

CITY OF WILLOWS
GLENN COUNTY, CALIFORNIA
FINANCIAL STATEMENTS
TOGETHER WITH
THE INDEPENDENT AUDITOR'S OPINIONS
FOR THE YEAR ENDED
JUNE 30, 2016

CITY OF WILLOWS
GLENN COUNTY, CALIFORNIA
JUNE 30, 2016

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GLENN COUNTY, CALIFORNIA
JUNE 30, 2016

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ROY R. SEILER

CERTIFIED PUBLIC ACCOUNTANT

201C North Tehama
Willows, CA 95988

Phone: 530-934-8841
E.x : 530- 934 - 884 9

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2016, 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, 2016, 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 other required supplementary information shown as statements one, two and three, 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, I have also issued my report dated January 31, 2017, 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.

January 31 , 2017



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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, 2016. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The City's overall net position ended at \$7,937,067 as a result of this year's operations and prior period adjustments due to actuarial changes associated with pensions and other post employment benefits.

During the year, the City's taxes, other governmental revenues and business activity revenues exceeded expenses by \$208,090, including the effect of depreciation, a non-cash expense, of \$483,303.

Governmental net assets ended the year at \$2,563,348, and continue to be significantly impacted by the recent change in accounting principle pertaining to pension liability recognition (net impact of \$5,681,086)

The total revenues from all sources were \$6,654,064.

The total cost of all City programs was \$6,445,974.

The General Fund expenditures and other financing uses exceeded revenues and other financing sources \$216,367.

Actual resources received in the General Fund were greater than the final budget by \$172,093, while actual expenditures and operating transfers were \$97,815 less than final budget.

At the end of the fiscal year, fund balance for the General Fund was \$1,141,806 or 29.6% 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 Activities 2016	%	Governmental Activities 2015	%
Current and Other Assets	\$3,831,293	40.8	\$4,267,643	47.9
Capital Assets	4,848,445	51.7	4,103,356	46.0
Deferred Outflows-Pension	7063861	7.5	541A69	6.1
Total Assets and Deferred Outflows	9,386,599	100.0	8,912,468	100.0
Current and Other Liabilities	\$1,123,046	12.0	\$ 871,611	9.8
Long-Term Debt	0	0	50,314	.5
Net Pension Liability	5,250,535	55.9	4,749,972	53.3
Deferred Inflows-Pension	4493670	4.8	9863920	11.1
Total Liabilities and Deferred Inflows	6,823,251	72.7	6,658,817	74.7
Net Position:				
Invested in Capital Assets Net of Debt	\$4,798,131	51.1	\$ 4,004,777	44.9
Committed for Working Capital	200,000	2.1	200,000	2.2
Committed for Surplus Property	5,000	0.1	5,000	0.1
Uncommitted (2016 Net of Adjustment of \$59,954)	(4,225,829)	(45.0)	(4,201,766)	(47.1)
Restricted For:				
Parks, Recreation, Public Works	1,338,913	14.3	1,602,430	18.0
Library	124,356	1.2	119,729	1.3
Public Safety	163,941	1.8	186,003	2.1
Housing & Community Development	1583836	1.7	337A78	3.8
Total Net Position	\$235633348	27.3	\$232533651	25.3

Table 1 {Cont'd)
City of Willows' Net Position
{Full Accrual)

	Business-Type Activities 2016	%	Business-Type Activities 2015	%
Current and Other Assets	\$ 1,840,196	14.8	\$ 2,176,799	17.2
Capital Assets	10,499,145	84.5	10,432,729	82.3
Deferred Outflows-Pension	<u>81,844</u>	<u>.7</u>	<u>62,643</u>	<u>.5</u>
Total Assets and Deferred Outflows	12,421,185	100.0	12,672,171	100.0
Current and Other Liabilities	\$ 237,879	1.9	\$ 215,028	1.7
Long-Term Debt	6,040,000	48.6	6,141,000	48.4
Net Pension Liability	712,772	5.7	654,671	5.2
Deferred Inflows-Pension	<u>56,814</u>	<u>.5</u>	<u>119,235</u>	<u>.9</u>
Total Liabilities and Deferred Inflows	7,047,465	56.7	7,129,934	56.2
Net Position:				
Invested in Capital Assets	\$ 4,358,145	35.1	\$ 4,104,729	32.4
Net of Debt				
Restricted For:				
Debt Service	324,600	2.6	288,600	2.3
Utility Service	690,974	5.6	1,148,908	9.1
{2016 Net of Adjustment of \$-6,957				
Total Net Position	<u>\$ 5,373,719</u>	<u>43.3</u>	<u>\$ 5,542,237</u>	<u>43.8</u>

Table 2
City of Willows Changes in Net Position
(11111 Actual)

	Governmental Business-type		Total	Governmental Business-type		Total	S Change
	Activities	Activities		Activities	Activities		
	2016	2016		2015	2015		
REVENUES:							
Program Revenues:							
Charges for Services	\$ 32,607	\$ 1,642,802	\$ 1,675,409	\$ 27,250	\$ 1,628,600	\$ 1,655,850	\$ 19,559
Operating Grants/Contributions	\$ 971,693		\$ 971,693	\$ 4,485,816		\$ 4,485,816	\$ (3,514,123)
Capital Grants/Contributions	\$ 416,368	\$	\$ 416,368	\$ 62,119	\$	\$ 62,119	\$ 354,249
General Revenues:	\$		\$	\$		\$	
Taxes	\$ 2,604,162		\$ 2,604,162	\$ 2,511,649		\$ 2,511,649	\$ 92,513
Intergovernmental (Non-Restrict)	\$ 511,331		\$ 521,331	\$ 498,144		\$ 498,144	\$ 24,187
Investment Income	\$ 25,858	\$ 7,744	\$ 33,602	\$ 27,105	7,547	\$ 34,652	\$ (1,050)
Other	\$ 430,499		\$ 430,499	\$ 491,722		\$ 491,722	\$ (60,773)
TOTAL REVENUES	\$ 5,003,518	\$ 1,650,546	\$ 6,654,064	\$ 8,103,355	\$ 1,636,147	\$ 9,739,502	\$ (3,085,438)
ECPNB:							
General Government	\$ 668,968		\$ 668,968	\$ 599,297		\$ 599,297	\$ 69,671
Public Safety	\$ 1,241,481		\$ 2,241,481	\$ 1,243,655		\$ 2,243,655	\$ (2,174)
Parks and Public Works	\$ 678,163		\$ 678,163	\$ 649,557		\$ 649,557	\$ 28,606
Library	\$ 267,650		\$ 267,650	\$ 259,954		\$ 259,954	\$ 7,696
Recreation	\$ 165,158		\$ 165,158	\$ 149,209		\$ 149,209	\$ 15,949
Housing/Community Development	\$ 689,681		\$ 689,681	\$ 3,608,825		\$ 3,608,825	\$ (2,919,144)
Sewer		\$ 1,725,491	\$ 1,725,491		\$ 1,782,681	\$ 1,781,681	\$ (57,190)
Water		\$ 9,382	\$ 9,382		\$ 7,409	\$ 7,409	\$ 1,973
TOTAL ECPNB	\$ 4,711,101	\$ 1,734,873	\$ 6,445,974	\$ 7,510,497	\$ 1,790,090	\$ 9,300,587	\$ (1,854,613)
INCREASE IN NET POSITION							
Beginning Balance	\$ 292,417	\$ (84,327)	\$ 208,090	\$ 592,858	\$ (153,943)	\$ 438,915	\$ (230,825)
Transfer	\$ 774	\$ (7,234)	\$	\$ 774	\$ (7,234)	\$	\$
INCREASE IN NET POSITION	\$ 369,651	\$ (161,561)	\$ 208,090	\$ 670,092	\$ (231,177)	\$ 438,915	\$
NET POSITION July 1	\$ 2,253,651	\$ 5,542,237	\$ 7,795,888	\$ 6,150,923	\$ 6,490,91	\$ 13,341,14	\$
PRIOR FISCAL YEAR	\$ (59,954)	\$ (6,957)	\$ (66,911)	\$ (5,267,364)	\$ (717,177)	\$ (5,984,541)	\$
NET POSITION June 30	\$ 2,563,348	\$ 5,373,719	\$ 7,937,067	\$ 2,253,651	\$ 5,542,237	\$ 7,795,888	\$

The City's combined net position for the fiscal year ended June 30, 2016, was \$7,937,067. Specifically, the City's net position for governmental activities were \$2,563,348, while business-type activities resulted in a net position of \$5,373,719. Please further note that the net position for June 30, 2015 include the result of adjustment due to GASB's 45 and 68 compliance in the amount of \$59,954 for governmental activities and \$6,954 for business-type activities.

The City experienced a decrease in revenues from operating grants and contributions of \$3.51MM due primarily to the ending of the HOME-Senior Housing Grant (\$3.1MM) and a large inflow of development impact fee revenue in 2014-15 associated with a 48 unit apartment complex (\$250K). Capital Grant Revenue increased by \$354K primarily to the funding in the current year for a Federally funded street reconstruction project (\$369K).

Housing and Community Development expenditures were \$2.92MM less than prior year. Again, as noted above, the HOME-Senior Housing project ended in 2015-16 (\$3.01MM in expenditures).

One transfer is included in the City-wide Statement of Activities. \$77,234 is transferred annually to the General Fund from the Sewer Fund for administrative services provided by City personnel not directly funded by the Sewer Fund.

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

	Governmental Activities	Business-Type Activities	Total
	2016	2016	2016
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 Duo To/From Fund Transactions
(Modified Accnml, Per Fund Statements)

	Governmental Activities 2016	Business-Type Activities 2016	Total 2015
Interfund Transfers In (by Fund):			
(1) General	\$ 77,234		\$ 77,234
(2) Community Discretionary	\$ 14,785		\$ 14,785
Interfund Transfers Out (By Fund)			
(1) ScTWr		\$ (77,234)	\$ (77,234)
(2) 1992 COBO Housing Loans	\$ (7,846)		\$ (7,846)
(2) 2003 COBO Housing Loans	\$ (1,436)		\$ (1,436)
(2) COBO.PI	\$ (619)		\$ (619)
(2) 1997 COBO Housing Loans	\$ (860)		\$ (860)
(2) 2000 COBO Housing Loans	\$ (4,024)		\$ (4,024)
Net Transfers In and Olli	\$ 77,234	\$ (77,234)	\$
Amounts Duo from Other FtD1ds:			
(3) General	\$ 518,073		\$ 518,073
Amounts Duo to Other Funds:			
(3) Sf IP	\$ (369,061)		\$ (369,061)
(3) EDA Grant	\$ (38,566)		\$ (38,566)
(3) USDOJ OIRP II	\$ (32,531)		\$ (32,531)
(3) COBO.Housing Studies	\$ (27,965)		\$ (27,965)
(3) HOME Senior Housing Project	\$ (49,950)		\$ (49,950)
Net Amounts Due to/from Other Fwtds	\$	\$	\$

- (1) Annual transfer to the General Fund from the Sewer Fund for administrative services provided by City personnel not directly funded by the Sewer Fund.
- (2) Transfer of loan payments received on CDBG housing rehabilitation loans that are not subject to CDBG revolving requirements.
- (3) Due to General Fund from various funds where receivable balances are recorded at 6/30/16, but funds have not yet been received to cover cash deficits.

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

Table 5
Schedule of Changes in the Fiscal Year
Fall Accrual Interprise Funds
Modified Actual Other Funds

FUND	NET POSITION July 1, 2015	PRIOR PERIOD ADJUSTMENT	NET RECEIPTS (EXPENDITURES)	TRANSFERS IN	TRANSFERS OUT	NET POSITION June 30, 2016
GENERAL FUND						
General Fund	1,153,483		(293,911)	77,234		936,806
General Fund - Wortdag Resent	200,000		0			200,000
General Fund - Surplus Property	5,000		0			5,000
TOTAL GENERAL FUND	1,358,483	0	(293,911)	77,234	0	1,141,806
PARKS AND PUBLIC WORKS FUNDS						
State Trailsportation Improvement Program	0		(400)			(400)
Willows Ughtlag & 11d Landscape Dhtrld	10,191		868			11,059
IDA - Local Trailsportatio Faads	32,504		(32,504)			0
IDA Graat	0		0			0
fall Malaleaace	14,999		0			14,999
NCCSIJ.Safety/ADA	0		0			0
Stona Drainage Impad	241,449		41,955			289,404
Street Dnlopmeat Impad	69,881		36,624			106,505
Park Facilities Impad	253,242		1,958			255,200
1-5 Interchange Impact	306,335		21,199			327,534
TANF ARRA employmeat	0		114			114
CA Recyde Graat	8,970		0			8,970
TOTAL PARKS AND PUBLIC WORKS	943,571	0	69,814	0	0	1,013,385
GAS TAX FUNDS						
RSTP	205,468		(36,341)			169,127
Gu T 112105	93,647		(23,062)			70,585
Gas 112106	2,682		(2,682)			0
Gu Tu:2107	2,471		(2,470)			0
Gu Tu 2107.5	4,299		(4,289)			0
Gu Tu:2103	337,842		(267,540)			70,302
TOTAL GAS TAX	646,409		(336,384)	0	0	310,025
HOUSING AND COMMUNITY DEVELOPMENT						
Certified Acem Spedalist	950		(647)			303
Community Discretionary	135,452		(26,026)	14,785		124,211
2003 CDBG Housing Lo&111	0		1,436		1,436	0
Economic Development	35,865		(1,543)			34,322
1992 CDBG Houslag Loans	0		7,846		7,846	0
1997 CDBG Housing Lo&111	0		860		860	0
2000 CDBG Douslag Loans	0		4,024		4,024	0
CDBG-Program Income	0		619		619	0
801IEProgram Income	165,211		(165,211)			0
801IE,Senlor Dousing Project	0		0			0
TOTAL HOUSING AND COMMUNITY DEVELOPMENT	337,478		(178,642)	14,785	14,785	158,836
LIBRARY FUNDS						
Recreation Relmbuneable	11,154		3,218			14,372
Recreation CulmraJ	1,296		(165)			1,131
TOTAL LIBRARY FUNDS	12,450	0	3,053	0	0	15,503
LIBRARY						
County Library	17,894		5,932			23,826
Northnet Training Fandng	892		1,000			1,892
CLSA•Delh ry Fandng	4,138		1,222			5,360
Library Publrbrougb	0		0			0
Library-Developmeat fmpad	96,805		(3,527)			93,278
TOTAL LIBRARY	119,729	0	4,627	0	0	124,356

Table S Col 1(d)
 Schedule of Changes in Fund Balances
 Fiscal Year Ended
 June 30, 2016

FUND	NET POSITION July 1, 2015	PRIOR PERIOD ADJUSTMENT	NET RECEIPTS (EXPENDITURES)	TRANSFERS IN	TRANSFERS OUT	NET POSITION June 30, 2016
PUBLIC SAFETY						
Asset Forfeiture			(1)			
Fire-Development Impact	117,821		16,893			134,714
Fire-Advisory	31		0			31
Police Development Impact	58,259		(35,063)			23,196
FDFA Revenue Grant	0		0			0
SUSF	9,891		(3,891)			6,000
CHRP-Health Grant						0
AB 109 Outcome			0			
OJP- BVP Program			0			0
TOTAL PUBLIC SAFETY	186,003		(22,062)			163,941
COMMUNITY DEVELOPMENT						
Non-Eligible Transit	113,984		837			114,821
Agency Grant	219,747		(2,809)			216,938
TOTAL COMMUNITY DEVELOPMENT	333,731		(1,972)			331,759
GENERAL FUND						
Sewer Enterprise	5,437,931	(6,957)	(82,051)		77,234	5,271,659
Water Enterprise	104,306		(2,246)			102,060
TOTAL GENERAL FUND	5,542,237	(6,951)	(84,297)		77,234	5,373,719
TOTALS	9,480,691	(6,957)	(839,804)	92,019	92,019	8,633,330

Major (>\$100K) Net Position changes during the year included the General Fund (\$-217K.) due to rising pension costs, a period of dual City Manager expense, one time allotments to various Departments, and an adjustment in property tax revenue downward by the County of Glenn. Gas Tax 2103 decreased by \$268K due to a significant street reconstruction project. HOME Program Income decreased by \$165K due to use of these funds on the Senior Housing Complex.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were greater than final adopted budget. Total revenues were \$172,093 (5.0%) over budget. Final settlement of the Sales Tax Triple Flip was about \$90K greater than anticipated. Occupancy tax was about \$36K greater than anticipated. Building permit activity was approximately \$25K greater than projected.

All General Fund expenditures finished the year under budget with a total cost savings of 2.7% or \$97,815. Personnel demographics in Public Works (\$K) and not all Departments utilizing their full one time allotments (\$25K) were the largest contributors to the savings.

The final impact on the General Fund's fund balance was a decrease of \$216,677 reflecting revenues totaling \$3,570,619, expenditures totaling \$3,864,529, and an operating transfer in in the amount of \$77,234.

Table 6
Schedule of Budgetary Expenditure Changes

Fund	Amount of Increase/(Decrease) From <u>Original Budget</u>
(1) General Fund	\$137,608
(2) County Library	4,900
(3) TDA-LTF	32,500
(3) RSTP	135,171
(4) CLSA-Delivery	4,790
(4) Library Development Impact	10,000
(5) Gas Tax 2103	116,361
(6) Sewer Enterprise	33,797
(7) Gas Tax 2105	36,149

- (1) General Fund items include appropriation of funds associated with a period of having two City Manager's on staff at the same time (\$53K), Police overtime augmentation (\$65K), and additional contract services for the City Attorney (\$20K).
- (2) The County of Glenn provided additional funding for library services following passage of City Budget (\$SK).
- (3) Additional funding for Sacramento and Butte Street reconstruction
- (4) NCCSIF appropriated for ADA compliance plan study (\$1 IK).
- (5) Gas Tax 2103 (\$116K) appropriated for additional cost of reconstruction of a portion of Tehama Street and purchase of aerial truck.
- (6) Pipe placement under GCID Canal for future sewer line expansion
- (7) Purchase of aerial truck

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 Finance Director, 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, 2016, net capital assets of the governmental activities totaled \$4,848,445 and the net capital assets of the business-type activities totaled \$10,499,145. Depreciation on capital assets is recognized in the Government-wide financial statements but not in the fund financial statements.

Table ?
 Schedule of Significant Capital Acquisitions
 And Projects

<u>Description</u>	<u>Expenditure Amount</u>	<u>Status at June 30, 2016</u>
Tehama Street Reconstruction	\$247,672	InProgress
Sacramento and Butte St. Reconstruction	505,966	InProgress
Sacramento St. Sewer Line	289,313	InProgress
Aerial Lift Truck	126,650	Complete

CURRENT LIABILITIES AND LONG-TERM DEBT

The City has total governmental type liabilities and deferred outflows of \$6,823,251 which includes \$6,034,396 in long-term liabilities, consisting of compensated absences deemed to be payable in a year or more, actuarially based pension liability resulting from implementation of GASB 68 and actuarially- based other post-employment benefit liabilities . Business type liabilities total \$7,047,465, which includes \$6,851,018 in long-term liabilities pertaining to wastewater treatment facility renovations completed in 2007, accrued compensated absences deemed to be payable in a year or more, actuarially derived pension liability resulting from implementation of GASB 68, and actuarially derived other post-employment benefit liabilities.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's Budget for fiscal year 2016/17, 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 General Fund budget for 2016/17 includes an operating deficit of \$167,017 utilizing existing General Fund reserves (\$1,141,806 available at July 1, 2016) 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	530-934-7041	tsailsbery@cityofwillows.org
201 North Lassen Street Willows, California 95988		

BASIC FINANCIAL STATEMENTS

CITY OF WILLOWS
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-Type Funds	Total
ASSETS AND DEFERRED OUTFLOWS			
ASSETS			
Cash and Investments	2,513,150	1,583,423	4,096,573
Receivable:			
Accounts		254,997	254,997
Interest	5,841	1,776	7,617
Intergovernmental/Other	908,309		908,309
Deferred Loans	399,671		399,671
Prepaid Expenses	4,322		4,322
Capital Assets (Net of Depreciation)	4,848,445	10,499,145	15,347,590
	<u>8,679,738</u>	<u>12,339,341</u>	<u>21,019,079</u>
DEFERRED OUTFLOWS			
Deferred Outflow of Resources-Pension	<u>706,861</u>	<u>81,844</u>	<u>788,705</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>9,386,599</u>	<u>12,421,185</u>	<u>21,807,784</u>
LIABILITIES DEFERRED INFLOWS AND NET ASSETS			
LIABILITIES			
Accounts Payable	308,569	30,442	339,011
Interest Payable	2,290	63,156	65,446
Other Current Liabilities			
Compensated Absences			
Payable Withing One Year	18,576	1,849	20,425
Due in More Than One Year	167,189	16,642	183,831
Other	237		237
Deferred Revenue	408,869		408,869
OPEB Liability	167,002	24,790	191,792
Notes Payable			
Due Within One Year	50,314	101,000	151,314
Due in More Than One Year		6,040,000	6,040,000
Net Pension Liability	50,535	712,772	763,307
TOTAL LIABILITIES	<u>6,373,581</u>	<u>6,990,651</u>	<u>13,364,232</u>
DEFERRED INFLOWS			
Deferred Inflow of Resources-Pension	<u>449,670</u>	<u>56,814</u>	<u>506,484</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>6,823,251</u>	<u>7,047,465</u>	<u>13,870,716</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	4,798,131	4,358,145	9,156,276
Committed for Working Capital	200,000		200,000
Committed for Surplus Property	5,000		5,000
Uncommitted-(Net of Prior Period Adjustment\$-59,954)	(4,225,829)		(4,225,829)
Restricted For:			
Parks, Recreation, Public Works, and Streets	1,338,913		1,338,913
Library	124,356		124,356
Public Safety	163,941		163,941
Housing and Community Development	158,836		158,836
Utility Service-(Net of Prior Period Adjustment\$-6, 957)		690,974	690,974
Debt Service		<u>324,600</u>	<u>324,600</u>
TOTAL NET POSITION	<u>2,631,488</u>	<u>5,373,719</u>	<u>8,005,207</u>

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

EXHIBIT TWO

CITY OF WILLOWS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	PROGRAM REVENUE				Net Revenue (Expense) And Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	668,968				(668,968)		(668,968)
Public Safety	2,241,481		153,379	42,807	(2,045,295)		(2,045,295)
Parks and Public Works	678,163	10,034	362,941	369,461	64,273		64,273
Library	267,650		106,692	4,100	(156,858)		(156,858)
Recreation	165,158	22,573			(142,585)		(142,585)
Housing and Community Development	689,681		348,681		(341,000)		(341,000)
					0		
Total Governmental Activities	<u>4,711,101</u>	<u>32,607</u>	<u>971,693</u>	<u>416,368</u>	<u>(3,290,433)</u>		<u>(3,290,433)</u>
Business Type Activities							
Sewer	1,725,491	1,635,735				(89,756)	(89,756)
Water	9,382	7,067				(2,315)	(2,315)
Total Business-Type Activities	<u>1,734,873</u>	<u>1,642,802</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(92,071)</u>	<u>(92,071)</u>
General Revenues:							
					2,604,162		2,604,162
					522,331		522,331
					25,858	7,744	33,602
3,660,084					430,499		430,499
					77,234	(77,234)	0
Total General Revenues and Transfers					<u>3,660,084</u>	<u>(69,490)</u>	<u>3,590,594</u>
Change in Net Assets					369,651	(161,561)	208,090
Net Position, Beginning					2,253,651	5,542,237	7,795,888
(Prior Period Adjustment-OPED and Pension Liability Adjustmen					(59,954)	(6,957)	(66,911)
Net Assets, Ending					<u>2,563,348</u>	<u>5,373,719</u>	<u>7,937,067</u>

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

CITY OF WILLOWS
BALANCE SHEET-GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	479,775	2,033,375	2,513,150
Receivables:			
Intergovernmental	383,125	525,184	908,309
Interest	2,478	3,363	5,841
Deferred Loans		399,671	399,671
From Other Funds	518,073		518,073
Other	4,322		4,322
TOTAL ASSETS	1,387,773	2,961,593	4,349,365
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY			
LIABILITIES:			
Current Liabilities			
Accounts Payable	50,767	257,802	308,569
Due to Other Funds		518,073	518,073
Compensated Absences	185,765		185,765
Other	237		237
TOTAL LIABILITIES	236,769	775,875	1,012,644
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	9,198	399,671	408,869
TOTAL DEFERRED INFLOWS OF RESOURCE	9,198	399,671	408,869
FUND BALANCE			
Fund Balances:			
Committed for Working Capital	200,000		200,000
Committed for Surplus Property	5,000		5,000
Uncommitted	936,806		936,806
Restricted for:			
Parks, Recreation, Public Works, and Streets		1,338,913	1,338,913
Library		124,356	124,356
Public Safety		163,941	163,941
Housing and Community Development		158,836	158,836
TOTAL FUND BALANCE	1,141,806	1,786,046	2,927,852
TOTAL LIABILITIES, DEFFERED INFLOWS OF RESOURCES, AND FUND BALANCE	1,387,773	2,961,592	4,349,365

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, 2016

Total Fund Balance-Total Governmental Funds Amounts Reported For Governmental Activities in the Statement of Net Assets are Different Because:	2,927,852
Capital Assets, Net of Accumulated Depreciation and Related Debt, Are Not Financial Resources, and, Therefore, Are Not Reported in the Funds	4,798,131
Deferred Outflow of Resources-Pension is an actuarial deferral related to pension activity. Pension activity is reported at the time of payment in Funds.	706,861
Accrued Interest Expense is treated as an Expenditure in the Year of Payments in Funds, and Therefore, Not Reported until Paid in Funds	(2,290)
The unpaid annual contribution for accrued other post employment benefits is a long term obligation not due and payable in the current period, and, therefore, not reported in governmental funds	(167,002)
Net Pension Liability is an actuarial liability related to pension activity. Pension activity is reported at the time of payment in Funds.	(5,250,535)
Deferred Inflow of Resources-Pension is an actuarial deferral related to pension activity. Pension activity is reported at the time of payment in Funds.	(449,670)
Net Position of Governmental Activities	2,563,348

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, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	2,604,162		2,604,162
Licenses, Permits and Franchise	274,185		274,185
Fines Forfeitures and Penalties	14,929		14,929
Intergovernmental	522,331	1,223,792	1,746,123
Charges for Senrices	109,811	32,607	142,418
Interest	13,627	12,231	25,858
Other	31,574	164,269	195,843
Total Revenue	3,570,619	1,432,900	5,003,519
EXPENDITURES			
General Government	683,027		683,027
Public Safety	2,194,863	176,417	2,371,280
Parks and Public Works	453,205	142,524	595,729
Recreation	154,938	19,551	174,489
Library	173,310	102,638	275,948
Housing and Community Development	170,095	529,931	700,026
Capital Outlay	35,091	921,431	956,522
Total Expenditures	3,864,529	1,892,492	5,757,021
Excess (Deficiency) of Revenues Over Expenditures	(293,911)	(459,593)	(753,503)
OTHER FINANCING SOURCES (USES)			
Transfers In	77,234	14,785	92,019
Transfers Out		(14,785)	(14,785)
Total Other Financing Sources (Uses)	77,234	0	77,234
Net Change in Fund Balance	(216,677)	(459,593)	(676,270)
Fund Balance, July 1, 2015	1,358,483	2,245,639	3,604,122
Fund Balance, June 30, 2016	1,141,806	1,786,046	2,927,852

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, 2016

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

Net Change in Fund Balances: Total Governmental Funds	(676,270)
Governmental Funds Reported Capital Outlays as Expenditures	956,522
In the Statement of Activities, the Cost of Capital Assets is Allocated Over their Estimated Useful Lives as Depreciation Expense	(210,407)
In the Statement of Activities, Capital Lease Payment is Reported in Interest Expense and Reduction In Outstanding Debt Components. It is treated as an expenditure for Governmental Fund purposes.	52,603
Accrued Interest pertaining to the Capital Lease is treated as an expense when accrued on the Statement of Activities. It will not be treated as an expenditure until paid for Governmental Fund purposes.	(2,290)
In the Statement of Activities-Pension Expense is derived from a number of actuarial factors. In Governmental Funds, expenditures for Pensions are reported as payment is made.	258,634
Accrued Other Post Employment Benefit is treated as an expense when accrued on the Statement of Activities. It will not be treated as an expenditure until paid for Governmental Fund purposes.	(8,115)
Capital Loss on Asset Disposal is treated as an expense when recorded on the Statement of Activities. It is not treated as an expenditure for Governmental Fund Purposes	(1,026)
Change in Net Assets of Governmental Activities	369,651

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

CITY OF WILLOWS
STATEMENT OF POSITION
PROPRIETARY FUNDS
June 30, 2016

	Sewer Enterprise Funds	Water Enterprise Fund	Totals
ASSETS:			
Current Assets			
Cash	1,572,082	11,341	1,583,423
Receivables:			
Accounts	254,716	281	254,997
Interest	1,760	16	1,776
Total Current Assets	<u>1,828,558</u>	<u>11,638</u>	<u>1,840,196</u>
Non-Current Assets			
Capital Assets			
Systems and Improvements	13,217,731	162,133	13,379,864
Licensed Vehicles	576,045		576,045
Equipment	76,099		76,099
Accumulated Depreciation	{3,461,537}	{71,326}	{3,532,863}
Total Non-Current Assets	<u>10,408,338</u>	<u>90,807</u>	<u>10,499,145</u>
Deferred Outflows of Resources			
Deferred Pension Outflows	81,844		81,844
TOTAL ASSETS	<u>12,318,740</u>	<u>102,445</u>	<u>12,421,185</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	30,057	385	30,442
Accrued Compensated Absences	18,491		18,491
Accrued Interest Payable	63,156		63,156
Notes Payable- Current Portion	101,000		101,000
Total Current Liabilities	<u>212,704</u>	<u>385</u>	<u>213,089</u>
Non-Current Liabilities			
OPED Payable	24,790		24,790
Notes Payable	6,141,000		6,141,000
Less: Current Portion	(101,000)		(101,000)
Net Pension Liability	712,772		712,772
Total Non-Current Liabilities	<u>6,777,562</u>	<u>0</u>	<u>6,777,562</u>
Deferred Inflows of Resources			
Deferred Pension Inflows	56,814		56,814
TOTAL LIABILITIES	<u>7,047,080</u>	<u>385</u>	<u>7,047,465</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	4,267,338	90,807	4,358,145
Restricted for Debt Service	324,600		324,600
Restricted for Utility Service	679,721	11,253	690,974
(Net of Prior Period Adjustment \$-6,957)			
TOTAL NET POSITION	<u>5,271,659</u>	<u>102,060</u>	<u>5,373,719</u>

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, 2016

	SEWER ENTERPRISE FUND	WATER ENTERPRISE FUND	TOTALS
OPERATING REVENUES:			
Charges for Services	1,618,956	7,067	1,626,023
Connection Fees	4,421		4,421
Development Impact Fees	12,358		12,358
TOTAL OPERATING REVENUES	<u>1,635,735</u>	<u>7,067</u>	<u>1,642,802</u>
OPERATING EXPENSES:			
Salaries and Benefits	346,591		346,591
Maintenance	56,629	2,312	58,941
Utilities	188,104	252	188,356
Professional Fees	611,231	1,806	613,037
Depreciation	268,779	4,118	272,897
Other		894	894
TOTAL OPERATING EXPENSES	<u>1,471,334</u>	<u>9,382</u>	<u>1,480,716</u>
OPERATING INCOME (LOSS)	<u>164,401</u>	<u>(2,315)</u>	<u>162,086</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	7,675	69	7,744
Interest Expenses	<u>(254,157)</u>		<u>(254,157)</u>
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>(246,482)</u>	<u>69</u>	<u>(246,413)</u>
INCOME (LOSS) BEFORE			
OPERATING TRANSFERS	<u>(82,087)</u>	<u>(2,246)</u>	<u>(84,327)</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfer Out	<u>(77,234)</u>		<u>(77,234)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(77,234)</u>	<u>0</u>	<u>(77,234)</u>
CHANGE IN NET POSITION	(159,315)	(2,246)	(161,561)
NET POSITION, July 1, 2015	5,437,931	104,306	5,542,237
PRIOR PERIOD ADJUSTMENT	<u>(6,957)</u>		<u>(6,957)</u>

NET POSITION, June 30, 2016	5,271,659	102,060	<u>5,373,719</u>
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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, 2016

	Sewer Enterprise	Water Enterprise	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Sewer Services and Connections	1,620,987		1,620,987
Cash Received from Water Services		6,954	6,954
Cash Payments for Employee and Related Expenses	(370,253)		(370,253)
Cash Payments for Repairs and Maintenance	(56,471)	(2,312)	(58,783)
Cash Payments for Utilities	(192,273)	(252)	(192,525)
Cash Payments for Professional and Contract Services	(616,348)	(1,421)	(617,769)
Cash Payments for Other Expenses		(894)	(894)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	385,642	2,075	387,717
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating Transfers In	0	0	0
Operating Transfers Out	(77,234)	0	(77,234)
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	(77,234)	0	(77,234)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Capital Assets	(339,313)		(339,313)
Interest Paid	(255,317)		(255,317)
Payment on Long Term Debt	(97,000)		(97,000)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(691,630)	0	(691,630)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	7,416	79	7,495
NET CASH FLOWS FROM INVESTING ACTIVITIES	7,416	79	7,495
NET INCREASE (DECREASE) IN CASH	(375,806)	2,154	(373,652)
CASH AND CASH EQUIVALENTS, JULY 1, 2015	1,947,888	9,187	1,957,075
CASH AND CASH EQUIVALENTS, JUNE 30, 2016	1,572,082	11,341	1,583,423

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, 2016

	Sewer Enter2rise	Water Enter2rise	Total
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities			
Operating Income	164,401	(2,315)	162,086
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	268,779	4,118	272,897
Decrease (Increase) in Receivables	(36,687)	(113)	(36,800)
Increase (Decrease) in Payables	13,048	385	13,433
Increase (Decrease) in Accrued Compensated Absences	3,805		3,805
Increase (Decrease) in OPED Liability	2,292		2,292
Increase (Decrease) in Other Liabilities	(29,996)		(29,996)
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>385,642</u>	 <u>2,075</u>	 <u>387,717</u>

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

CITY OF WILLOWS
STATEMENT OF POSITION
FIDUCIARY FUNDS
June 30, 2016

	Non Expendible Trust Fund	Agency Funds	Totals
ASSETS:			
Cash and Investments	114,629	223,759	338,388
Receivables:			
Interest	192	109	301
TOTAL ASSETS	114,821	223,868	338,689
LIABILITIES			
Accounts Payable		6,930	6,930
TOTAL LIABILITIES	0	6,930	6,930
NET POSITION			
Restricted for Trust Designated Purposes	114,821	216,938	331,759
TOTAL NET POSITION	114,821	216,938	331,759

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, 2016

	NON-EXPENDIBLE		TOTALS
	TRUST FUND	AGENCY FUNDS	
ADDITIONS			
Contributions		10,758	10,758
Use of Money	837	474	1,311
Service Fees		67,142	67,142
Other		2,620	2,620
Total Additions	837	80,994	81,831
DEDUCTIONS			
Library		9,973	9,973
Parks and Recreation		10,108	10,108
Housing and Community Development		55,828	55,828
Other		7,894	7,894
Total Deductions	0	83,803	83,803
CHANGE IN NET POSITION	837	(2,809)	(1,972)
NET POSITION, July 1, 2015	113,984	219,747	333,731
NET POSITION, June 30, 2016	114,821	216,938	331,759

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

CITY OF WILLOWS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I 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, 2016.

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 non-fiduciary 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.

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. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the City of Willows within the California Public Employees' Retirement System ("CalPERS") plans and the additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. 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, 2016, said accrual was \$204,257.

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 Four of this financial statement.

G. 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, 2016 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	627,929
Bank Money Market Accounts	554,961
Local Agency Investment Fund	<u>1,829,871</u>
Total Cash and Cash Equivalents	<u>\$ 3,012,961</u>

Custodial Credit Risk

As of June 30, 2016, 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, 2016, the carrying amount of the City's cash accounts was \$803,095 and the bank balances were \$627,929. The carrying value and the bank balances differ due to outstanding checks. Of the bank balance, \$318,854 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, 2016 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	\$1,272,000	\$1,292,911
United States Agency-FNMA	AAA	\$ 150,000	\$ 153,507
Total		\$1,422,000	\$1,446,418

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, 2016 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	\$1,272,000	\$407,000	\$ 865,000
United States Agency Notes	150,000		150,000
Total	\$1,422,000	\$407,000	\$1,015,000

Authorized Investments:

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

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

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

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	17%
Discover Bank	17%
Barclay's Bank	14%
Federal Nat'l Mortgage Assn.	11%
Capital One Bank	11%
Sandhills State Bank	8%
State Bank of India	7%
American Express Centurion	7%
Landmark Community 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, 2015 upon which the levy for the 2015-16 year was based was \$296,317,733.

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	\$7,878,021
Additions	956,522
Deletions	<u>(257,446)</u>
June 30	\$8,577,097
Less: Accumulated Depreciation	<u>(3,728,652)</u>
Net Property, Plant, Infrastructure and Equipment	<u>\$ 4,848,445</u>

Business Type Capital Assets

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

Property, Plant and Equipment July 1	\$13,703,265
Additions	339,313
Deletions	<u>(9,570)</u>
Property, Plant & Equipment June 30	\$14,032,008
Less: Accumulated Depreciation	<u>(3,532,863)</u>
Net Property, Plant and Equipment	\$10,499,145

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, 2015

Governmental Funds Long Term Debt Transactions

	<u>Fire Equipment Capital Lease</u>
Long term Debt July 1	\$ 98,579
Additions	-0-
Repayment	<u>(48,265)</u>
Long term Debt June 30	\$ 50,314

Interest expense for the year ended June 30, 2016 was \$4,338.

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, 2016, are as follows:

<u>Fiscal Year</u>	<u>Interest Payment</u>	<u>Principal Payment</u>	<u>Total Payment</u>
2016/17	2,289	50,314	52,603

Business Type Long Term Debt Transactions

	<u>Wastewater Treatment Construction Loan</u>
Long term Debt July 1	\$6,238,000
Additions	-0-
Repayment	<u>(97,000)</u>
Long term Debt June 30	\$6,141,000

Interest expense for the year ended June 30, 2016 was \$254,157.

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, 2015, are as follows:

<u>Fiscal Year</u>	<u>Interest Payment</u>	<u>Principal Payment</u>	<u>Total Payment</u>
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	237,889	114,000	351,889
2020/21	233,083	119,000	352,083
2021/22-2025/26	1,086,009	673,000	1,759,009
2026/27-2030/31	932,044	824,000	1,756,044
2031/32-2035/36	743,779	1,008,000	1,751,779
2036/37-2040/41	513,356	1,234,000	1,747,356
2041/42-2045/46	231,186	1,511,000	1,742,186
2046/47	<u>7,033</u>	<u>341,000</u>	<u>348,033</u>
Total	<u>\$4 725 084</u>	<u>\$6 141 000</u>	<u>\$10 866 084</u>

NOTE 6 OTHER REQUIRED FUND DISCLOSURES

A. Excesses of Expenditures over Appropriations in Individual Funds

	<u>Expenditures</u>	<u>Appropriations</u>
Gas Tax 2105	58,071	57,000
Gas Tax 2106	24,118	23,929
Gas Tax 2107.5	6,299	2,000
Community Discretionary	44,435	44,000
Gas Tax 2103	299,984	295,000
Supplemental Law Enforcement	105,878	100,000

All expenditures in excess of appropriations were funded via existing fund balances or 2015- I 6 revenue within the given fund.

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

At June 30, 2016, 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 Inter-fund Receivable and Payable Balances:

Such balances at June 30, 2016 were:

	Due From <u>Other</u> <u>Funds</u>	Due to Other <u>Funds</u>
General Fund		
State Transportation Improvement Program	\$ 518,073	369,061
EDA Grant		38,566
USDOJ CHRP II Grant		32,531
CDBG-Housing Studies		27,965
HOME-Senior Housing Project		49,950
Totals	<u>\$ 518,073</u>	<u>\$518,073</u>

D. Individual Fund Operating Transfers

for the year Ended June 30, 2015 transfers were as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
To General Fund	\$ 77,234	
From Sewer Enterprise Fund		\$ 77,234
To Community Discretionary Fund	\$ 14,785	
From 1992 CDBG Housing Loans		\$ 7,846
2003 CDBG Housing Loans		1,436
CDBG-PI		619
1997 CDBG Housing Loans		860
2000 CDBG Housing Loans		<u>4,024</u>
Totals	<u>\$ 92,019</u>	<u>\$ 92,019</u>

NOTE 7 PENSION PLANS

A. *General Information about the Pension Plans*

Plan Descriptions -The City provides pension benefits to eligible employees through a cost-sharing multiple-employer defined benefit plan administered by the California Public Employees Retirement System (CalPERS). CalPERS 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 State statute and City ordinance. CalPERS issues publicly available reports that include full description of the pension plans regarding benefit provisions, assumptions, and membership information, that can be found on the CalPERS website.

Benefits Provided -CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Death benefits include one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Miscellaneous		
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 60	2% @ 62
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	monthly for life; 50-60	monthly for life; 52-67
Retirement age	50-60	52-67
Monthly benefits, as a % of eligible compensation	10% to 30%	1.0% to 2.5%
Required employee contribution rates	11.065%	6.25%
Required employer contribution rates	11.065%	6.237%

Safety		
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula		2.7% @ 57
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.00A, to 2.7%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	17.557%	11.153%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2016 employer plan pension contributions were \$208,027 and employer contributions to actuarially determined unfunded pension liabilities were \$394,146.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the Local Government reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension liability
Miscellaneous	\$2,553,730
Safety	\$3,409,576
Total Net Pension Liability	\$5,963,306

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Local Government's proportion of the net pension liability was based on a projection of the Local Government's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Local Government's proportionate share of the net pension liability for the Plans as of June 30, 2015, were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion- June 30, 2015	0.0621636%	.0775879%

For the year ended June 30, 2016, the City recognized pension expense of \$323,670. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Proportionate share of net pension liability	\$612,102	
Changes between actual and expected experience		\$28,848
Changes in assumptions		\$297,462
Changes in proportion and differences between the employer's contributions and the employer's proportionate share of contributions	\$176,603	\$30,028
Differences between projected and actual earnings		
On plan investments		\$150,146
Total	\$788,705	\$506,484

Recognition of deferred outflows and deferred inflows of resources in full-year pension expense as follows:

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending	
June 30	
2017	\$(228,965)
2018	(228,965)
2019	(208,657)
2020	187,131
Total	\$ 476,456

Actuarial Assumptions – The total pension liabilities in the Plan's actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30%-15.00% (1)
Investment Return	7.50% (2)
Mortality	Derived using CalPERS' membership data for all funds.

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation

Discount Rate -The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.50 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

Indetermining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. The asset allocation has an expected long-term blended rate of return of 7.5%

Asset Class	New Strategic <u>Allocation</u>
Global Equity	51%
Global Fixed Income	20%
Inflation Sensitive Assets	6%
Private Equity	10%
Real Assets	12%
Liquid Assets	1%
 Total	 100%

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Local Government's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Local Government's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate- 1%	Current Discount	Discount Rate +1%
	<u>6.65%</u>	<u>Rate of 7.65%</u>	<u>8.65%</u>
Total Plan	\$ 8,920,132	\$ 5,963,306	\$ 3,351,179

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 150.103:

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 \$500,000 for fiscal year 2016, \$39,500,000 in excess coverage for liability and \$4,500,000 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, 2016 (Latest available):

Assets	<u>\$ 54,079,628</u>
Liabilities	<u>40,080,071</u>
Total Net Position	<u>\$ 13,999,557</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, 2016, 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	\$23,323
Interest on Net OPEB Obligation	3,550
Adjustment to Annual Required Contribution	<u>(6,801)</u>
Annual OPEB Cost (Expense)	\$20,072
Contributions Made	<u>(9,656)</u>

Net Increase in OPEB Obligation	\$10,416
Net OPEB Obligation-Beginning of the Year	<u>177,505</u>
Net OPEB Obligation-End of the Year	<u>\$187,921</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%	\$172,051
06/30/15	\$16,568	67%	\$177,505
06/30/16	\$20,072	48%	\$187,921

Funding Status and Funding Progress

As of July 1, 2015, the actuarial accrued liability (AAL) for benefits was \$177,505, 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 are 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). 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 3%, which is within the range recommended by CalPERS OPEB Assumption Model.

Health insurance premiums -2016 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 2%. 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, 2015, was thirty years.

Participation- Based on historical participation rates, the results assume that only 30% of eligible retirees, who have not already opted out, will continue participating in the current health plan offered by the City.

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%
7/1/2015	\$181,385	\$0	\$ 181,385	0%	\$ 1,630,032	11.1%

NOTE 10 LIDGATION

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

NOTE 11 CONTINGENCIES

The City participates in a number of Federal and State assisted grant programs. These programs are subject to program compliance audits by the grantors. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. While the contingency for un-reimbursed expenditures could potentially be material, the amount, if any, of which may be disallowed by the granting agencies cannot be determined at this time.

NOTE 12 DEFERRED COMPENSATION PLAN

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

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

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

NOTE 13 PRIOR PERIOD ADJUSTMENTS

The City posted two prior period adjustments to the July 1, 2015, beginning, net position:

	<u>Governmental Funds</u>	<u>Business-Type Funds</u>
Adjustment to Net Pension Liability	(\$56,555)	(\$6,476)
Adjustment to Net Other Post Employment Liability	(\$ 3,399)	(\$ 481)
Total Prior Period Adjustments	(\$59,954)	(\$6,957)

NOTE 14 SUBSEQUENT EVENTS

The City has evaluated subsequent events through the date that the financial statements were issued, January 31, 2017, and determined that no events have occurred that meet the requirements for disclosure set for the by FASB Statement No. 165.

NOTE 15 FUTURE ACCOUNTING PRONOUNCEMENTS

GASB Statements listed below, as applicable, will be implemented in future financial statements:

Statement No. 73 "Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68" The provisions of this statement are effective for fiscal years beginning after June 15, 2015 - except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans" The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

Statement No. 82, "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73" Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Statement No. 83, "Certain Asset Retirement Obligations"

Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

NOTE 16 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 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, 2016

	<u>Budgeted Amounts</u>		General Actual	Variance With Final Budget Favorable { Unfavorable)
	Original	Final		
REVENUES				
Taxes	2,643,400	2,513,790	2,604,162	90,372
Licenses, Permits and Franchise	223,800	223,800	274,185	50,385
Fines Forfeitures and Penalties	21,500	21,500	14,929	(6,571)
Intergovernmental	495,500	495,500	522,331	26,831
Charges for Services	107,436	107,436	109,811	2,375
Interest	15,000	15,000	13,627	(1,373)
Other	21,500	21,500	31,574	10,074
Total Revenue	<u>3,528,136</u>	<u>3,398,526</u>	<u>3,570,619</u>	<u>172,093</u>
EXPENDITURES				
General Government	637,705	710,313	683,027	27,286
Public Safety	2,116,518	2,181,518	2,194,863	(13,345)
Parks and Public Works	516,365	516,365	453,205	63,160
Recreation	149,840	149,840	154,938	(5,098)
Library	176,767	176,767	173,310	3,457
Housing and Community Development	165,041	165,041	170,095	(5,054)
Capital Outlay	62,500	62,500	35,091	27,409
Total Expenditures	<u>3,824,736</u>	<u>3,962,344</u>	<u>3,864,29</u>	<u>97,815</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(296,600)</u>	<u>(563,818)</u>	<u>(293,910)</u>	<u>269,907</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	77,234	77,234	77,234	0
Total Other Financing Sources (Uses)	<u>77,234</u>	<u>77,234</u>	<u>77,234</u>	<u>0</u>
Net Change in Fund Balance	<u>(219,366)</u>	<u>(486,584)</u>	<u>(216,677)</u>	<u>269,907</u>
Fund Balance, July 1, 2015	1,358,483	1,358,483	1,358,483	0
Fund Balance, June 30, 2016	<u>1,139,117</u>	<u>871,899</u>	<u>1,141,806</u>	<u>269,907</u>

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

CITY OF WILLOWS
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Cost-Sharing Defined Benefit Pension Plan
 As of June 30, 2016
 (All Available)

STATEMENT TWO

	City of Willows Miscellaneous Plan		City of Willows Public Safety Plan		City of Willows PEPRA-Police
Plan's Proportion of the Net Pension Liability	0.06727%		0.05943%		0.00008%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$ 2,274,937	\$	3,087,713	\$	(604)
Plan's Covered-Employee Payroll	\$ 763,037	\$	653,077	\$	100,618
Plan's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	298.14%		472.79%		-0.60%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	76.10%		72.98%		106.01%

NOTE: Proportionate Share of Net Pension Liability for the PEPRA-Fire and PEPRA-Miscellaneous accounts not available as employment base under these categories did not exist as of original measurement date of June 30, 2013. As such, actuarial calculation performed by the California Public Employees' Retirement System was not completed for the City of Willows' share of these plans.

CITY OF WILLOWS
SCHEDULE OF CONTRIBUTIONS
Cost-Sharing Defined Benefit Pension Plan
As of June 30, 2016

STATEMENT THREE

	City of Willows Miscellaneous Plan	City of Willows Safety Plan	City of Willows PEPRA-Police Plan	City of Willows PEPRA-Fire Plan	City of Willows PEPRA-Miscellaneous Plan
Contractually Required Contributions Actuarially Determined	\$ 309,319	\$ 400,174	\$ 22,793	\$ 10,709	\$ 5,033
Contributions in Relation to the Actuarially Determined Contribution	\$ (309,319)	\$ (400,174)	\$ (22,793)	\$ (10,709)	\$ (5,033)
Contribution Deficiency	\$	\$	\$	\$	\$
Covered-Employee Payroll	\$ 763,037	\$ 653,077	\$ 100,618	\$ 45,975	\$ 40,302
Contributions as a Percentage of Covered -Employee Payroll	40.54%	61.28%	22.65%	23.29%	12.49%

OTHER SUPPLEMENTARY INFORMATION

CITY OF WILLOWS
SCHEDULE OF CHANGES IN INDIVIDUAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

FUND	NET POSITION Jul'. I, 2015	PRIOR PERIOD ADJUSTMENT	NET RECEIPTS {EXPENDITURES}	TRANSFERS IN	TRANSFERS OUT	NET POSITION June 30, 2016
GENERAL FUND						
General Fund	1,153,483		(293,911)	77,234		936,806
General Fund-Workin2 Raene	200,000		0			200,000
General Fund-Surplus Property	\$ 000		0			\$000
TOTAL GENERAL FUND	1,358,483	0	(293,911)	77,234	0	1,141,806
PARKS AND PUBLIC WORKS FUNDS						
State Transportation Improvement P1"Q2ram	0		(400)			(400)
Willows U2htin2 and Landscape District	10,191		868			11,059
TOA-Local Transportation Funds	32,504		(32,504)			0
EDA Grant	0		0			0
Mall Maintenance	14,999		0			14,999
NCCSIF-Safety/ADA	0		0			0
Storm Draiaa2e Impact	247,449		41,955			289,404
Street Development Impact	69,881		36,624			106,505
Park Facilities Impact	253,242		1,958			255,200
1-5 Interchan2e Impact	306,335		21,199			327,534
TANF-ARRA Employment	0		114			114
CA Recycle Grant	8,970		0			!z970
TOTAL PARKS AND PUBLIC WORKS	943,571	0	69,814	0	0	1,013,385
GAS TAX FUNDS						
RSTP	205,468		(36,341)			169,127
Gas Tax 210S	93,647		(23,062)			70,585
Gas Tax 2106	2,682		(2,682)			0
Gas Tax 2107	2,471		(2,470)			■
Gas Tax 2107.S	4,299		(4,289)			10
GasTax 2103	33,72		{267,540}			7002
TOTAL GASTAX	646,409	0	(336,384)	0	0	310.025
HOUSING AND COMMUNITY DEVELOPMENT						
Certified Access Specialist	950		(647)			303
Community Discretionary	135,452		(26,026)	14,785		124,211
2003 CDBG Housin2 Loans	0		1,436		1,436	0
Economic Development	35,865		(1,543)			34,322
1992 CDBG Housin2 Loans	0		7,846		7,846	0
1997 CDBG Housin2 Loans	0		860		860	0
2000 CDBG Housln2 Loans	0		4,024		4,024	0
CDBG-Pro2ram Income	0		619		619	0
HOME P1"Q2ram Income	165,211		(165,211)			0
HOME-Senior Housin2 Project	0		0			0
TOTAL HOUSING AND COMMUNITY DEVELOPMI	337,478	0	(178,642)	14,785	14,785	158,836
RECREATION						
Recreation Reimburseable	11,154		3,218			14,372
Recreation Cultural	■96		{165}			1,131
TOTAL RECREATION	12,450	0	3,053	0	0	15,503

CITY OF WILLOWS
SCHEDULE OF CHANGES IN INDIVIDUAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

FUND	NET POSITION July 1, 2015	PRIOR PERIOD ADJUSTMENT	NET RECEIPTS (EXPENDITURES)	TRANSFERS IN	TRANSFERS OUT	NET POSITION June 30, 2016
LIBRARY						
County Library	17,894		5,932			23,826
Northnet- Training Funding	892		1,000			1,892
CLSA-Delivery Fundln2	4,138		1,222			5,360
Literacy Passthrough	0		0			0
Library-Development Impact	9605		(327}			9378
TOTAL LIBRARY	119,729	0	4,627	0	0	124,356
PUBLIC SAFETY						
Asset Forfeiture	1		(1)			0
Fire-Development Impact	117,821		16,893			134,714
Fire Activity	31		0			31
Police Development Impact	58,259		(35,063)			23,196
FEMA Fitness Grant	0		0			0
SLESF	9,891		(3,891)			6,000
CHRP-Hiring Grant	0		0			0
AB 109 Overtime	0		0			0
Ojp. BVP Pl'021"8m	0		0			0
TOTAL PUBLIC SAFETY	186,003	0	(22,062)	0	0	163,941
FIDUCIARY FUNDS						
Non-Elpendible Trust Funds	113,984		837			114,821
Agency Funds	219,747		(2,809}			216,938
TOTAL FIDUCIARY FUNDS	333,731	0	(1,972)	0	0	331,759
ENTERPRISE FUNDS						
Sewer Enterprise	5,437,931	(6,957)	(82,081)		77,234	5,271,659
Water Enterprise	10406		(246}			102060
TOTAL ENTERPRISE FUNDS	5,542,237	(6,957)	(84,327)	0	77,234	5,373,719
TOTALS	914801091	(61957}	(83904}	921019	921019	633130

SINGLE AUDIT SECTION

ROY R. SEILER

CERTIFIED PUBLIC ACCOUNTANT

201 C. North Tehama
Willows, CA 95988

Phone: 53934-8841
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, 2016, 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 January 31, 2017.

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.

January 31, 2017

Ak:Sd!

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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 THE UNIFORM
GUIDANCE

To the City Council
City of Willows, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that 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, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

January 31, 2017

Roy R. Seiler, CPA

Roy R. Seiler, CPA

ROY R. SEILER

CERTIFIED PUBLIC ACCOUNTANT

201 C. North Tehama
Willows, CA 95988

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

**Report on the Schedule of Expenditures of Federal Awards
INDEPENDENT AUDITOR'S REPORT**

To the City Council,
City of Willows, California

Report on the Schedule of Expenditures of Federal Awards

I have audited the accompanying schedule of expenditures of federal awards of the City of Willows (the City) for the year ended June 30, 2016, and the related notes (the financial statement).

Management's Responsibility

Management is responsible for the preparation and fair presentation of this financial statement 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 a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on this financial statement based on our audit. I conducted my audit 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

Opinion

In my opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards of the City for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

January 31, 2017

Roy R Seiler, CPA

Roy R. Seiler, CPA

CITY OF WILLOWS
 SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Contract Award</u>	<u>Disbursements/ Expenditures</u>
DEPARTMENT OF JUSTICE:				
US DOJ-CHRP Grant	16.710	2012UMWX0022	\$ 255,843	\$ 63,244
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
CDBG-Housing Element and Housing Conditions Survey	14.228	13-CDBG-8939	\$ 70,000	\$ 625
HOME-Senior Housing Project(*)	14.239	13-HOME-8611	\$ 4,600,000	\$ 312,898
DEPARTMENT OF COMMERCE				
Economic Development Administration South Willows Roadway and Utilities	11.300	70107275	\$ 2,500,000	\$ 44,235

DEPARTMENT OF TRANSPORTATION:

State of California - California Department of Transportation (CalTrans):

Regional Surface Transportation Exchange	20.205	\$ 67,271	\$ 104,001
State Transportation Improvement (Federal Exchange) (*)	20.205 RPSTPL-5062 (018)	\$ 1,026,000	\$ 369,461
TOTALS		\$ 8,519,114	\$ 894,464

(*) 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, 2016

NOTE I -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, 2016

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 2 CRF 200.516(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 \$750,000.
7. The City qualified as a "Low Risk" entity in accordance with 2 CFR 200.520.

FEDERAL AWARDS, Continued:

8. The following programs were identified as major programs:

U.S. Department of Housing and Urban Development Home Investment Partnership Program (13-HOME-8611) CFDA No. 14.239	\$312,898
Department of Transportation State of California, California Department of Transportation (Caltrans) State Transportation Improvement (Federal Exchange) RPSTPL-5062 (018) CFDA No. 20.205	\$369,461
Percentage of Total Expenditures of Federal Awards.	76.28%

SUMMARY OF FEDERAL FINDINGS:

Prior Year Findings:

FINDINGS, FINANCIAL STATEMENT AUDIT - None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS - None

FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE - None

Current Period:

FINDINGS, FINANCIAL STATEMENT AUDIT - None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS - None

FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE - None

