASB Code Section CSO.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, 2013, 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. Management will review the funding requirements and policy annually and confer with Council on an as needed basis.

Annual OPFB Cost and Net OPFB Obligation

The City's annual other postemployment benefit (OPFB) 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 employees 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 OPFB cost for the year, the amount actually contributed to the plan, and changes in its net OPFB obligation to the Retiree Health Plan:

Annual Required Pension Contribution	\$16,568
Interest on Net OPFB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPFB Cost (Expense)	\$16,568
Contributions Made	(6,293)
Net Increase in OPFB Obligation	\$10,275
Net OPFB Obligation-Beginning of the Year	156,321
Net OPFB Obligation-End of the Year	\$166,596

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

Fiscal Year Ended	Annual OPFB Cost	Percentage of Annual OPFB Cost Contributed	Net OPFB Obligation
06/30/13	\$16,568	38%	\$10,275

Funding Status and Funding Progress

As of July 1, 2012, the actuarial accrued liability (AAL) for benefits was \$146,436, 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 perspective 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). The calculation of OPFB 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 OPFB Assumption Model.

Health insurance premiums – 2012 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 3%. 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, 2012, was thirty years.

Participation – A 30% employee participation rate is assumed.

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

NOTE 10 LITIGATION

The City estimates that potential claims not covered by insurance resulting from such litigation will not materially affect the financial statements of the City.

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 20, 2013, 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.

Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded Liability (UAL)	Funded Status	Annual Covered Payroll	UAL as a % of payroll
(a)	(b)	(a-b)	(b/a)	(c)	([a-b]/c)
\$349,551	\$0	\$ 349,551	0%	\$ 1,900,871	18.4%
\$146,436	\$0	\$ 146,436	0%	\$ 1,419,060	10.3%
7/1/2009					
7/1/2012					

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLOWS
 SCHEDULE OF FUNDING PROGRESS
 (REQUIRED SUPPLEMENTARY INFORMATION)
 FOR THE YEAR ENDED JUNE 30, 2013

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, 2012 valuation date.

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

Date	Valuation	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a % of Payroll		
							Liability	Assets
Miscellaneous								
06/30/10	945,221	754,859	190,362	79.9%	159,157	119.6%	06/30/10	1,023,127
06/30/11	1,023,127	825,991	197,136	80.7%	160,900	122.5%	06/30/11	1,081,963
06/30/12	1,081,963	903,411	178,552	83.5%	153,162	116.6%		
Public Safety								
06/30/10	10,165,475	8,470,235	1,695,240	83.3%	955,981	177.3%	06/30/10	11,724,021
06/30/11	10,951,745	9,135,654	1,816,091	83.4%	949,833	191.2%	06/30/11	11,724,021
06/30/12	11,724,021	9,854,788	1,869,233	84.1%	947,735	197.2%		

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, 2013

FUND	NET POSITION June 30, 2012	ADJUSTMENT (EXPENDITURES)	NET RECEIPTS	TRANSFERS IN	TRANSFERS OUT	NET POSITION June 30, 2013
GENERAL FUND	996,784	30,227	77,234			1,104,245
General Fund	200,000					200,000
General Fund-Working Reserve	5,000					5,000
General Fund-Surplus Property	1,201,784	30,227	77,234			1,309,245
TOTAL GENERAL FUND	1,201,784	30,227	77,234			1,309,245
PARKS AND PUBLIC WORKS FUNDS	121,405	(121,405)	5,004			0
Willows Lighting and Landscape District	2,677					2,677
TDA-Local Transportation Funds	146,291	(65,625)	(48,704)			3,413
TDA-Transportation	3,413		(4,413)			0
Storm Drainage Impact	156,530		1,428			157,958
Street Development Impact	11,624		106			11,730
Park Facilities Impact	144,347		1,317			145,664
I-5 Interchange Impact	268,911		2,490			271,401
ARRA-TANF Employment Grant	5,356		(2,457)			2,899
CA Recycle Grant	6,911		(2,091)			4,820
CA Tire Derived	0		0			0
Used Oil Block Grant	3,034		(3,034)			0
Gateway Sign Grant	0		0			0
TOTAL PARKS AND PUBLIC WORKS	870,499	(65,625)	(170,759)	0	0	634,115
GAS TAX FUNDS	18,468	65,625	47,001			131,094
RSTP	18,468		47,001			131,094
Gas Tax 2105	224,266		27,211			251,477
Gas Tax 2106	13,767		(1,846)			11,921
Gas Tax 2107	34,924		(5,614)			29,310
Gas Tax 2107.5	3,134		(3,134)			0
Gas Tax 2103	141,677		53,769			195,446
TOTAL GAS TAX	436,236	65,625	117,387	0	0	619,248
HOUSING AND COMMUNITY DEVELOPMENT	0	0	261	3,160	1,076	261
Certified Access Specialist	0		261			261
Community Discretionary	93,365		9,775	3,160		106,300
2003 CDBG Housing Loans	0		1,076		1,076	0
Economic Development	40,895		(22,755)			18,140
1992 CDBG Housing Loans	0		3,160		3,160	0
1990 CDBG Housing Loans	0		230			230
2000 CDBG Housing Loans	0		1,097			1,097
RTA - Housing Rehab	0		3,691	1,076		4,767
HOME Program Revolving Loan	41,508		2,172			43,680
Discretionary Revolving Loan	87,072		3,171			90,243
CDBG-Tower Theater Feasibility	41,704		382			42,086
TOTAL HOUSING AND COMMUNITY DEVELOPMENT	304,544	0	2,260	4,236	4,236	306,804
RECREATION	14,080	(4,832)	(735)			9,248
Recreation Reimbursable	14,080		(4,832)			9,248
Recreation Cultural	4,171		(735)			3,436
Swimming Pool	981		(981)			0
TOTAL RECREATION	19,232	0	(6,548)	0	0	12,684

CITY OF WILLOWS
SCHEDULE OF CHANGES IN INDIVIDUAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

FUND	June 30, 2012	ADJUSTMENT (EXPENDITURES)	June 30, 2013	NET POSITION
	NET POSITION	PRIOR PERIOD	NET RECEIPTS	NET POSITION
			IN	OUT
LIBRARY	6,635	1,404	0	8,039
County Library	10	0	0	10
LTSA-Technology Grant	62	0	0	62
CLA-Packard	139	(139)	0	0
Summer Library	0	0	0	0
Literacy Passthrough	22,633	170	0	22,803
Library-Development Impact	29,479	1,435	0	30,914
TOTAL LIBRARY	78,337	(14,111)	0	64,226
PUBLIC SAFETY	349	(348)	0	1
Asset Forfeiture	0	0	0	0
NCCSIF-Safety ADA Grant	24,571	224	0	24,795
Fire-Development Impact	464	(433)	0	31
Fire Activity	12,849	135	0	12,984
Fire Rescue	2,932	(2,723)	0	209
FEMA Fitness Grant	37,172	(10,966)	0	26,206
SLESP	0	0	0	0
CHRP-Hiring Grant	0	0	0	0
OTS-Avoid the 5	0	0	0	0
USDA-Canine	0	0	0	0
AB 109 Overtime	0	0	0	0
TOTAL PUBLIC SAFETY	78,337	(14,111)	0	64,226
FIDUCIARY FUNDS	124,264	988	0	125,252
Non-Expendible Trust Funds	192,935	7,797	0	200,732
Agency Funds	317,199	8,785	0	325,984
TOTAL FIDUCIARY FUNDS	317,199	8,785	0	325,984
ENTERPRISE FUNDS	6,739,978	(165,540)	77,234	6,498,704
Sewer Enterprise	101,763	162	0	101,925
Water Enterprise	6,841,741	(165,378)	77,234	6,600,629
TOTAL ENTERPRISE FUNDS	6,841,741	(165,378)	77,234	6,600,629
TOTALS	10,099,051	1,500	(196,702)	9,903,849