

CITY OF WILLOWS  
GLENN COUNTY, CALIFORNIA  
FINANCIAL STATEMENTS  
TOGETHER WITH  
THE INDEPENDENT AUDITOR'S OPINIONS  
FOR THE YEAR ENDED  
JUNE 30, 2014

CITY OF WILLOWS  
GLENN COUNTY, CALIFORNIA  
JUNE 30, 2014

TABLE OF CONTENTS

EXHIBIT

Independent Auditor's Report

Management's Discussion and Analysis

BASIC FINANCIAL STATEMENTS:

|                                                                                                                                                   |       |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Statement of Net Position                                                                                                                         | ONE   |
| Statement of Activities                                                                                                                           | TWO   |
| Balance Sheet-Governmental Funds                                                                                                                  | THREE |
| Reconciliation of the Balance Sheet of<br>Governmental Funds to the Statement of Net Position                                                     |       |
| Statement of Revenues, Expenditures and<br>Changes in Fund Balance-Governmental Funds                                                             | FOUR  |
| Reconciliation of the Statement of Revenues,<br>Expenditures and Changes in Fund Balances of<br>Governmental Funds to the Statement of Activities |       |
| Statement of Net Assets-Proprietary Funds                                                                                                         | FIVE  |
| Statement of Revenues, Expenses and<br>Changes in Fund Net Assets and Changes<br>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<br>In Fund Net Assets and Changes in Retained<br>Earnings-Fiduciary Funds                             | NINE  |
| Notes to Financial Statements                                                                                                                     |       |

CITY OF WILLOWS  
GLENN COUNTY, CALIFORNIA  
JUNE 30, 2014

TABLE OF CONTENTS

|                                                                                                                                                                                                                        | <u>STATEMENT</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| REQUIRED SUPPLEMENTARY INFORMATION:                                                                                                                                                                                    |                  |
| General Fund, Statement of Revenues, Expenditures<br>And Changes in Fund Balance, Budget and Actual                                                                                                                    | ONE              |
| Schedule of Funding Progress                                                                                                                                                                                           | TWO              |
| OTHER SUPPLEMENTARY INFORMATION:                                                                                                                                                                                       |                  |
| Schedule of Changes in Individual Funds                                                                                                                                                                                | THREE            |
| SINGLE AUDIT SECTION:                                                                                                                                                                                                  |                  |
| Report on Internal Control Over Financial Reporting and on<br>Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with Government<br>Auditing Standards                  |                  |
| Independent Auditor's Report on Compliance With Requirements<br>That Could Have a Direct and Material Effect on Each Major Program<br>and on Internal Control Over Compliance in Accordance<br>With OMB Circular A-133 |                  |
| Independent Auditor's Report on Supplementary Schedule<br>Of Federal Financial Assistance                                                                                                                              |                  |
| Schedule of Expenditures of Federal Financial Awards                                                                                                                                                                   |                  |
| Notes to Schedule of Expenditure of Federal Financial Awards                                                                                                                                                           |                  |
| Schedule of Findings and Questioned Costs                                                                                                                                                                              |                  |

**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 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, 2014, 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 Willows, California, as of June 30, 2014, 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*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *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 16, 2014, 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 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 16, 2014



---

Roy R. Seiler, CPA

MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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, 2014. Please read it in conjunction with the accompanying basic financial statements.

### FINANCIAL HIGHLIGHTS

The City's overall net position increased .6 % to \$13,341,514 as a result of this year's operations. Net position increased 2.9% in discretionary and non-discretionary Government activities and decreased 1.7% in business type activities.

During the year, the City's taxes, other governmental revenues and business activity revenues exceeded expenses by \$80,693 including the effect of depreciation, a non-cash expense, of \$492,383.

Governmental net assets ended the year at \$6,850,923.

The total revenues from all sources were \$6,683,587.

The total cost of all City programs was \$6,602,894.

The General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$49,071.

Actual resources received in the General Fund were greater than the final budget by \$53,791, while actual expenditures and operating transfers were \$111,446 less than final budget.

At the end of the fiscal year, fund balance for the General Fund was \$1,358,316 or 38.7% 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 Position 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)

|                                           | Governmental<br>Activities<br>2014  | %     | Governmental<br>Activities<br>2013  | %     |
|-------------------------------------------|-------------------------------------|-------|-------------------------------------|-------|
| Current and Other Assets                  | \$4,576,967                         | 52.8  | \$3,776,927                         | 48.4  |
| Capital Assets                            | 4,099,851                           | 47.2  | 4,027,297                           | 51.6  |
| Total Assets                              | 8,676,818                           | 100.0 | 7,804,224                           | 100.0 |
| Current and Other Liabilities             | \$1,727,316                         | 19.9  | \$ 999,290                          | 12.8  |
| Long-Term Debt                            | 98,579                              | 1.1   | 144,742                             | 1.8   |
| Total Liabilities                         | 1,825,895                           | 21.0  | 1,144,032                           | 14.6  |
| Net Position:                             |                                     |       |                                     |       |
| Invested in Capital Assets<br>Net of Debt | \$3,955,110                         | 45.6  | \$3,838,360                         | 49.2  |
| Committed for Working Capital             | 200,000                             | 2.3   | 200,000                             | 2.6   |
| Committed for Surplus Property            | 5,000                               | 0.1   | 5,000                               | 0.1   |
| Uncommitted                               | 995,634                             | 11.5  | 948,841                             | 12.2  |
| Restricted For:                           |                                     |       |                                     |       |
| Parks, Recreation, Public Works           | 1,293,806                           | 14.9  | 1,266,047                           | 16.6  |
| Library                                   | 41,115                              | 0.5   | 30,914                              | 0.4   |
| Public Safety                             | 73,868                              | 0.8   | 64,226                              | 0.8   |
| Housing & Community Development           | 286,390                             | 3.3   | 306,804                             | 3.9   |
| Total Net Position                        | \$6,850,923                         | 79.0  | \$6,660,192                         | 85.4  |
|                                           | Business-Type<br>Activities<br>2014 | %     | Business-Type<br>Activities<br>2013 | %     |
| Current and Other Assets                  | \$ 2,310,217                        | 17.8  | \$ 2,270,817                        | 17.2  |
| Capital Assets                            | 10,669,946                          | 82.2  | 10,965,866                          | 82.8  |
| Total Assets                              | 12,980,163                          | 100.0 | 13,236,683                          | 100.0 |
| Current and Other Liabilities             | \$ 251,572                          | 1.9   | \$ 305,054                          | 2.3   |
| Long-Term Debt                            | 6,238,000                           | 48.1  | 6,331,000                           | 47.8  |
| Total Liabilities                         | 6,489,572                           | 50.0  | 6,636,054                           | 50.1  |
| Net Position:                             |                                     |       |                                     |       |
| Invested in Capital Assets<br>Net of Debt | \$ 4,338,946                        | 33.4  | \$ 4,506,309                        | 34.1  |
| Restricted For:                           |                                     |       |                                     |       |
| Debt Service                              | 252,600                             | 1.9   | 293,581                             | 2.2   |
| Utility Service                           | 1,899,045                           | 14.7  | 1,800,739                           | 13.6  |
| Total Net Position                        | \$ 6,490,591                        | 50.0  | \$ 6,600,629                        | 49.9  |

Table 2  
City of Willows Changes In Net Position  
(Full Accrual)

|                                                  | Governmental Activities |                     | Total                | Business-Type Activities |                     | Total                | \$<br>Change        |
|--------------------------------------------------|-------------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|---------------------|
|                                                  | 2014                    | 2014                |                      | 2013                     | 2013                |                      |                     |
| <b>REVENUES:</b>                                 |                         |                     |                      |                          |                     |                      |                     |
| <b>Program Revenues:</b>                         |                         |                     |                      |                          |                     |                      |                     |
| Charges for Services                             | \$ 23,924               | \$ 1,650,492        | \$ 1,674,416         | \$ 105,737               | \$ 1,589,663        | \$ 1,695,400         | \$ (20,984)         |
| Operating Grants/Contributions                   | \$ 1,235,618            |                     | \$ 1,235,618         | \$ 501,873               |                     | \$ 501,873           | \$ 733,745          |
| Capital Grants/Contributions                     | \$ 268,233              | \$ -                | \$ 268,233           | \$ 123,772               | \$ -                | \$ 123,772           | \$ 144,461          |
| <b>General Revenues:</b>                         |                         |                     |                      |                          |                     |                      |                     |
| Taxes                                            | \$ 2,544,170            |                     | \$ 2,544,170         | \$ 2,419,426             |                     | \$ 2,419,426         | \$ 124,744          |
| Intergovernmental (Non-Restrict)                 | \$ 495,205              |                     | \$ 495,205           | \$ 470,836               |                     | \$ 470,836           | \$ 24,369           |
| Investment Income                                | \$ 28,872               | \$ 8,909            | \$ 37,781            | \$ 32,378                | \$ 10,764           | \$ 43,142            | \$ (5,361)          |
| Other                                            | \$ 428,164              |                     | \$ 428,164           | \$ 282,597               |                     | \$ 282,597           | \$ 145,567          |
| <b>TOTAL REVENUES</b>                            | <b>\$ 5,024,186</b>     | <b>\$ 1,659,401</b> | <b>\$ 6,683,587</b>  | <b>\$ 3,936,619</b>      | <b>\$ 1,600,427</b> | <b>\$ 5,537,046</b>  | <b>\$ 1,146,541</b> |
| <b>EXPENSES:</b>                                 |                         |                     |                      |                          |                     |                      |                     |
| General Government                               | \$ 592,829              |                     | \$ 592,829           | \$ 533,169               |                     | \$ 533,169           | \$ 59,660           |
| Public Safety                                    | \$ 2,220,529            |                     | \$ 2,220,529         | \$ 2,122,332             |                     | \$ 2,122,332         | \$ 98,197           |
| Parks and Public Works                           | \$ 666,321              |                     | \$ 666,321           | \$ 738,937               |                     | \$ 738,937           | \$ (72,616)         |
| PPW Contributions to Business                    | \$ -                    |                     | \$ -                 | \$ -                     |                     | \$ -                 | \$ -                |
| <b>Type Activities</b>                           |                         |                     |                      |                          |                     |                      |                     |
| Library                                          | \$ 284,121              |                     | \$ 284,121           | \$ 263,397               |                     | \$ 263,397           | \$ 20,724           |
| Recreation                                       | \$ 159,028              |                     | \$ 159,028           | \$ 146,204               |                     | \$ 146,204           | \$ 12,824           |
| Housing/ Community Development                   | \$ 987,861              |                     | \$ 987,861           | \$ 184,617               |                     | \$ 184,617           | \$ 803,244          |
| Sewer                                            |                         | \$ 1,685,398        | \$ 1,685,398         |                          | \$ 1,758,805        | \$ 1,758,805         | \$ (73,407)         |
| Water                                            |                         | \$ 6,807            | \$ 6,807             |                          | \$ 7,000            | \$ 7,000             | \$ (193)            |
| <b>TOTAL EXPENSES</b>                            | <b>\$ 4,910,689</b>     | <b>\$ 1,692,205</b> | <b>\$ 6,602,894</b>  | <b>\$ 3,988,656</b>      | <b>\$ 1,765,805</b> | <b>\$ 5,754,461</b>  | <b>\$ 848,433</b>   |
| <b>INCREASE IN NET POSITION BEFORE TRANSFERS</b> | <b>\$ 113,497</b>       | <b>\$ (32,804)</b>  | <b>\$ 80,693</b>     | <b>\$ (52,037)</b>       | <b>\$ (165,378)</b> | <b>\$ (217,415)</b>  | <b>\$ 298,108</b>   |
| Transfers                                        | \$ 77,234               | \$ (77,234)         | \$ -                 | \$ 77,234                | \$ (77,234)         | \$ -                 | \$ -                |
| <b>INCREASE IN NET POSITION</b>                  | <b>\$ 190,731</b>       | <b>\$ (110,038)</b> | <b>\$ 80,693</b>     | <b>\$ 25,197</b>         | <b>\$ (242,612)</b> | <b>\$ (217,415)</b>  | <b>\$ -</b>         |
| <b>NET POSITION-July 1</b>                       | <b>\$ 6,660,192</b>     | <b>\$ 6,600,629</b> | <b>\$ 13,260,821</b> | <b>\$ 6,634,995</b>      | <b>\$ 6,841,741</b> | <b>\$ 13,476,736</b> | <b>\$ -</b>         |
| <b>PRIOR PERIOD ADJUSTMENT</b>                   |                         |                     | \$ -                 |                          | \$ 1,500            | \$ 1,500             | \$ -                |
| <b>NET POSITION-June 30</b>                      | <b>\$ 6,850,923</b>     | <b>\$ 6,490,591</b> | <b>\$ 13,341,514</b> | <b>\$ 6,660,192</b>      | <b>\$ 6,600,629</b> | <b>\$ 13,260,821</b> | <b>\$ 80,693</b>    |

The City's combined net assets for the fiscal year ended June 30, 2014, were \$13,341,514, a 0.6% increase from prior year. Specifically, the City's net assets for governmental activities increased from \$6,660,192 to \$6,850,923 (2.9%), while business-type activities net assets decreased from \$6,600,629 to \$6,490,591 (1.7%).

The City experienced an increase in revenues from operating grants and contributions of \$733.7K due primarily to the start-up of the HOME-Senior Housing Grant (\$754K). Capital Grant Revenue increased \$144K primarily to the funding for the street sweeper via Gas Tax (\$204K) offset by reduced grant related activity pertaining to street reconstruction (\$80K). Tax revenue was up \$124K primarily due to the one time settlement with the County over Property Tax Service Charges (\$108K). Other revenues were up \$145.5K due primarily to increased development activity in 2013-14 resulting in increased Building and Planning Charges (\$60K). Also, increased payoffs of housing rehabilitation loans (\$30K) played a large role.

Housing and Community Development expenditures were \$803.2K greater than prior year. Again, as noted above, the HOME-Senior Housing project commenced in 2013-14 (\$754K in expenditures).

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 \$4,245 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<br>Activities<br>2013 | Business-Type<br>Activities<br>2013 | Total<br>2013 |
|-----------------------------|------------------------------------|-------------------------------------|---------------|
| Interfund Transfer In (Out) |                                    |                                     |               |
| General Fund                | \$ 77,234                          |                                     | \$ 77,234     |
| Sewer Fund                  |                                    | \$ (77,234)                         | \$ (77,234)   |
| 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<br>Activities<br>2014 | Business-Type<br>Activities<br>2014 | Total<br>2013 |
|-------------------------------------------|------------------------------------|-------------------------------------|---------------|
| Interfund Transfers In (by Fund):         |                                    |                                     |               |
| (1) General                               | \$ 77,234                          |                                     | \$ 77,234     |
| (2) Community Discretionary               | \$ 36,275                          |                                     | \$ 36,275     |
| (3) Economic Development Discretionary    | \$ 42,085                          |                                     | \$ 42,085     |
| Interfund Transfers Out (By Fund)         |                                    |                                     |               |
| (1) Sewer                                 |                                    | \$ (77,234)                         | \$ (77,234)   |
| (2) 1992 CDBG Housing Loans               | \$ (23,096)                        |                                     | \$ (23,096)   |
| (2) 2003 CDBG Housing Loans               | \$ (1,065)                         |                                     | \$ (1,065)    |
| (2) 1990 CDBG Housing Loans               | \$ (230)                           |                                     | \$ (230)      |
| (2) 1997 CDBG Housing Loans               | \$ (3,461)                         |                                     | \$ (3,461)    |
| (2) 2000 CDBG Housing Loans               | \$ (8,423)                         |                                     | \$ (8,423)    |
| (3) Revolving Loan Fund                   | \$ (42,085)                        |                                     | \$ (42,085)   |
| Net Transfers In and Out                  | \$ 77,234                          | \$ (77,234)                         | \$ -          |
| Amounts Due from Other Funds:             |                                    |                                     |               |
| (4) General                               | \$ 53,459                          |                                     | \$ 53,459     |
| Amounts Due to Other Funds:               |                                    |                                     |               |
| (4) STIP                                  | \$ (12,303)                        |                                     | \$ (12,303)   |
| (4) Supplemental Law Enforcement Services | \$ (5,013)                         |                                     | \$ (5,013)    |
| (4) USDOJ CHRP II                         | \$ (21,684)                        |                                     | \$ (21,684)   |
| (4) USDA-Canine                           | \$ (4,363)                         |                                     | \$ (4,363)    |
| (4) AB 109 Overtime Funding               | \$ (2,000)                         |                                     | \$ (2,000)    |
| (4) OJP-Vest                              | \$ (860)                           |                                     | \$ (860)      |
| (4) CDBG-Housing Studies                  | \$ (5,111)                         |                                     | \$ (5,111)    |
| (4) HOME Senior Housing Project           | \$ (2,125)                         |                                     | \$ (2,125)    |
| 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) Transfer resulting from the closing of a redundant fund.
- (4) 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), (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                                           | NET              | NET             | TRANSFERS     | TRANSFERS     | NET              |
|------------------------------------------------|------------------|-----------------|---------------|---------------|------------------|
|                                                | POSITION         | RECEIPTS        | IN            | OUT           | POSITION         |
|                                                | June 30, 2013    | (EXPENDITURES)  |               |               | June 30, 2014    |
| <b>GENERAL FUND</b>                            |                  |                 |               |               |                  |
| General Fund                                   | 1,104,245        | (28,163)        | 77,234        |               | 1,153,316        |
| General Fund-Working Reserve                   | 200,000          | 0               |               |               | 200,000          |
| General Fund-Surplus Property                  | 5,000            | 0               |               |               | 5,000            |
| <b>TOTAL GENERAL FUND</b>                      | <b>1,309,245</b> | <b>(28,163)</b> | <b>77,234</b> | <b>0</b>      | <b>1,358,316</b> |
| <b>PARKS AND PUBLIC WORKS FUNDS</b>            |                  |                 |               |               |                  |
| State Transportation Improvement Program       | 0                | 0               |               |               | 0                |
| Willows Lighting and Landscape District        | 7,681            | 2,156           |               |               | 9,837            |
| TDA-Local Transportation Funds                 | 31,962           | 320             |               |               | 32,282           |
| Mall Maintenance                               | 0                | 17,725          |               |               | 17,725           |
| Storm Drainage Impact                          | 157,958          | 16,236          |               |               | 174,194          |
| Street Development Impact                      | 11,730           | 17,969          |               |               | 29,699           |
| Park Facilities Impact                         | 145,664          | 5,812           |               |               | 151,476          |
| I-5 Interchange Impact                         | 271,401          | 11,754          |               |               | 283,155          |
| ARRA-TANF Employment Grant                     | 2,899            | (2,899)         |               |               | 0                |
| CA Recycle Grant                               | 4,820            | 3,551           |               |               | 8,371            |
| <b>TOTAL PARKS AND PUBLIC WORKS</b>            | <b>634,115</b>   | <b>72,624</b>   | <b>0</b>      | <b>0</b>      | <b>706,739</b>   |
| <b>GAS TAX FUNDS</b>                           |                  |                 |               |               |                  |
| RSTP                                           | 131,094          | 56,891          |               |               | 187,985          |
| Gas Tax 2105                                   | 251,477          | (172,737)       |               |               | 78,740           |
| Gas Tax 2106                                   | 11,921           | (2,650)         |               |               | 9,271            |
| Gas Tax 2107                                   | 29,310           | (7,359)         |               |               | 21,951           |
| Gas Tax 2107.5                                 | 0                | 588             |               |               | 588              |
| Gas Tax 2103                                   | 195,446          | 84,962          |               |               | 280,408          |
| <b>TOTAL GAS TAX</b>                           | <b>619,248</b>   | <b>(40,305)</b> | <b>0</b>      | <b>0</b>      | <b>578,943</b>   |
| <b>HOUSING AND COMMUNITY DEVELOPMENT</b>       |                  |                 |               |               |                  |
| Certified Access Specialist                    | 261              | 372             |               |               | 633              |
| Community Discretionary                        | 106,300          | (4,329)         | 36,274        |               | 138,245          |
| 2003 CDBG Housing Loans                        | 0                | 1,065           |               | 1,065         | 0                |
| Economic Development                           | 18,140           | (16,585)        | 42,086        |               | 43,641           |
| 1992 CDBG Housing Loans                        | 0                | 23,096          |               | 23,096        | 0                |
| 1990 CDBG Housing Loans                        | 230              | 0               |               | 230           | 0                |
| 1997 CDBG Housing Loans                        | 1,097            | 2,363           |               | 3,460         | 0                |
| 2000 CDBG Housing Loans                        | 4,767            | 3,656           |               | 8,423         | 0                |
| RLA - Housing Rehab                            | 43,680           | (41,623)        |               |               | 2,057            |
| HOME Program Revolving Loan                    | 90,243           | 11,571          |               |               | 101,814          |
| Discretionary Revolving Loan                   | 42,086           | 0               |               | 42,086        | 0                |
| HOME-Senior Housing Project                    | 0                | 0               |               |               | 0                |
| <b>TOTAL HOUSING AND COMMUNITY DEVELOPMENT</b> | <b>306,804</b>   | <b>(20,414)</b> | <b>78,360</b> | <b>78,360</b> | <b>286,390</b>   |
| <b>RECREATION</b>                              |                  |                 |               |               |                  |
| Recreation Reimbursable                        | 9,248            | (2,411)         |               |               | 6,837            |
| Recreation Cultural                            | 3,436            | (2,149)         |               |               | 1,287            |
| <b>TOTAL RECREATION</b>                        | <b>12,684</b>    | <b>(4,560)</b>  | <b>0</b>      | <b>0</b>      | <b>8,124</b>     |

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

| FUND                          | NET<br>POSITION<br>June 30, 2013 | NET<br>RECEIPTS<br>(EXPENDITURES) | TRANSFERS<br>IN | TRANSFERS<br>OUT | NET<br>POSITION<br>June 30, 2014 |
|-------------------------------|----------------------------------|-----------------------------------|-----------------|------------------|----------------------------------|
| <b>LIBRARY</b>                |                                  |                                   |                 |                  |                                  |
| County Library                | 8,039                            | 4,104                             |                 |                  | 12,143                           |
| LTSA-Technology Grant         | 10                               | 0                                 |                 |                  | 10                               |
| CLA-Packard                   | 62                               | 0                                 |                 |                  | 62                               |
| CLSA-Delivery Funding         | 0                                | 2,663                             |                 |                  | 2,663                            |
| Literacy Passthrough          | 0                                | 0                                 |                 |                  | 0                                |
| Library-Development Impact    | 22,803                           | 3,434                             |                 |                  | 26,237                           |
| <b>TOTAL LIBRARY</b>          | <b>30,914</b>                    | <b>10,201</b>                     | <b>0</b>        | <b>0</b>         | <b>41,115</b>                    |
| <b>PUBLIC SAFETY</b>          |                                  |                                   |                 |                  |                                  |
| Asset Forfeiture              | 1                                | 0                                 |                 |                  | 1                                |
| NCCSIF-Safety ADA Grant       | 0                                | 0                                 |                 |                  | 0                                |
| Fire-Development Impact       | 24,795                           | 10,811                            |                 |                  | 35,606                           |
| Fire Activity                 | 31                               | 0                                 |                 |                  | 31                               |
| Police Development Impact     | 12,984                           | 5,146                             |                 |                  | 18,130                           |
| FEMA Fitness Grant            | 209                              | 0                                 |                 |                  | 209                              |
| SLESF                         | 26,206                           | (6,315)                           |                 |                  | 19,891                           |
| CHRP-Hiring Grant             | 0                                | 0                                 |                 |                  | 0                                |
| USDA-Canine                   | 0                                | 0                                 |                 |                  | 0                                |
| AB 109 Overtime               | 0                                | 0                                 |                 |                  | 0                                |
| <b>TOTAL PUBLIC SAFETY</b>    | <b>64,226</b>                    | <b>9,642</b>                      | <b>0</b>        | <b>0</b>         | <b>73,868</b>                    |
| <b>FIDUCIARY FUNDS</b>        |                                  |                                   |                 |                  |                                  |
| Non-Expendible Trust Funds    | 125,252                          | 545                               |                 |                  | 125,797                          |
| Agency Funds                  | 200,361                          | 36,154                            |                 |                  | 236,515                          |
| <b>TOTAL FIDUCIARY FUNDS</b>  | <b>325,613</b>                   | <b>36,699</b>                     | <b>0</b>        | <b>0</b>         | <b>362,312</b>                   |
| <b>ENTERPRISE FUNDS</b>       |                                  |                                   |                 |                  |                                  |
| Sewer Enterprise              | 6,498,704                        | (35,078)                          |                 | 77,234           | 6,386,392                        |
| Water Enterprise              | 101,925                          | 2,274                             |                 |                  | 104,199                          |
| <b>TOTAL ENTERPRISE FUNDS</b> | <b>6,600,629</b>                 | <b>(32,804)</b>                   | <b>0</b>        | <b>77,234</b>    | <b>6,490,591</b>                 |
| <b>TOTALS</b>                 | <b>9,903,478</b>                 | <b>2,920</b>                      | <b>155,594</b>  | <b>155,594</b>   | <b>9,906,398</b>                 |

The only major (>\$100K) Net Position change during the year was the Gas Tax 2105 Fund (\$172.7K). The reduction in this fund was due to the purchase of a street sweeper (\$206K) utilizing this funding source.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were greater than the final adopted budget. Total revenues were \$53,791 (1.6%) over budget. Charges for Services as a result of increased building and development activity (\$50K) was the primary reason for the variance.

All General Fund expenditures finished the year under budget with a total cost savings of 3.1% or \$111,446. Capital Outlay experienced a savings of \$68K as technological upgrades budgeted in 2013-14 was moved to 2014-15. As such, the item was encumbered and will be expended in 2014-15. Parks and Public Works experienced savings of \$45K 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 \$49,071 reflecting revenues totaling \$3,486,477 expenditures totaling \$3,514,640, and an operating transfer in in the amount of \$77,234.

Table 6  
Schedule of Budgetary Expenditure Changes

| Fund                | Amount of<br>Increase/(Decrease)<br>From Original Budget |
|---------------------|----------------------------------------------------------|
| (1)General Fund     | \$200,241                                                |
| (2)Sewer Enterprise | 40,799                                                   |
| (3)Mall Maintenance | 17,725                                                   |

- (1) General Fund items include appropriation of funds associated with receipt of Property Tax Allocation Settlement with Glenn County (\$98K), retention of counsel regarding receivership of abandoned properties (\$55K), augmentation to workers compensation and liability insurance expenditures (\$22K), Police overtime augmentation (\$18K), and augmentation to Fire maintenance and repair items (\$7K).
- (2) Sewer Enterprise items include financial participation in a multi-jurisdictional Basin Plan Amendment Study (\$8K), updating charge by General Fund to Sewer Fund of administrative transfer as a result of nexus study (\$8K), and update to utility charges to reflect more accurate costs (\$25K).
- (3) Mall Maintenance Fund was established as a result of the allocation received for the City's share of liquidation of Redevelopment Agency funds.

## 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, 2014, net capital assets of the governmental activities totaled \$4,099,851 and the net capital assets of the business-type activities totaled \$10,669,946. 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

| <u>Description</u>        | <u>Expenditure Amount</u> | <u>Status at June 30, 2014</u> |
|---------------------------|---------------------------|--------------------------------|
| Street Sweeper            | \$201,375                 | Complete                       |
| Bay Doors at Fire Station | 37,000                    | Complete                       |

**CURRENT LIABILITIES AND LONG-TERM DEBT**

The City has total governmental type liabilities of \$1,825,895 which includes \$263,244 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 \$6,489,572 which includes \$6,253,243 in long-term liabilities pertaining to wastewater treatment facility renovations completed in 2007 and accrued compensated absences deemed to be payable in a year or more. The total liabilities- to-net-position ratio for the City is 62.33% vs. 58.68% for the prior year.

**NEXT YEAR’S BUDGET AND ECONOMIC FACTORS**

In considering the City’s Budget for fiscal year 2014/15, 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 2014/15 includes an operating deficit of \$67,511 utilizing existing General Fund reserves (\$1,358,316 available at July 1, 2014) to cover the projected deficit.

**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:

| <u>By mail</u>                                                          | <u>By Phone</u> | <u>By E-Mail</u>           |
|-------------------------------------------------------------------------|-----------------|----------------------------|
| City of Willows<br>201 North Lassen Street<br>Willows, California 95988 | 530-934-7041    | tsailsbe@cityofwillows.org |

BASIC FINANCIAL STATEMENTS

**CITY OF WILLOWS**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

|                                                 | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Funds</u> | <u>Total</u>             |
|-------------------------------------------------|------------------------------------|--------------------------------|--------------------------|
| <b>ASSETS</b>                                   |                                    |                                |                          |
| Cash and Investments                            | 3,086,092                          | 2,089,792                      | 5,175,884                |
| Receivable:                                     |                                    |                                |                          |
| Accounts                                        |                                    | 218,434                        | 218,434                  |
| Interest                                        | 6,375                              | 1,991                          | 8,366                    |
| Intergovernmental/Other                         | 998,809                            |                                | 998,809                  |
| Deferred Loans                                  | 478,128                            |                                | 478,128                  |
| Prepaid Expenses                                | 7,563                              |                                | 7,563                    |
| Capital Assets (Net of Depreciation)            | <u>4,099,851</u>                   | <u>10,669,946</u>              | <u>14,769,797</u>        |
| <b>TOTAL ASSETS</b>                             | <b><u>8,676,818</u></b>            | <b><u>12,980,163</u></b>       | <b><u>21,656,981</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>               |                                    |                                |                          |
| <b>LIABILITIES</b>                              |                                    |                                |                          |
| Accounts Payable                                | 851,487                            | 57,854                         | 909,341                  |
| Interest Payable                                | 6,441                              | 62,973                         | 69,414                   |
| Other Current Liabilities                       |                                    |                                |                          |
| Compensated Absences                            |                                    |                                |                          |
| Payable Withing One Year                        | 18,296                             | 1,694                          | 19,990                   |
| Due in More Than One Year                       | 164,665                            | 15,243                         | 179,908                  |
| Other                                           | 241                                |                                | 241                      |
| Deferred Revenue                                | 488,781                            |                                | 488,781                  |
| OPEB Liability                                  | 151,243                            | 20,808                         | 172,051                  |
| Notes Payable                                   |                                    |                                |                          |
| Due Within One Year                             | 46,162                             | 93,000                         | 139,162                  |
| Due in More Than One Year                       | 98,579                             | 6,238,000                      | 6,336,579                |
| <b>TOTAL LIABILITIES</b>                        | <b><u>1,825,895</u></b>            | <b><u>6,489,572</u></b>        | <b><u>8,315,467</u></b>  |
| <b>NET POSITION</b>                             |                                    |                                |                          |
| Invested in Capital Assets, Net of Related Debt | 3,955,110                          | 4,338,946                      | 8,294,056                |
| Committed for Working Capital                   | 200,000                            |                                | 200,000                  |
| Committed for Surplus Property                  | 5,000                              |                                | 5,000                    |
| Uncommitted                                     | 995,634                            |                                | 995,634                  |
| Restricted For:                                 |                                    |                                |                          |
| Parks, Recreation, Public Works, and Streets    | 1,293,806                          |                                | 1,293,806                |
| Library                                         | 41,115                             |                                | 41,115                   |
| Public Safety                                   | 73,868                             |                                | 73,868                   |
| Housing and Community Development               | 286,390                            |                                | 286,390                  |
| Utility Service                                 |                                    | 1,899,045                      | 1,899,045                |
| Debt Service                                    |                                    | 252,600                        | 252,600                  |
| <b>TOTAL NET POSITION</b>                       | <b><u>6,850,923</u></b>            | <b><u>6,490,591</u></b>        | <b><u>13,341,514</u></b> |

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, 2014

|                                             | PROGRAM REVENUE  |                         |                                          |                                        | Net Revenue (Expense) And<br>Changes in Net Assets |                             |                    |
|---------------------------------------------|------------------|-------------------------|------------------------------------------|----------------------------------------|----------------------------------------------------|-----------------------------|--------------------|
|                                             | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                         | Business-Type<br>Activities | Total              |
| <b>Governmental Activities</b>              |                  |                         |                                          |                                        |                                                    |                             |                    |
| General Government                          | 592,829          |                         |                                          |                                        | (592,829)                                          |                             | (592,829)          |
| Public Safety                               | 2,220,529        |                         | 145,300                                  | 6,230                                  | (2,068,999)                                        |                             | (2,068,999)        |
| Parks and Public Works                      | 666,321          | 11,132                  | 141,336                                  | 225,003                                | (288,850)                                          |                             | (288,850)          |
| Library                                     | 284,121          |                         | 136,533                                  |                                        | (147,588)                                          |                             | (147,588)          |
| Recreation                                  | 159,028          | 12,792                  |                                          |                                        | (146,236)                                          |                             | (146,236)          |
| Housing and Community Development           | 987,861          |                         | 812,449                                  | 37,000                                 | (138,412)                                          |                             | (138,412)          |
| <b>Total Governmental Activities</b>        | <b>4,910,689</b> | <b>23,924</b>           | <b>1,235,618</b>                         | <b>268,233</b>                         | <b>(3,382,914)</b>                                 | <b>0</b>                    | <b>(3,382,914)</b> |
| <b>Business Type Activities</b>             |                  |                         |                                          |                                        |                                                    |                             |                    |
| Sewer                                       | 1,685,398        | 1,641,620               |                                          |                                        | (43,778)                                           |                             | (43,778)           |
| Water                                       | 6,807            | 8,872                   |                                          |                                        | 2,065                                              |                             | 2,065              |
| <b>Total Business-Type Activities</b>       | <b>1,692,205</b> | <b>1,650,492</b>        | <b>0</b>                                 | <b>0</b>                               | <b>(41,713)</b>                                    | <b>0</b>                    | <b>(41,713)</b>    |
| <b>General Revenues:</b>                    |                  |                         |                                          |                                        |                                                    |                             |                    |
| Taxes                                       |                  |                         |                                          |                                        | 2,544,170                                          |                             | 2,544,170          |
| Intergovernmental Not For Restricted Use    |                  |                         |                                          |                                        | 495,205                                            |                             | 495,205            |
| Investment Income                           |                  |                         |                                          |                                        | 28,872                                             | 8,909                       | 37,781             |
| Other                                       |                  |                         |                                          |                                        | 428,164                                            |                             | 428,164            |
| Net Activity Transfers In/(Out)             |                  |                         |                                          |                                        | 77,234                                             | (77,234)                    | 0                  |
| <b>Total General Revenues and Transfers</b> |                  |                         |                                          |                                        | <b>3,573,645</b>                                   | <b>(68,325)</b>             | <b>3,505,320</b>   |
| <b>Change in Net Assets</b>                 |                  |                         |                                          |                                        | <b>190,731</b>                                     | <b>(110,038)</b>            | <b>80,693</b>      |
| <b>Net Position, Beginning</b>              |                  |                         |                                          |                                        | <b>6,660,192</b>                                   | <b>6,600,629</b>            | <b>13,260,821</b>  |
| <b>Net Assets, Ending</b>                   |                  |                         |                                          |                                        | <b>6,850,923</b>                                   | <b>6,490,591</b>            | <b>13,341,514</b>  |

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

**CITY OF WILLOWS**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
**June 30, 2014**

|                                                                           | General<br>Fund  | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------------------------------------------|------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                                                             |                  |                                |                                |
| Cash and Investments                                                      | 1,369,547        | 1,716,545                      | 3,086,092                      |
| Receivables:                                                              |                  |                                |                                |
| Intergovernmental                                                         | 166,276          | 832,533                        | 998,809                        |
| Interest                                                                  | 4,850            | 1,525                          | 6,375                          |
| Deferred Loans                                                            |                  | 478,128                        | 478,128                        |
| From Other Funds                                                          | 53,459           |                                | 53,459                         |
| Other                                                                     | 7,563            |                                | 7,563                          |
| <b>TOTAL ASSETS</b>                                                       | <b>1,601,695</b> | <b>3,028,730</b>               | <b>4,630,425</b>               |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY</b>         |                  |                                |                                |
| <b>LIABILITIES:</b>                                                       |                  |                                |                                |
| <b>Current Liabilities</b>                                                |                  |                                |                                |
| Accounts Payable                                                          | 49,525           | 801,962                        | 851,487                        |
| Due to Other Funds                                                        |                  | 53,459                         | 53,459                         |
| Compensated Absences                                                      | 182,961          |                                | 182,961                        |
| Other                                                                     | 241              |                                | 241                            |
| <b>TOTAL LIABILITIES</b>                                                  | <b>232,727</b>   | <b>855,421</b>                 | <b>1,088,148</b>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                      |                  |                                |                                |
| Unavailable Revenue                                                       | 10,652           | 478,129                        | 488,781                        |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                | <b>10,652</b>    | <b>478,129</b>                 | <b>488,781</b>                 |
| <b>FUND BALANCE</b>                                                       |                  |                                |                                |
| <b>Fund Balances:</b>                                                     |                  |                                |                                |
| Committed for Working Capital                                             | 200,000          |                                | 200,000                        |
| Committed for Surplus Property                                            | 5,000            |                                | 5,000                          |
| Uncommitted                                                               | 1,153,316        |                                | 1,153,316                      |
| <b>Restricted for:</b>                                                    |                  |                                |                                |
| Parks, Recreation, Public Works, and Streets                              |                  | 1,293,806                      | 1,293,806                      |
| Library                                                                   |                  | 41,115                         | 41,115                         |
| Public Safety                                                             |                  | 73,868                         | 73,868                         |
| Housing and Community Development                                         |                  | 286,391                        | 286,391                        |
| <b>TOTAL FUND BALANCE</b>                                                 | <b>1,358,316</b> | <b>1,695,180</b>               | <b>3,053,496</b>               |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b> | <b>1,601,695</b> | <b>3,028,730</b>               | <b>4,630,425</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 Position**  
**June 30, 2014**

|                                                                                                                                                                                                                  |                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| <b>Total Fund Balance-Total Governmental Funds<br/>Amounts Reported For Governmental Activities<br/>in the Statement of Net Assets are Different Because:</b>                                                    | <b>3,053,496</b>        |
| <b>Capital Assets, Net of Accumulated Depreciation and<br/>Related Debt, Are Not Financial Resources, and,<br/>Therefore, Are Not Reported in the Funds</b>                                                      | <b>3,955,109</b>        |
| <b>Accrued Interest Expense is treated as an Expenditure<br/>in the Year of Payments in Funds, and Therefore, Not<br/>Reported until Paid in Funds</b>                                                           | <b>(6,441)</b>          |
| <b>The unpaid annual contribution for accrued other post employment<br/>benefits is a long term obligation not due and payable in the current period,<br/>and, therefore, not reported in governmental funds</b> | <b>(151,241)</b>        |
| <b>Net Assets of Governmental Activities</b>                                                                                                                                                                     | <b><u>6,850,923</u></b> |

**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, 2014**

|                                                              | General<br>Fund  | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------------------------------------|------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>                                              |                  |                                |                                |
| Taxes                                                        | 2,544,170        |                                | 2,544,170                      |
| Licenses, Permits and Franchise                              | 242,929          |                                | 242,929                        |
| Fines Forfeitures and Penalties                              | 15,394           |                                | 15,394                         |
| Intergovernmental                                            | 495,205          | 1,375,241                      | 1,870,446                      |
| Charges for Services                                         | 140,751          | 23,924                         | 164,675                        |
| Interest                                                     | 18,938           | 9,934                          | 28,872                         |
| Other                                                        | 29,090           | 128,610                        | 157,700                        |
| <b>Total Revenue</b>                                         | <b>3,486,477</b> | <b>1,537,709</b>               | <b>5,024,186</b>               |
| <b>EXPENDITURES</b>                                          |                  |                                |                                |
| General Government                                           | 578,178          |                                | 578,178                        |
| Public Safety                                                | 2,052,161        | 135,897                        | 2,188,058                      |
| Parks and Public Works                                       | 428,587          | 128,338                        | 556,925                        |
| Recreation                                                   | 141,590          | 17,438                         | 159,028                        |
| Library                                                      | 156,357          | 126,539                        | 282,896                        |
| Housing and Community Development                            | 153,786          | 834,075                        | 987,861                        |
| Capital Outlay                                               | 3,981            | 268,233                        | 272,214                        |
| <b>Total Expenditures</b>                                    | <b>3,514,640</b> | <b>1,510,520</b>               | <b>5,025,160</b>               |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>(28,163)</b>  | <b>27,189</b>                  | <b>(974)</b>                   |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                  |                                |                                |
| Transfers In                                                 | 77,234           | 78,360                         | 155,594                        |
| Transfers Out                                                |                  | (78,360)                       | (78,360)                       |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>77,234</b>    | <b>0</b>                       | <b>77,234</b>                  |
| <b>Net Change in Fund Balance</b>                            | <b>49,071</b>    | <b>27,189</b>                  | <b>76,260</b>                  |
| <b>Fund Balance, July 1, 2013</b>                            | <b>1,309,245</b> | <b>1,667,991</b>               | <b>2,977,236</b>               |
| <b>Fund Balance, June 30, 2014</b>                           | <b>1,358,316</b> | <b>1,695,180</b>               | <b>3,053,496</b>               |

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, 2014**

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

|                                                                                                                                                                                                                          |                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| <b>Net Change in Fund Balances: Total Governmental Funds</b>                                                                                                                                                             | <b>76,260</b>         |
| <b>Governmental Funds Reported Capital Outlays as<br/>Expenditures</b>                                                                                                                                                   | <b>272,214</b>        |
| <b>In the Statement of Activities, the Cost of Capital Assets is<br/>Allocated Over their Estimated Useful Lives as Depreciation<br/>Expense</b>                                                                         | <b>(199,660)</b>      |
| <b>In the Statement of Activities, Capital Lease Payment is Reported in<br/>Interest Expense and Reduction In Outstanding Debt Components.<br/>It is treated as an expenditure for Governmental Fund purposes.</b>       | <b>52,603</b>         |
| <b>Accrued Interest pertaining to the Capital Lease is treated as an expens<br/>when accrued on the Statement of Activities. It will not be treated as<br/>an expenditure until paid for Governmental Fund purposes.</b> | <b>(6,441)</b>        |
| <b>Accrued Other Post Employment Benefit is treated as an expense when<br/>accrued on the Statement of Activities. It will not be treated as an expediture<br/>until paid for Governmental Fund purposes.</b>            | <b>(4,245)</b>        |
| <b>Change in Net Assets of Governmental Activities</b>                                                                                                                                                                   | <b><u>190,731</u></b> |

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

**CITY OF WILLOWS  
STATEMENT OF POSITION  
PROPRIETARY FUNDS  
June 30, 2014**

|                                                 | Sewer<br>Enterprise<br>Funds | Water<br>Enterprise<br>Fund | Totals            |
|-------------------------------------------------|------------------------------|-----------------------------|-------------------|
| <b>ASSETS:</b>                                  |                              |                             |                   |
| <b>Current Assets</b>                           |                              |                             |                   |
| Cash                                            | 2,060,110                    | 29,682                      | 2,089,792         |
| <b>Receivables:</b>                             |                              |                             |                   |
| Accounts                                        | 218,434                      |                             | 218,434           |
| Interest                                        | 1,945                        | 46                          | 1,991             |
| <b>Total Current Assets</b>                     | <b>2,280,489</b>             | <b>29,728</b>               | <b>2,310,217</b>  |
| <b>Non-Current Assets</b>                       |                              |                             |                   |
| <b>Capital Assets</b>                           |                              |                             |                   |
| Systems and Improvements                        | 12,907,382                   | 137,610                     | 13,044,992        |
| Licensed Vehicles                               | 526,045                      |                             | 526,045           |
| Equipment                                       | 76,099                       |                             | 76,099            |
| Accumulated Depreciation                        | (2,914,100)                  | (63,090)                    | (2,977,190)       |
| <b>Total Non-Current Assets</b>                 | <b>10,595,426</b>            | <b>74,520</b>               | <b>10,669,946</b> |
| <b>TOTAL ASSETS</b>                             | <b>12,875,915</b>            | <b>104,248</b>              | <b>12,980,163</b> |
| <b>LIABILITIES</b>                              |                              |                             |                   |
| <b>Current Liabilities:</b>                     |                              |                             |                   |
| Accounts Payable                                | 57,805                       | 49                          | 57,854            |
| Accrued Compensated Absences                    | 16,937                       |                             | 16,937            |
| Accrued Interest Payable                        | 62,973                       |                             | 62,973            |
| Notes Payable- Current Portion                  | 93,000                       |                             | 93,000            |
| <b>Total Current Liabilities</b>                | <b>230,715</b>               | <b>49</b>                   | <b>230,764</b>    |
| <b>Non-Current Liabilities</b>                  |                              |                             |                   |
| OPEB Payable                                    | 20,808                       |                             | 20,808            |
| Notes Payable                                   | 6,331,000                    |                             | 6,331,000         |
| Less: Current Portion                           | (93,000)                     |                             | (93,000)          |
| <b>Total Non-Current Liabilities</b>            | <b>6,258,808</b>             | <b>0</b>                    | <b>6,258,808</b>  |
| <b>TOTAL LIABILITIES</b>                        | <b>6,489,523</b>             | <b>49</b>                   | <b>6,489,572</b>  |
| <b>NET POSITION</b>                             |                              |                             |                   |
| Invested in Capital Assets, Net of Related Debt | 4,264,426                    | 74,520                      | 4,338,946         |
| Restricted for Debt Service                     | 252,600                      |                             | 252,600           |
| Restricted for Utility Service                  | 1,869,366                    | 29,679                      | 1,899,045         |
| <b>TOTAL NET POSITION</b>                       | <b>6,386,392</b>             | <b>104,199</b>              | <b>6,490,591</b>  |

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, 2014**

|                                                      | SEWER<br>ENTERPRISE<br>FUND | WATER<br>ENTERPRISE<br>FUND | TOTALS           |
|------------------------------------------------------|-----------------------------|-----------------------------|------------------|
| <b>OPERATING REVENUES:</b>                           |                             |                             |                  |
| Charges for Services                                 | 1,566,491                   | 8,872                       | 1,575,363        |
| Connection Fees                                      | 67,222                      |                             | 67,222           |
| Development Impact Fees                              | 7,907                       |                             | 7,907            |
| <b>TOTAL OPERATING REVENUES</b>                      | <b>1,641,620</b>            | <b>8,872</b>                | <b>1,650,492</b> |
| <b>OPERATING EXPENSES:</b>                           |                             |                             |                  |
| Salaries and Benefits                                | 327,521                     |                             | 327,521          |
| Maintenance                                          | 77,169                      | 1,309                       | 78,478           |
| Utilities                                            | 124,631                     | 248                         | 124,879          |
| Professional Fees                                    | 602,807                     | 864                         | 603,671          |
| Depreciation                                         | 292,723                     | 3,505                       | 296,228          |
| Other                                                |                             | 881                         | 881              |
| <b>TOTAL OPERATING EXPENSES</b>                      | <b>1,424,851</b>            | <b>6,807</b>                | <b>1,431,658</b> |
| <b>OPERATING INCOME (LOSS)</b>                       | <b>216,769</b>              | <b>2,065</b>                | <b>218,834</b>   |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>             |                             |                             |                  |
| Interest Income                                      | 8,700                       | 209                         | 8,909            |
| Interest Expenses                                    | (260,547)                   |                             | (260,547)        |
| <b>TOTAL NON-OPERATING REVENUES<br/>AND EXPENSES</b> | <b>(251,847)</b>            | <b>209</b>                  | <b>(251,638)</b> |
| <b>INCOME (LOSS) BEFORE<br/>OPERATING TRANSFERS</b>  | <b>(35,078)</b>             | <b>2,274</b>                | <b>(32,804)</b>  |
| <b>OTHER FINANCING SOURCES (USES):</b>               |                             |                             |                  |
| Operating Transfer Out                               | (77,234)                    |                             | (77,234)         |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>      | <b>(77,234)</b>             | <b>0</b>                    | <b>(77,234)</b>  |
| <b>CHANGE IN NET POSITION</b>                        | <b>(112,312)</b>            | <b>2,274</b>                | <b>(110,038)</b> |
| <b>NET POSITION, July 1, 2013</b>                    | <b>6,498,704</b>            | <b>101,925</b>              | <b>6,600,629</b> |
| <b>NET POSITION, June 30, 2014</b>                   | <b>6,386,392</b>            | <b>104,199</b>              | <b>6,490,591</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, 2014**

|                                                                         | Sewer<br>Enterprise | Water<br>Enterprise | Total            |
|-------------------------------------------------------------------------|---------------------|---------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                            |                     |                     |                  |
| Cash Received from Sewer Services and Connections                       | 1,648,277           |                     | 1,648,277        |
| Cash Received from Water Services                                       |                     | 9,151               | 9,151            |
| Cash Payments for Employee and Related Expenses                         | (329,204)           |                     | (329,204)        |
| Cash Payments for Repairs and Maintenance                               | (79,471)            | (1,537)             | (81,008)         |
| Cash Payments for Utilities                                             | (128,424)           | (248)               | (128,672)        |
| Cash Payments for Professional and Contract Services                    | (609,090)           | (843)               | (609,933)        |
| Cash Payments for Other Expenses                                        |                     | (881)               | (881)            |
| <b>NET CASH PROVIDED (USED) BY OPERATING<br/>ACTIVITIES</b>             | <b>502,088</b>      | <b>5,642</b>        | <b>507,730</b>   |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING<br/>ACTIVITIES:</b>            |                     |                     |                  |
| Operating Transfers In                                                  | 0                   | 0                   | 0                |
| Operating Transfers Out                                                 | (77,234)            | 0                   | (77,234)         |
| <b>NET CASH FLOWS FROM NON-CAPITAL<br/>FINANCING ACTIVITIES</b>         | <b>(77,234)</b>     | <b>0</b>            | <b>(77,234)</b>  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES:</b>    |                     |                     |                  |
| Acquisition of Capital Assets                                           | (308)               |                     | (308)            |
| Interest Paid                                                           | (264,205)           |                     | (264,205)        |
| Payment on Long Term Debt                                               | (128,557)           |                     | (128,557)        |
| <b>NET CASH FLOWS FROM CAPITAL AND<br/>RELATED FINANCING ACTIVITIES</b> | <b>(393,070)</b>    | <b>0</b>            | <b>(393,070)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                            |                     |                     |                  |
| Interest Received                                                       | 8,614               | 193                 | 8,807            |
| <b>NET CASH FLOWS FROM INVESTING<br/>ACTIVITIES</b>                     | <b>8,614</b>        | <b>193</b>          | <b>8,807</b>     |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                  | <b>40,398</b>       | <b>5,835</b>        | <b>46,233</b>    |
| <b>CASH AND CASH EQUIVALENTS, JULY 1, 2013</b>                          | <b>2,019,712</b>    | <b>23,846</b>       | <b>2,043,558</b> |
| <b>CASH AND CASH EQUIVALENTS, JUNE 30, 2014</b>                         | <b>2,060,110</b>    | <b>29,681</b>       | <b>2,089,791</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, 2014

|                                                                                                       | Sewer<br>Enterprise | Water<br>Enterprise | Total          |
|-------------------------------------------------------------------------------------------------------|---------------------|---------------------|----------------|
| <b>Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities</b>         |                     |                     |                |
| Operating Income                                                                                      | 216,769             | 2,065               | 218,834        |
| <b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:</b> |                     |                     |                |
| Depreciation                                                                                          | 292,723             | 3,505               | 296,228        |
| Decrease (Increase) in Receivables                                                                    | 6,657               | 279                 | 6,936          |
| Increase (Decrease) in Payables                                                                       | (12,492)            | (207)               | (12,699)       |
| Increase (Decrease) in Accrued Compensated Absences                                                   | (2,778)             |                     | (2,778)        |
| Increase (Decrease) in OPEB Liability                                                                 | 1,209               |                     | 1,209          |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>                                               | <b>502,088</b>      | <b>5,642</b>        | <b>507,730</b> |

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

**CITY OF WILLOWS  
STATEMENT OF POSITION  
FIDUCIARY FUNDS  
June 30, 2014**

|                                          | Non Expendible<br>Trust<br>Fund | Agency<br>Funds | Totals         |
|------------------------------------------|---------------------------------|-----------------|----------------|
| <b>ASSETS:</b>                           |                                 |                 |                |
| Cash and Investments                     | 125,575                         | 240,454         | 366,029        |
| Receivables:                             |                                 |                 |                |
| Interest                                 | 222                             | 115             | 337            |
| <b>TOTAL ASSETS</b>                      | <b>125,797</b>                  | <b>240,569</b>  | <b>366,366</b> |
| <b>LIABILITIES</b>                       |                                 |                 |                |
| Accounts Payable                         |                                 | 4,054           | 4,054          |
| <b>TOTAL LIABILITIES</b>                 | <b>0</b>                        | <b>4,054</b>    | <b>4,054</b>   |
| <b>NET POSITION</b>                      |                                 |                 |                |
| Restricted for Trust Designated Purposes | 125,797                         | 236,515         | 362,312        |
| <b>TOTAL NET POSITION</b>                | <b>125,797</b>                  | <b>236,515</b>  | <b>362,312</b> |

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, 2014**

|                                    | NON-EXPENDIBLE<br>TRUST<br>FUND | AGENCY<br>FUNDS | TOTALS         |
|------------------------------------|---------------------------------|-----------------|----------------|
| <b>ADDITIONS</b>                   |                                 |                 |                |
| Contributions                      |                                 | 30,267          | 30,267         |
| Use of Money                       | 993                             | 513             | 1,506          |
| Service Fees                       |                                 | 82,844          | 82,844         |
| Other                              |                                 | 5,128           | 5,128          |
| <b>Total Additions</b>             | <b>993</b>                      | <b>118,752</b>  | <b>119,745</b> |
| <b>DEDUCTIONS</b>                  |                                 |                 |                |
| Library                            | 448                             | 13,403          | 13,851         |
| Parks and Recreation               |                                 | 8,911           | 8,911          |
| Housing and Community Development  |                                 | 46,960          | 46,960         |
| Other                              |                                 | 13,324          | 13,324         |
| <b>Total Deductions</b>            | <b>448</b>                      | <b>82,598</b>   | <b>83,046</b>  |
| <b>CHANGE IN NET POSITION</b>      | <b>545</b>                      | <b>36,154</b>   | <b>36,699</b>  |
| <b>NET POSITION, July 1, 2013</b>  | <b>125,252</b>                  | <b>200,361</b>  | <b>325,613</b> |
| <b>NET POSITION, June 30, 2014</b> | <b>125,797</b>                  | <b>236,515</b>  | <b>362,312</b> |

**CITY OF WILLOWS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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, 2014.

**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 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, 2014, said accrual was \$199,897.

## 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.

## NET POSITION:

In accordance with Government Accounting Standards Board Statement No. 61, 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 Net Position 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, 2014 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           | \$ 200              |
| Cash In Bank                    | 503,816             |
| Bank Money Market Accounts      | 458,677             |
| Local Agency Investment Fund    | <u>2,818,220</u>    |
| Total Cash and Cash Equivalents | <u>\$ 3,780,913</u> |

### Custodial Credit Risk

As of June 30, 2014, 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 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, 2014, the carrying amount of the City's cash accounts was \$1,165,049 and the bank balances were \$962,493. The carrying value and the bank balances differ due to outstanding checks. Of the bank balance, \$665,049 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, 2014 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  | \$1,582,000        | \$1,590,992        |
| United States Agency-FNMA          | AAA           | \$ 150,000         | \$ 149,879         |
| Total                              |               | <u>\$1,732,000</u> | <u>\$1,740,871</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, 2014 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 | \$1,582,000        | \$380,000                          | \$1,202,000                           |
| United States Agency Notes         | 150,000            |                                    | 150,000                               |
| Total                              | <u>\$1,732,000</u> | <u>\$380,000</u>                   | <u>\$1,352,000</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.

**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:

|                              |     |
|------------------------------|-----|
| Goldman Sachs Bank           | 19% |
| Discover Bank                | 14% |
| GE Money Bank                | 11% |
| Barclay's Bank               | 11% |
| Federal Nat'l Mortgage Assn. | 9%  |
| State Bank of India          | 9%  |
| 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, 2013 upon which the levy for the 2013-14 year was based was \$271,883,797.

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                                            | \$7,529,941         |
| Additions                                         | 272,214             |
| Deletions                                         | <u>(125,795)</u>    |
| June 30                                           | \$7,676,360         |
| Less: Accumulated Depreciation                    | <u>(3,576,509)</u>  |
| Net Property, Plant, Infrastructure and Equipment | <u>\$ 4,099,851</u> |

**Business Type Capital Assets**

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

|                                      |                            |
|--------------------------------------|----------------------------|
| Property, Plant and Equipment July 1 | \$13,646,828               |
| Additions                            | <u>308</u>                 |
| Property, Plant & Equipment June 30  | \$13,647,136               |
| Less: Accumulated Depreciation       | <u>(2,977,190)</u>         |
| Net Property, Plant and Equipment    | <u><u>\$10,669,946</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, 2014

**Governmental Funds Long Term Debt Transactions**

|                        | <u>Fire Equipment Capital Lease</u> |
|------------------------|-------------------------------------|
| Long term Debt July 1  | \$ 188,937                          |
| Additions              | -0-                                 |
| Repayment              | <u>(44,196)</u>                     |
| Long term Debt June 30 | <u><u>\$ 144,741</u></u>            |

Interest expense for the year ended June 30, 2014 was \$8,407.

**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, 2014, are as follows:

| <u>Fiscal Year</u> | <u>Interest Payment</u> | <u>Principal Payment</u> | <u>Total Payment</u> |
|--------------------|-------------------------|--------------------------|----------------------|
| 2014/15            | 6,441                   | 46,162                   | 52,603               |
| 2015/16            | 4,338                   | 48,265                   | 52,603               |
| 2016/17            | 2,289                   | 50,314                   | 52,603               |
| Total              | <u>13,068</u>           | <u>144,741</u>           | <u>157,809</u>       |

**Business Type Long Term Debt Transactions**

|                        | <b><u>Wastewater Treatment<br/>Construction Loans</u></b> |
|------------------------|-----------------------------------------------------------|
| Long term Debt July 1  | \$6,459,557                                               |
| Additions              | -0-                                                       |
| Repayment              | <u>(128,557)</u>                                          |
| Long term Debt June 30 | <u><u>\$6,331,000</u></u>                                 |

Interest expense for the year ended June 30, 2014 was \$260,547.

**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, 2014, are as follows:

| <u>Fiscal<br/>Year</u> | <u>Interest<br/>Payment</u> | <u>Principal<br/>Payment</u> | <u>Total<br/>Payment</u> |
|------------------------|-----------------------------|------------------------------|--------------------------|
| 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                | 242,509                     | 110,000                      | 352,509                  |
| 2019/20-2023/24        | 1,139,325                   | 620,000                      | 1,759,325                |
| 2024/25-2028/29        | 997,404                     | 761,000                      | 1,758,404                |
| 2029/30-2033/34        | 823,659                     | 929,000                      | 1,752,659                |
| 2034/35-2038/39        | 611,160                     | 1,138,000                    | 1,749,160                |
| 2039/40-2043/44        | 350,955                     | 1,394,000                    | 1,744,955                |
| 2044/45-2046/47        | 61,875                      | 982,000                      | 1,043,875                |
| <b>Total</b>           | <b>\$5,239,637</b>          | <b>\$6,331,000</b>           | <b>\$11,570,637</b>      |

**NOTE 6 OTHER REQUIRED FUND DISCLOSURES**

**A. Excesses of Expenditures over Appropriations in Individual  
Funds**

|                              | <u>Expenditures</u> | <u>Appropriations</u> |
|------------------------------|---------------------|-----------------------|
| Certified Access Specialist  | 147                 | -0-                   |
| TDA-LTF                      | 320                 | -0-                   |
| RLA-Program Income Reuse     | 44,348              | 38,000                |
| Supplemental Law Enforcement | 100,461             | 100,000               |
| AB 109 Overtime Funding      | 12,032              | 10,755                |

All expenditures in excess of appropriations were funded via existing fund balances, 2013-14 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, 2014, 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, 2014 were:

|                                          | <u>Due From<br/>Other Funds</u> | <u>Due to<br/>Other Funds</u> |
|------------------------------------------|---------------------------------|-------------------------------|
| General Fund                             | \$ 53,459                       |                               |
| State Transportation Improvement Program |                                 | 12,303                        |
| Supplemental Law Enforcement Services    |                                 | 5,013                         |
| USDOJ CHRP II Grant                      |                                 | 21,684                        |
| USDA-Canine                              |                                 | 4,363                         |
| AB 109 Grant                             |                                 | 2,000                         |
| OJP-Vest                                 |                                 | 860                           |
| CDBG-Housing Studies                     |                                 | 5,111                         |
| <u>HOME-Senior Housing Project</u>       |                                 | <u>2,125</u>                  |
| Totals                                   | <u>\$ 53,459</u>                | <u>\$ 53,459</u>              |

**D. Individual Fund Operating Transfers**

for the year Ended June 30, 2014 transfers were as follows:

|                                    | <u>Transfers<br/>In</u> | <u>Transfers<br/>Out</u> |
|------------------------------------|-------------------------|--------------------------|
| To General Fund                    | \$ 77,234               |                          |
| From Sewer Enterprise Fund         |                         | \$ 77,234                |
| To Community Discretionary Fund    | \$ 36,275               |                          |
| Economic Development Discretionary | 42,085                  |                          |
| From 1992 CDBG Housing Loans       |                         | \$ 23,096                |
| 2003 CDBG Housing Loans            |                         | 1,065                    |
| 1990 CDBG Housing Loans            |                         | 230                      |
| 1997 CDBG Housing Loans            |                         | 3,461                    |
| 2000 CDBG Housing Loans            |                         | 8,423                    |
| Revolving Loan Fund                |                         | <u>42,085</u>            |
| Totals                             | <u>\$155,594</u>        | <u>\$155,594</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 up to 8% for the miscellaneous plan and up to 9% for safety plan of their annual covered salary. The City makes the first 0%-4% of the contribution required of the City members on their behalf and for the account, depending upon negotiated agreement. The City is required to contribute at an actuarially determined rate. The rate for 2013-14 is 21.799% for Classic Miscellaneous employees, 40.192% for Classic Safety employee, and 11.500% for PEPRSA 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 2013-2014, the City's annual pension cost of \$502,364 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009, 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

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 06/30/12                  | 511,636                          | 100%                                 | -0-                           |
| 06/30/13                  | 503,244                          | 100%                                 | -0-                           |
| 06/30/14                  | 502,364                          | 100%                                 | -0-                           |

## NOTE 8- JOINT VENTURE

The City is a member of the Northern California Cities Self Insurance Fund Joint Powers Authority (Authority) for workers' compensation and 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 21 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 2014, \$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 Worker's Compensation Insurance and Liability Insurance Fund as of June 30, 2014 (Latest available):

|                    |                      |
|--------------------|----------------------|
| Assets             | <u>\$ 46,940,000</u> |
| Liabilities        | 36,876,067           |
| Net Position       |                      |
| Co-Participants    | 9,761,585            |
| City of Willows    | <u>302,348</u>       |
| Total Net Position | <u>\$10,063,933</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, 2014, 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 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       | \$16,568                |
| Interest on Net OPEB Obligation            | -                       |
| Adjustment to Annual Required Contribution | -                       |
| <hr/>                                      |                         |
| Annual OPEB Cost (Expense)                 | \$16,568                |
| Contributions Made                         | <u>(11,113)</u>         |
| Net Increase in OPEB Obligation            | \$ 5,455                |
| Net OPEB Obligation-Beginning of the Year  | <u>166,596</u>          |
| Net OPEB Obligation-End of the Year        | <u><u>\$172,051</u></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 |
|-------------------|------------------|--------------------------------------------|---------------------|
| 06/30/14          | \$16,568         | 67%                                        | \$ 5,455            |

**Funding Status and Funding Progress**

As of July 1, 2013, the actuarial accrued liability (AAL) for benefits was \$166,596, 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** – 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**

| Actuarial Valuation Date | Actuarial Accrued 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%                            |
| 7/1/2012                 | \$146,436                                       | \$0                           | \$ 146,436                      | 0%                  | \$ 1,419,060               | 10.3%                            |

#### **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 unreimbursed 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 16, 2014, and determined that no events have occurred that meet the requirements for disclosure set for the by FASB Statement No. 165.

#### **NOTE 14 WATER ENTERPRISE**

Effective July 1, 2014, the California Water Quality Control Board made effective revised standards regarding Community Water Well Standards. More specifically, the standard for Chromium-6 inclusion in water from said wells may not exceed 10 parts per billion.

The City owns and operates a well that services 3 commercial customers. Based upon testing results at other non-City owned well sites, there is a reasonable likelihood that the City well may exceed the newly established standard. If standards are exceeded at said well, the City will need to determine the future viability of servicing water customers in the future.

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, 2014**

|                                                              | Budgeted Amounts |                  | General<br>Actual | Variance With<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--------------------------------------------------------------|------------------|------------------|-------------------|-------------------------------------------------------------|
|                                                              | Original         | Final            |                   |                                                             |
| <b>REVENUES</b>                                              |                  |                  |                   |                                                             |
| Taxes                                                        | 2,472,000        | 2,580,000        | 2,544,170         | (35,830)                                                    |
| Licenses, Permits and Franchise                              | 211,250          | 211,250          | 242,929           | 31,679                                                      |
| Fines Forfeitures and Penalties                              | 32,500           | 32,500           | 15,394            | (17,106)                                                    |
| Intergovernmental                                            | 483,500          | 483,500          | 495,205           | 11,705                                                      |
| Charges for Services                                         | 90,436           | 90,436           | 140,751           | 50,315                                                      |
| Interest                                                     | 15,000           | 15,000           | 18,938            | 3,938                                                       |
| Other                                                        | 20,000           | 20,000           | 29,090            | 9,090                                                       |
| <b>Total Revenue</b>                                         | <b>3,324,686</b> | <b>3,432,686</b> | <b>3,486,477</b>  | <b>53,791</b>                                               |
| <b>EXPENDITURES</b>                                          |                  |                  |                   |                                                             |
| General Government                                           | 525,314          | 580,314          | 578,178           | 2,136                                                       |
| Public Safety                                                | 1,993,428        | 2,040,669        | 2,052,161         | (11,492)                                                    |
| Parks and Public Works                                       | 464,017          | 474,017          | 428,587           | 45,430                                                      |
| Recreation                                                   | 136,874          | 136,874          | 141,590           | (4,716)                                                     |
| Library                                                      | 163,282          | 166,282          | 156,357           | 9,925                                                       |
| Housing and Community Development                            | 135,930          | 155,930          | 153,786           | 2,144                                                       |
| Capital Outlay                                               | 7,000            | 72,000           | 3,981             | 68,019                                                      |
| <b>Total Expenditures</b>                                    | <b>3,425,845</b> | <b>3,626,086</b> | <b>3,514,640</b>  | <b>111,446</b>                                              |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>(101,159)</b> | <b>(193,400)</b> | <b>(28,163)</b>   | <b>165,237</b>                                              |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                  |                  |                   |                                                             |
| Transfers In                                                 | 75,000           | 77,234           | 77,234            | 0                                                           |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>75,000</b>    | <b>77,234</b>    | <b>77,234</b>     | <b>0</b>                                                    |
| <b>Net Change in Fund Balance</b>                            | <b>(26,159)</b>  | <b>(116,166)</b> | <b>49,071</b>     | <b>165,237</b>                                              |
| <b>Fund Balance, July 1, 2013</b>                            | <b>1,309,245</b> | <b>1,201,784</b> | <b>1,309,245</b>  | <b>107,461</b>                                              |
| <b>Fund Balance, June 30, 2014</b>                           | <b>1,283,086</b> | <b>1,085,618</b> | <b>1,358,316</b>  | <b>272,698</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, 2014

California Public Employees Retirement System (PERS):

The table below shows a three-year analysis of the actuarial value of assets 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 three 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, 2013 valuation date.

SCHEDULE OF FUNDING PROGRESS FOR PERS (Willows' Share of Pool Assets):

|                                                               | Valuation Date | Accrued Liability | Actuarial Value of Assets | Unfunded Liability | Annual Funded Ratio | Covered Payroll | Unfunded Liability as a % of Payroll |
|---------------------------------------------------------------|----------------|-------------------|---------------------------|--------------------|---------------------|-----------------|--------------------------------------|
| <b>Miscellaneous</b>                                          |                |                   |                           |                    |                     |                 |                                      |
|                                                               | 06/30/11       | 7,978,036         | 5,852,982                 | 2,125,054          | 73.4%               | 845,108         | 251.4%                               |
|                                                               | 06/30/12       | 8,623,353         | 5,885,749                 | 2,737,604          | 68.3%               | 714,436         | 383.2%                               |
|                                                               | 06/30/13       | 8,864,469         | 6,465,391                 | 2,399,078          | 72.9%               | 738,366         | 324.9%                               |
| <b>Public Safety</b>                                          |                |                   |                           |                    |                     |                 |                                      |
|                                                               | 06/30/11       | 9,309,573         | 6,376,577                 | 2,932,996          | 68.5%               | 810,525         | 361.9%                               |
|                                                               | 06/30/12       | 9,935,046         | 6,445,300                 | 3,489,746          | 64.9%               | 710,045         | 485.3%                               |
|                                                               | 06/30/13       | 10,400,630        | 7,172,519                 | 3,228,111          | 69.0%               | 698,538         | 462.1%                               |
| Public Safety<br>PEPRA<br>(First Year of<br>Funding Progress) | 06/30/13       | 324               | 476                       | (152)              | 146.9%              | 42,974          | N/A                                  |

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, 2014

| FUND                                         | NET<br>POSITION<br>June 30, 2013 | PRIOR<br>PERIOD<br>ADJUSTMENT | NET<br>RECEIPTS<br>(EXPENDITURES) | TRANSFERS<br>IN | TRANSFERS<br>OUT | NET<br>POSITION<br>June 30, 2014 |
|----------------------------------------------|----------------------------------|-------------------------------|-----------------------------------|-----------------|------------------|----------------------------------|
| <b>GENERAL FUND</b>                          |                                  |                               |                                   |                 |                  |                                  |
| General Fund                                 | 1,104,245                        |                               | (28,163)                          | 77,234          |                  | 1,153,316                        |
| General Fund-Working Reserve                 | 200,000                          |                               | 0                                 |                 |                  | 200,000                          |
| General Fund-Surplus Property                | 5,000                            |                               | 0                                 |                 |                  | 5,000                            |
| <b>TOTAL GENERAL FUND</b>                    | <b>1,309,245</b>                 | <b>0</b>                      | <b>(28,163)</b>                   | <b>77,234</b>   | <b>0</b>         | <b>1,358,316</b>                 |
| <b>PARKS AND PUBLIC WORKS FUNDS</b>          |                                  |                               |                                   |                 |                  |                                  |
| State Transportation Improvement Program     | 0                                |                               | 0                                 |                 |                  | 0                                |
| Willows Lighting and Landscape District      | 7,681                            |                               | 2,156                             |                 |                  | 9,837                            |
| TDA-Local Transportation Funds               | 31,962                           |                               | 320                               |                 |                  | 32,282                           |
| Mall Maintenance                             | 0                                |                               | 17,725                            |                 |                  | 17,725                           |
| Storm Drainage Impact                        | 157,958                          |                               | 16,236                            |                 |                  | 174,194                          |
| Street Development Impact                    | 11,730                           |                               | 17,969                            |                 |                  | 29,699                           |
| Park Facilities Impact                       | 145,664                          |                               | 5,812                             |                 |                  | 151,476                          |
| I-5 Interchange Impact                       | 271,401                          |                               | 11,754                            |                 |                  | 283,155                          |
| ARRA-TANF Employment Grant                   | 2,899                            |                               | (2,899)                           |                 |                  | 0                                |
| CA Recycle Grant                             | 4,820                            |                               | 3,551                             |                 |                  | 8,371                            |
| <b>TOTAL PARKS AND PUBLIC WORKS</b>          | <b>634,115</b>                   | <b>0</b>                      | <b>72,624</b>                     | <b>0</b>        | <b>0</b>         | <b>706,739</b>                   |
| <b>GAS TAX FUNDS</b>                         |                                  |                               |                                   |                 |                  |                                  |
| RSTP                                         | 131,094                          |                               | 56,891                            |                 |                  | 187,985                          |
| Gas Tax 2105                                 | 251,477                          |                               | (172,737)                         |                 |                  | 78,740                           |
| Gas Tax 2106                                 | 11,921                           |                               | (2,650)                           |                 |                  | 9,271                            |
| Gas Tax 2107                                 | 29,310                           |                               | (7,359)                           |                 |                  | 21,951                           |
| Gas Tax 2107.5                               | 0                                |                               | 588                               |                 |                  | 588                              |
| Gas Tax 2103                                 | 195,446                          |                               | 84,962                            |                 |                  | 280,408                          |
| <b>TOTAL GAS TAX</b>                         | <b>619,248</b>                   | <b>0</b>                      | <b>(40,305)</b>                   | <b>0</b>        | <b>0</b>         | <b>578,943</b>                   |
| <b>HOUSING AND COMMUNITY DEVELOPMENT</b>     |                                  |                               |                                   |                 |                  |                                  |
| Certified Access Specialist                  | 261                              |                               | 372                               |                 |                  | 633                              |
| Community Discretionary                      | 106,300                          |                               | (4,329)                           | 36,274          |                  | 138,245                          |
| 2003 CDBG Housing Loans                      | 0                                |                               | 1,065                             |                 | 1,065            | 0                                |
| Economic Development                         | 18,140                           |                               | (16,585)                          | 42,086          |                  | 43,641                           |
| 1992 CDBG Housing Loans                      | 0                                |                               | 23,096                            |                 | 23,096           | 0                                |
| 1990 CDBG Housing Loans                      | 230                              |                               | 0                                 |                 | 230              | 0                                |
| 1997 CDBG Housing Loans                      | 1,097                            |                               | 2,363                             |                 | 3,460            | 0                                |
| 2000 CDBG Housing Loans                      | 4,767                            |                               | 3,656                             |                 | 8,423            | 0                                |
| RLA - Housing Rehab                          | 43,680                           |                               | (41,623)                          |                 |                  | 2,057                            |
| HOME Program Revolving Loan                  | 90,243                           |                               | 11,571                            |                 |                  | 101,814                          |
| Discretionary Revolving Loan                 | 42,086                           |                               | 0                                 |                 | 42,086           | 0                                |
| HOME-Senior Housing Project                  | 0                                |                               | 0                                 |                 |                  | 0                                |
| <b>TOTAL HOUSING AND COMMUNITY DEVELOPMI</b> | <b>306,804</b>                   | <b>0</b>                      | <b>(20,414)</b>                   | <b>0</b>        | <b>78,360</b>    | <b>286,390</b>                   |
| <b>RECREATION</b>                            |                                  |                               |                                   |                 |                  |                                  |
| Recreation Reimbursable                      | 9,248                            |                               | (2,411)                           |                 |                  | 6,837                            |
| Recreation Cultural                          | 3,436                            |                               | (2,149)                           |                 |                  | 1,287                            |
| <b>TOTAL RECREATION</b>                      | <b>12,684</b>                    | <b>0</b>                      | <b>(4,560)</b>                    | <b>0</b>        | <b>0</b>         | <b>8,124</b>                     |

**CITY OF WILLOWS**  
**SCHEDULE OF CHANGES IN INDIVIDUAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

| FUND                          | NET<br>POSITION<br>June 30, 2013 | PRIOR<br>PERIOD<br>ADJUSTMENT | NET<br>RECEIPTS<br>(EXPENDITURES) | TRANSFERS<br>IN | TRANSFERS<br>OUT | NET<br>POSITION<br>June 30, 2014 |
|-------------------------------|----------------------------------|-------------------------------|-----------------------------------|-----------------|------------------|----------------------------------|
| <b>LIBRARY</b>                |                                  |                               |                                   |                 |                  |                                  |
| County Library                | 8,039                            |                               | 4,104                             |                 |                  | 12,143                           |
| LTSA-Technology Grant         | 10                               |                               | 0                                 |                 |                  | 10                               |
| CLA-Packard                   | 62                               |                               | 0                                 |                 |                  | 62                               |
| CLSA-Delivery Funding         | 0                                |                               | 2,663                             |                 |                  | 2,663                            |
| Literacy Passthrough          | 0                                |                               | 0                                 |                 |                  | 0                                |
| Library-Development Impact    | 22,803                           |                               | 3,434                             |                 |                  | 26,237                           |
| <b>TOTAL LIBRARY</b>          | <b>30,914</b>                    | <b>0</b>                      | <b>10,201</b>                     | <b>0</b>        | <b>0</b>         | <b>41,115</b>                    |
| <b>PUBLIC SAFETY</b>          |                                  |                               |                                   |                 |                  |                                  |
| Asset Forfeiture              | 1                                |                               | 0                                 |                 |                  | 1                                |
| NCCSIF-Safety ADA Grant       | 0                                |                               | 0                                 |                 |                  | 0                                |
| Fire-Development Impact       | 24,795                           |                               | 10,811                            |                 |                  | 35,606                           |
| Fire Activity                 | 31                               |                               | 0                                 |                 |                  | 31                               |
| Police Development Impace     | 12,984                           |                               | 5,146                             |                 |                  | 18,130                           |
| FEMA Fitness Grant            | 209                              |                               | 0                                 |                 |                  | 209                              |
| SLESF                         | 26,206                           |                               | (6,315)                           |                 |                  | 19,891                           |
| CHRP-Hiring Grant             | 0                                |                               | 0                                 |                 |                  | 0                                |
| USDA-Canine                   | 0                                |                               | 0                                 |                 |                  | 0                                |
| AB 109 Overtime               | 0                                |                               | 0                                 |                 |                  | 0                                |
| <b>TOTAL PUBLIC SAFETY</b>    | <b>64,226</b>                    | <b>0</b>                      | <b>9,642</b>                      | <b>0</b>        | <b>0</b>         | <b>73,868</b>                    |
| <b>FIDUCIARY FUNDS</b>        |                                  |                               |                                   |                 |                  |                                  |
| Non-Expendible Trust Funds    | 125,252                          |                               | 545                               |                 |                  | 125,797                          |
| Agency Funds                  | 200,361                          |                               | 36,154                            |                 |                  | 236,515                          |
| <b>TOTAL FIDUCIARY FUNDS</b>  | <b>325,613</b>                   | <b>0</b>                      | <b>36,699</b>                     | <b>0</b>        | <b>0</b>         | <b>362,312</b>                   |
| <b>ENTERPRISE FUNDS</b>       |                                  |                               |                                   |                 |                  |                                  |
| Sewer Enterprise              | 6,498,704                        |                               | (35,078)                          |                 |                  | 6,386,392                        |
| Water Enterprise              | 101,925                          |                               | 2,274                             |                 | 77,234           | 104,199                          |
| <b>TOTAL ENTERPRISE FUNDS</b> | <b>6,600,629</b>                 | <b>0</b>                      | <b>(32,804)</b>                   | <b>0</b>        | <b>77,234</b>    | <b>6,490,591</b>                 |
| <b>TOTALS</b>                 | <b>9,903,478</b>                 | <b>0</b>                      | <b>2,920</b>                      | <b>155,594</b>  | <b>155,594</b>   | <b>9,906,398</b>                 |

SINGLE AUDIT SECTION

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

---

201 C. North Tehama  
Willows, CA 95988

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

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, 2014, and the related notes to the financial statements, which collectively comprise City of Willows, California's basic financial statements, and have issued my report thereon dated December 16, 2014.

**Internal Control Over Financial Reporting**

In planning and performing my 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Willow, 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.

My 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 my 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 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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 16, 2014



---

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council  
City of Willows, California

**Report on Compliance for Each Major Federal Program**

I have audited the City of Willow's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of the City's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of The City's compliance.

### ***Opinion on Each Major Federal Program***

In my opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of The City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

December 16, 2014



---

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

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY SCHEDULE  
OF FEDERAL FINANCIAL ASSISTANCE**

To the City Council  
City of Willows, California

I have audited the financial statements of the City of Willows, California, as of and for the year ended June 30, 2014, and have issued my report thereon dated December 16, 2014. These financial statements are the responsibility of the City's management. My responsibility was to express an opinion of 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 for financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audits of State and Local Governments and Non Profit Organizations." 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 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 provided a reasonable basis for my opinion.

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole and on the combining financial statements. The accompanying Schedule of Federal Financial Assistance is presented for the purposes of additional analysis and is not a required part of the financial statements of the City. The information in this schedule has been subjected to the auditing procedures applied in the audit of the general purpose and combining financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

December 16, 2014



Roy R. Seiler, CPA

CITY OF WILLOWS  
 SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2014

|                                                       | Federal<br><u>CFDA Number</u> | Pass Through<br><u>Grantor Number</u> | Contract<br><u>Award</u> | Disbursements/<br><u>Expenditures</u> |
|-------------------------------------------------------|-------------------------------|---------------------------------------|--------------------------|---------------------------------------|
| DEPARTMENT OF JUSTICE:                                |                               |                                       |                          |                                       |
| US DOJ-CHRP Grant                                     | 16.710                        |                                       | \$ 255,843               | \$ 21,684                             |
| DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:          |                               |                                       |                          |                                       |
| CDBG-Housing Element and Housing<br>Conditions Survey | 14.228                        |                                       | \$ 70,000                | \$ 32,732                             |
| HOME-Senior Housing Project (*)                       | 14.239                        |                                       | \$ 4,600,000             | \$ 754,023                            |
| DEPARTMENT OF TRANSPORTATION:                         |                               |                                       |                          |                                       |
| Regional Surface Transportation Exchange              |                               | 20.205 X13-6132(032)                  | \$ 78,625                | \$ 22,600                             |
| TOTALS                                                |                               |                                       | \$ 5,004,468             | \$ 831,039                            |
| (*) Major Program                                     |                               |                                       | =====                    | =====                                 |

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF WILLOWS  
NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL FINANCIAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1-BASIS OF PRESENTATION

The schedule of expenditure of federal financial awards is a summary of the activity of the City of Willows' federal award programs and has been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting.

City of Willows  
Schedule of Findings and Questioned Costs  
June 30, 2014

SUMMARY OF AUDITOR'S RESULTS:

FINANCIAL STATEMENTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Willows.
2. The audit report identified no significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting that were considered to be a reportable condition.
3. The audit report identified no instances of noncompliance that were material to the financial statements of the City which would be required to be reported in accordance with Government Auditing Standards.
4. The audit identified no reportable conditions in internal controls over financial reporting that I considered to be material weaknesses.

FEDERAL AWARDS

1. An unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs was issued.
2. The audit identified no deficiencies in the design or operation of internal control over major federal programs that I consider to be reportable conditions.
3. The audit report identified no significant deficiencies or material weaknesses in the design or operation of internal control over major federal programs that were considered to be reportable conditions.
4. The audit report identified no findings that are required to be disclosed under OMB Circular A-133, Section 510(a).
5. The audit report identified no reportable conditions in internal control over major federal programs that were considered to be material weaknesses.
6. The dollar threshold used to distinguish between Type "A" and Type "B" programs was \$300,000.
7. The City did not qualify as a "Low Risk" entity under OMB Circular A-133, Section 530 because an audit performed in accordance with Circular A-133 was not required during the prior two years.

FEDERAL AWARDS, Continued:

8. The following program was tested as a major program:

U.S. Department of Housing and Urban Development  
Home Investment Partnership Program (13-HOME-8611)  
CFDA No. 14.239

**SUMMARY OF FEDERAL FINDINGS:**

**Prior Year Findings:**

Not Applicable. An audit performed in accordance with Circular A-133 was not required

**Current Period:**

FINDINGS, FINANCIAL STATEMENT AUDIT - None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS - None

FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE - None