

CITY OF WILLITS
WILLITS, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Willits
Willits, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Willits, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Willits' 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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, we consider internal control relevant to City of Willits' 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 City of Willits' internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our 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 and, where applicable, cash flows of City of Willits, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance 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 (pages 3-11) and the required supplemental information (pages 51-53), as listed in the table of contents, 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2016, on our consideration of City of Willits' internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 17, 2016

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

This discussion and analysis of City of Willits' financial activities and performance provides an overview for the fiscal year ended June 30, 2015. Please read this in conjunction with City of Willits' financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

The Government-wide Statement of Net Position appearing as the first statement of the Basic Financial Statements and summarized in the Management's Discussion and Analysis shows City of Willits' (the City's) total assets to be \$55,358,069, total liabilities to be \$32,182,231 and total net position to be \$24,122,740.

The City's net capital assets, net of related debt, totaled \$19,388,720 at June 30, 2015. This amount represents capital assets net of the related debt to acquire the capital assets. As a "small" City under the definition of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), the City is not required to report, and has not reported, infrastructure (i.e. streets, streetlights, sidewalks, etc.) assets acquired prior to June 30, 2003 in accounting for capital assets.

The City's long-term debt (including current portion) totaled \$31,180,638 as of June 30, 2015. This amount includes the 2011 Waste Water USDA Loan and other items reported in previous years in the General Long-Term Debt column, capital leases, net pension liability and debt related to business-type activities (see Note 5 of the financial statements).

Governmental Funds Financial Statements

At June 30, 2015, Governmental Fund balances totaled \$5,110,082, an increase of \$738,397 from June 30, 2014. This increase is primarily due to the timing of reimbursements in the Regional Transportation Improvement Funds. The detailed components of revenues and expenditures can be found in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances.

The core operations of the City are accounted for in the General Fund, and the General Fund balance is a key measure of the financial health of the City. As of June 30, 2015, the General Fund balance was \$2,321,611, an increase of \$322,455 from the July 1, 2014 balance of \$1,999,156.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's Basic Financial Statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They provide information about the activities of the City as a whole and present a longer-term view of the City's finances.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or diminishing.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

The Statement of Activities presents information that shows how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event causing the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses may be reported in this statement for some items that will result in cash flows in future fiscal periods, such as property taxes assessed but not collected by June 30 and interest expenses accrued but not paid.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other government entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of government entities can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on short-term inflows and outflows of spendable resources and balances of these resources available for spending. This information may be useful in evaluating a government's short-term financing requirements. Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Funds Financial Statements.

The City maintains numerous individual governmental funds, which for financial reporting, are grouped according to their type (general fund, special revenue, capital projects, and debt service). Funds with expenditures exceeding 10% of the total expenditures for all governmental funds, or meet other specific criteria for determining their importance to the financial statement user, are designated Major Funds and are reported separately in the governmental funds statements. All other funds are grouped together as Non-Major Funds for reporting purposes. The City's Major governmental funds are:

- General Fund
- Sales Tax Transportation Improvement
- Gas Tax Fund

All of the City's Enterprise Funds are reported as Major Funds.

Proprietary Funds

Proprietary funds generally account for services for which customer fees are intended to finance the costs of operations and can include enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Funds Financial Statements are prepared on the full accrual basis, as in the past, and include all of their assets and liabilities, current and long-term.

The City does not have any internal service funds.

Fiduciary Funds

Fiduciary Statements are used to account for resources held for the benefit of parties outside of the reporting government for which the City acts solely as agent. These statements are separate from, and their balances are excluded from, the City's financial statements.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

Tables 1 and 2 focus on the City's Governmental Statement of Net Position and Statement of Activities, while Tables 3 and 4 focus on the City's Business-type Statement of Net Position and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Position at June 30

	<u>Governmental Activities 2015</u>	<u>Governmental Activities 2014</u>
Current and other assets	\$ 5,413,817	\$ 4,706,704
Capital assets	<u>441,960</u>	<u>505,323</u>
Total assets	<u>5,855,777</u>	<u>5,212,027</u>
Deferred outflows	<u>516,209</u>	
Long-term liabilities	15,000	21,114
Other liabilities	<u>503,462</u>	<u>446,869</u>
Total liabilities	<u>518,462</u>	<u>467,983</u>
Deferred inflows	<u>(275,427)</u>	
Net position:		
Invested in capital assets, net of related debt	426,960	484,209
Restricted	171,341	300,003
Unrestricted	<u>513,170</u>	<u>3,959,832</u>
Total net position	<u>\$ 1,111,471</u>	<u>\$ 4,744,044</u>

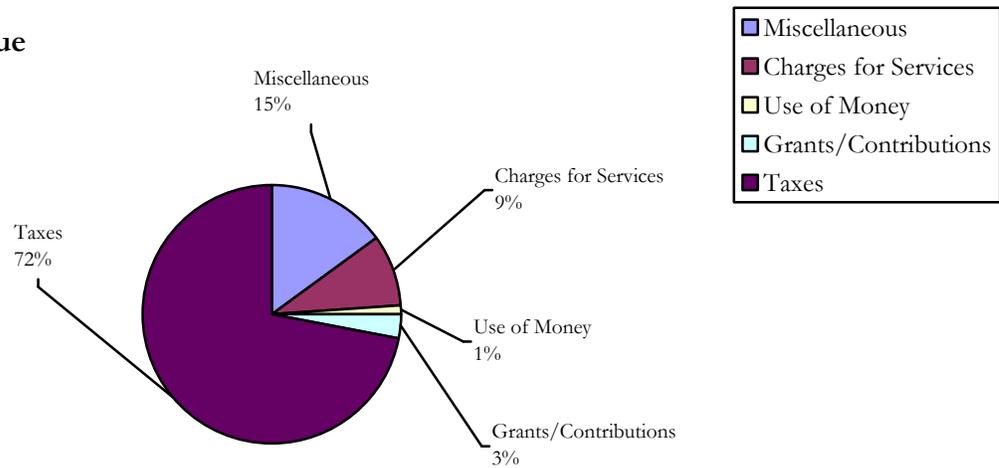
The City's governmental net position amounted to \$1, 111,471 as of June 30, 2015, a decrease of \$3,639,571 from 2014. This change is the Change in Net Position and the prior period adjustment reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net position as of June 30, 2015 comprised the following:

- Cash and investments were comprised of \$4,690,181 in the City treasury. Substantially all of these amounts were held in short-term investments in government securities, as detailed in Note 2 to the basic financial statements.
- Receivables were comprised of the following: \$720,538 current receivables, and \$3,098 of inventories.
- Capital assets were \$441,960 net of depreciation charges, which includes all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims, accrued liabilities, and other amounts currently due, totaled \$518,462.
- Long-term debt was \$15,000.

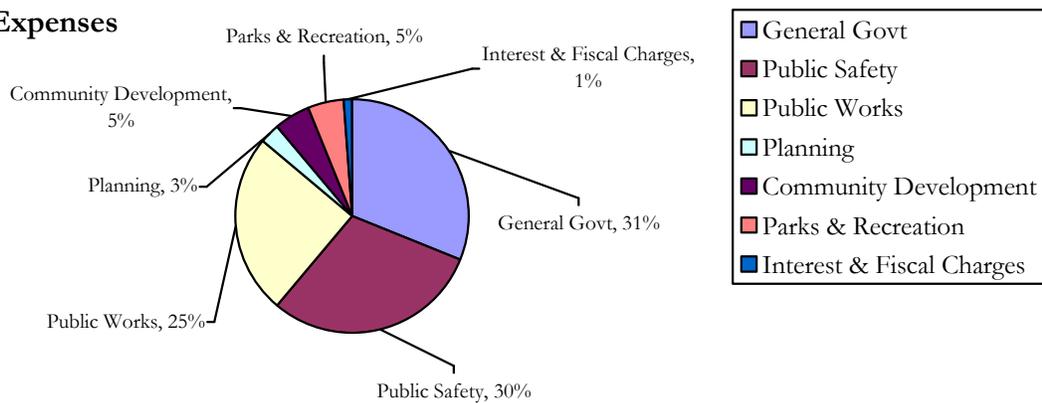
City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

- Net position invested in capital assets, net of related debt, was \$426,960, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net position totaling \$171,341, which may be used only to construct specified capital projects or for debt service. The restrictions on these funds were placed there by outsiders and cannot be changed by the City.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had \$513,170 of unrestricted net position as of June 30, 2015.

Sources of Revenue



Functional Expenses



As the Sources of Revenue Chart above shows, \$3,993,377 or 72%, of the City's fiscal year 2015 governmental activities revenue came from taxes, while \$142,814 or 3%, came from grants and contributions, \$542,166, or 9%, came from charges for services, and the remainder came from a variety of sources, as shown above.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

The Functional Expenses Chart above includes only current year expenses; it does not include capital outlays, which are now added to the City's capital assets. As the Chart shows, general government expenses are \$1,111,783, or 31%, of total government expenses, community development is \$182,375, or 5%, public safety is \$1,085,933 or 30%, public works is \$936,560, or 25%, parks and recreation is \$178,655, or 5%, and other governmental programs and functions are the remaining 4%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2
Changes in Governmental Net Position

	<u>Governmental Activities 2015</u>	<u>Governmental Activities 2014</u>
<u>Expenses</u>		
General government	\$ 1,111,783	\$ 1,184,479
Public safety	1,085,933	2,352,321
Planning	101,430	129,193
Community development	182,375	79,589
Public works	936,560	1,400,878
Parks and recreation	178,655	265,999
Interest on long-term debt	<u>4,612</u>	<u>11,376</u>
Total expenses	<u>3,601,348</u>	<u>5,423,835</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	542,166	287,667
Operating grants and contributions	142,814	143,793
Capital grants and contributions	<u>-</u>	<u>291,926</u>
Total program revenues	<u>684,980</u>	<u>723,386</u>
General revenues:		
Taxes	3,993,377	4,094,337
Use of money and property	28,549	31,898
Other revenues and transfers	<u>868,784</u>	<u>746,495</u>
Total general revenues	<u>4,890,710</u>	<u>4,872,730</u>
Total revenues	<u>5,575,690</u>	<u>5,596,116</u>
Change in net position	<u>\$ 1,974,342</u>	<u>\$ 172,281</u>

As the Sources of Revenue Chart and Table 2 above show, \$684,980, or 12%, of the City's fiscal year 2015 governmental revenue, came from program revenues and \$4,890,710, or 88%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$542,166, which includes permit revenues, fees and charges used to fund expenses incurred in providing services; and \$142,814 of operating grants and contributions, which includes gas tax revenues and housing and police grants.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Business-type Activities

The Statement of Net Position and Statement of Activities present a summary of the City's business-type activities that are composed of the City's enterprise funds.

Table 3
Business-Type Net Position at June 30

	<u>Business-Type 2015</u>	<u>Business-Type 2014</u>
Current and other assets	\$ 5,732,947	\$ 5,767,040
Capital assets	<u>43,690,425</u>	<u>44,261,203</u>
Total assets	<u>49,423,372</u>	<u>50,028,243</u>
Deferred outflows	<u>98,354</u>	
Long-term debt outstanding	25,107,555	26,463,855
Other liabilities	<u>498,131</u>	<u>642,895</u>
Total liabilities	<u>25,605,686</u>	<u>27,106,750</u>
Deferred inflows	<u>(56,912)</u>	
Net position:		
Invested in capital assets, net of debt	18,961,760	21,647,476
Restricted	1,653,716	2,158,681
Unrestricted	<u>2,395,793</u>	<u>(884,664)</u>
Total net position	<u>\$ 23,011,269</u>	<u>\$ 22,921,493</u>

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

Table 4
Changes in Business-Type Net Position

	Business-Type Activities 2015	Business-Type Activities 2014
<u>Expenses</u>		
Water	\$ 2,530,249	\$ 3,219,404
Sewer	3,373,594	3,443,048
Airport	<u>113,629</u>	<u>85,522</u>
Total expenses	<u>6,017,472</u>	<u>6,747,974</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	5,708,372	5,220,625
Capital grants and contributions	10,000	-
Operating grants and contributions	<u>1,464,340</u>	<u>1,803,554</u>
Total program revenues	<u>7,182,712</u>	<u>7,024,179</u>
General revenues:		
Use of money and property	41,608	57,634
Other revenues and transfers	<u>(11,793)</u>	<u>(10,876)</u>
Total general revenues	<u>29,815</u>	<u>46,758</u>
Total revenues	<u>7,212,527</u>	<u>7,070,937</u>
Change in net position	<u>\$ 1,195,055</u>	<u>\$ 322,963</u>

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues increased \$315,022 this fiscal year due primarily to increases in licenses and permits, charges for services and other revenue that offset decreases in taxes and intergovernmental revenue. Actual revenues were over budgeted amounts by \$249,283.

General Fund expenditures were \$4,102,244, a decrease of \$131,186 from the prior year. Expenditures were \$191,465 less than budgeted.

As of June 30, 2015, the General Fund's fund balance totaled \$2,321,513.

Sales Tax Transportation Improvement Fund

This fund is used to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads. The fund's fiscal year end fund balance was \$2,137,688.

Gas Tax Fund

This fund is used to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads funded by State gas taxes.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

Other Governmental Funds

These funds are not presented separately in the basic financial statements.

Proprietary Funds

Sewer Fund

The change in net position of the Sewer Fund resulted in a decrease of \$707,892 in fiscal year 2015. Operating revenues increased \$349,691 to \$3,115,220. Operating expenses increased \$20,400.

As of June 30, 2015, the fund's net position was \$13,710,903.

Water Fund

Operating revenues increased \$133,699 to a total of \$2,533,239 in fiscal year 2015. Operating expenses decreased \$675,786 to a total of \$2,490,969.

As a result the fund's net position increased \$831,745, to a new total of \$9,505,964.

CAPITAL ASSETS

GASB No. 34 requires the City to record all its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2015, the City reported the cost of all its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2015 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 5 below:

Table 5
Capital Assets at Year-end

	Balance at June 30, 2015	Balance at June 30, 2014
<u>Governmental Activities</u>		
Land (not depreciated)	\$ 150,963	\$ 150,963
Buildings and improvements	1,650,020	1,650,020
Equipment	1,719,872	1,705,248
Less: accumulated depreciation	3,078,895	3,000,908
Governmental activity capital assets, net	\$ 441,960	\$ 505,323
<u>Business-type Activities</u>		
Land (not depreciated)	\$ 1,804,213	\$ 1,804,213
Buildings	7,695,901	7,695,901
Plant and equipment	8,988,680	8,988,680
Construction in progress (not depreciated)	5,738,815	31,675,576
Infrastructure	35,356,307	8,655,568
Less: accumulated depreciation	15,893,488	14,558,735
Business-type activity capital assets, net	\$ 43,690,428	\$ 41,261,203

Detail on capital assets, current year additions and construction in progress can be found in Note 4.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

The City depreciates all its capital assets over their estimated useful lives, as required by GASB No. 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 4 to the basic financial statements.

DEBT ADMINISTRATION

The City's debt issues are discussed in detail in Note 5 to the financial statements. As of June 30, 2015, the City's debt was comprised of the following:

Table 6
Outstanding Debt

	2015	2014
<u>Government Activity Debt:</u>		
Capital leases	\$ 15,000	\$ 21,114
Total Government Activity Debt	\$ 15,000	\$ 21,114
<u>Business-Type Activity Debt:</u>		
1994 Public Facilities Bonds, 2.5-5.1%, due 2015	\$ -	\$ 340,000
1993 Sewer Bonds, 5.125%, due 2034	3,335,000	3,440,000
State Water Loan, 4%, due 2020	835,761	1,081,764
State Water Revolving Fund Loan	3,170,935	3,366,510
2007 Waste Water Sewer Loan A	8,288,500	8,405,500
2007 Waste Water Sewer Loan B	1,186,000	1,202,500
2011 Waste Water Bonds	7,787,000	7,920,000
Capital leases	125,469	223,950
Landfill post-closure	378,890	483,618
Total Business-Type Activity Debt	\$ 25,107,555	\$ 26,463,842

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Overall, the City appears to be in a favorable position to continue attracting jobs, retail establishments, and new residents for the next several years. This will help increase and strengthen the City's tax base and increase the diversity of where those revenues are generated.

Next Year's Budget

- The City is faced with increases in the Public Employees Retirement Systems (PERS) and health insurance benefit costs.
- There are limited investment opportunities for idle cash reserves.

These factors were taken into consideration during the preparation of the City's budget for the fiscal year 2015-16.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this report should be directed to City of Willits, at 111 E. Commercial Street, Willits, CA 95490-3188.

City of Willits
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental</u> Activities	<u>Business-Type</u> Activities	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 4,690,180	\$ 3,006,472	\$ 7,696,652
Cash and investments with fiscal agent	-	1,343,158	1,343,158
Restricted cash and investments	-	310,558	310,558
Accounts receivable	720,539	994,821	1,715,360
Inventories	3,098	28,442	31,540
Prepaid items	78,920	49,496	128,416
Capital assets:			
Non-depreciable assets	150,963	7,543,028	7,693,991
Depreciable assets (net of depreciation)	290,997	36,147,397	36,438,394
Total assets	<u>5,934,697</u>	<u>49,423,372</u>	<u>55,358,069</u>
<u>DEFERRED OUTFLOWS</u>			
Deferred outflows related to pensions	<u>516,209</u>	<u>98,354</u>	<u>614,563</u>
<u>LIABILITIES</u>			
Accounts payable	86,416	102,583	188,999
Accrued expenses	417,046	395,548	812,594
Long-term debt:			
Due within one year	15,000	757,497	772,497
Due in more than one year	-	24,350,058	24,350,058
Net pension liability	5,096,400	961,683	6,058,083
Total liabilities	<u>5,614,862</u>	<u>26,567,369</u>	<u>32,182,231</u>
<u>DEFERRED INFLOWS</u>			
Deferred inflows related to pensions	<u>(275,427)</u>	<u>(56,912)</u>	<u>(332,339)</u>
<u>NET POSITION</u>			
Investment in capital assets, net of related debt	426,960	18,961,760	19,388,720
Restricted	171,341	1,653,716	1,825,057
Unrestricted	513,170	2,395,793	2,908,963
Total net position	<u>\$ 1,111,471</u>	<u>\$ 23,011,269</u>	<u>\$ 24,122,740</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 1,111,783	\$ 176,323	\$ -	\$ -	\$ (935,460)		\$ (935,460)
Public safety	1,085,933	17,935	142,814	-	(925,184)		(925,184)
Public works	936,560	301,261	-	-	(635,299)		(635,299)
Planning	101,430	-	-	-	(101,430)		(101,430)
Community services	182,375	-	-	-	(182,375)		(182,375)
Parks and recreation	178,655	46,647	-	-	(132,008)		(132,008)
Interest and fiscal charges	4,612	-	-	-	(4,612)		(4,612)
Total governmental activities	<u>3,601,348</u>	<u>542,166</u>	<u>142,814</u>	<u>-</u>	<u>(2,916,368)</u>		<u>(2,916,368)</u>
Business-type activities:							
Water	2,530,249	2,533,239	-	1,464,340	-	\$ 1,467,330	1,467,330
Sewer	3,373,594	3,112,013	-	-	-	(261,581)	(261,581)
Airport	113,629	63,120	10,000	-	-	(40,509)	(40,509)
Total business-type activities	<u>6,017,472</u>	<u>5,708,372</u>	<u>10,000</u>	<u>1,464,340</u>	<u>-</u>	<u>1,165,240</u>	<u>1,165,240</u>
Total	<u>\$ 9,618,820</u>	<u>\$ 6,250,538</u>	<u>\$ 152,814</u>	<u>\$ 1,464,340</u>	<u>(2,916,368)</u>	<u>1,165,240</u>	<u>(1,751,128)</u>
General revenues:							
Sales taxes					2,833,771	-	2,833,771
Property taxes					373,917	-	373,917
Gas taxes					153,063	-	153,063
Motor vehicle in lieu					410,815	-	410,815
Franchise taxes					221,811	-	221,811
Other revenues					853,784	3,207	856,991
Use of money and property					28,549	41,608	70,157
Transfers					15,000	(15,000)	-
Total general revenues					<u>4,890,710</u>	<u>29,815</u>	<u>4,920,525</u>
Change in net position					<u>1,974,342</u>	<u>1,195,055</u>	<u>3,169,397</u>
Net position beginning of period					4,744,042	22,921,491	27,665,533
Prior period adjustments					<u>(5,606,913)</u>	<u>(1,105,277)</u>	<u>(6,712,190)</u>
Net position beginning of period restated					<u>(862,871)</u>	<u>21,816,214</u>	<u>20,953,343</u>
Net position end of period					<u>\$ 1,111,471</u>	<u>\$ 23,011,269</u>	<u>\$ 24,122,740</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2015

	General	Sales Tax	Gas Tax	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and investments	\$ 2,287,224	\$ 1,977,213	\$ 27,052	\$ 398,691	\$ 4,690,180
Accounts receivable	368,864	166,403	11,969	173,303	720,539
Prepaid items	-	-	-	78,920	78,920
Inventories	3,098	-	-	-	3,098
Total assets	<u>\$ 2,659,186</u>	<u>\$ 2,143,616</u>	<u>\$ 39,021</u>	<u>\$ 650,914</u>	<u>\$ 5,492,737</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 70,625	\$ -	\$ 15,791	\$ -	\$ 86,416
Leases payable	15,000	-	-	-	15,000
Accrued liabilities	251,950	5,928	23,230	131	281,239
Total liabilities	<u>337,575</u>	<u>5,928</u>	<u>39,021</u>	<u>131</u>	<u>382,655</u>
<u>FUND BALANCES</u>					
Nonspendable	3,098	-	-	78,920	82,018
Restricted	-	-	-	171,341	171,341
Assigned for special projects	-	2,137,688	-	62,130	2,199,818
Unassigned	2,318,513	-	-	338,392	2,656,905
Total fund balances	<u>2,321,611</u>	<u>2,137,688</u>	<u>-</u>	<u>650,783</u>	<u>5,110,082</u>
Total liabilities and fund balances	<u>\$ 2,659,186</u>	<u>\$ 2,143,616</u>	<u>\$ 39,021</u>	<u>\$ 650,914</u>	<u>\$ 5,492,737</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 Reconciliation of the
GOVERNMENTAL FUNDS - BALANCE SHEET
 with the Governmental Activities
STATEMENT OF NET POSITION
 For the year ended June 30, 2015

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	5,110,082
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Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.		441,960
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LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Deferred outflows		516,209
Deferred inflows		275,427
Net pension liability		(5,096,400)
Non-current portion of compensated absences		<u>(135,807)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,111,471</u>
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The accompanying notes are an integral part of these financial statements.

City of Willits
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
For the year ended June 30, 2015

	General	Sales Tax	Gax Tax	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,896,602	\$ 919,520	\$ 153,063	\$ -	\$ 3,969,185
Licenses and permits	480,480	-	-	-	480,480
Fines and forfeitures	9,734	-	-	8,201	17,935
Charges for services	46,647	-	21,296	-	67,943
Use of money and property	16,833	11,693	-	23	28,549
Intergovernmental revenue	142,814	-	-	-	142,814
Other revenues	853,190	-	594	-	853,784
Total revenues	<u>4,446,300</u>	<u>931,213</u>	<u>174,953</u>	<u>8,224</u>	<u>5,560,690</u>
Expenditures:					
Current:					
General government	1,003,063	-	108,720	-	1,111,783
Public safety	2,317,117	-	-	23,017	2,340,134
Public works	437,541	186,221	280,262	8,166	912,190
Planning	101,430	-	-	-	101,430
Community services	53,712	-	-	128,663	182,375
Parks and recreation	178,655	-	-	-	178,655
Debt service:					
Principal	6,114	-	-	-	6,114
Interest	4,612	-	-	-	4,612
Total expenditures	<u>4,102,244</u>	<u>186,221</u>	<u>388,982</u>	<u>159,846</u>	<u>4,837,293</u>
Excess (deficit) of revenues over (under) expenditures	<u>344,056</u>	<u>744,992</u>	<u>(214,029)</u>	<u>(151,622)</u>	<u>723,397</u>
Other financing sources (uses):					
Transfers in	15,000	-	234,349	496,640	745,989
Transfers out	<u>(36,601)</u>	<u>(694,388)</u>	<u>-</u>	<u>-</u>	<u>(730,989)</u>
Total other financing sources (uses)	<u>(21,601)</u>	<u>(694,388)</u>	<u>234,349</u>	<u>496,640</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCES	322,455	50,604	20,320	345,018	738,397
Fund balances, beginning of period	<u>1,999,156</u>	<u>2,087,084</u>	<u>(20,320)</u>	<u>305,765</u>	<u>4,371,685</u>
Fund balances, end of period	<u>\$ 2,321,611</u>	<u>\$ 2,137,688</u>	<u>\$ -</u>	<u>\$ 650,783</u>	<u>\$ 5,110,082</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
STATEMENT OF ACTIVITIES
 For the year ended June 30, 2015

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 738,397

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	14,624
Depreciation expense is deducted from the fund balance	(77,987)

LONG-TERM DEBT PROCEEDS AND PAYMENT

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	6,114
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

Pension expense	1,302,148
Long-term compensated absences	<u>(8,954)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,974,342</u>
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The accompanying notes are an integral part of these financial statements.

City of Willits
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2015

	Business-type Activities				Totals
	Enterprise Funds				
	Sewer	Water	Solid Waste	Airport	
ASSETS					
Current assets:					
Cash and investments	\$ 1,096,950	\$ 1,892,636	\$ 34,950	\$ (18,064)	\$ 3,006,472
Cash and investments with fiscal agent	1,343,158	-	-	-	1,343,158
Restricted cash and investments	251,833	58,725	-	-	310,558
Accounts receivable	190,967	803,854	-	-	994,821
Inventory	-	-	-	28,442	28,442
Prepaid items	-	46,327	-	3,169	49,496
Total current assets	<u>2,882,908</u>	<u>2,801,542</u>	<u>34,950</u>	<u>13,547</u>	<u>5,732,947</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation	32,077,510	11,458,981	-	153,934	43,690,425
Total noncurrent assets	<u>32,077,510</u>	<u>11,458,981</u>	<u>-</u>	<u>153,934</u>	<u>43,690,425</u>
Total assets	<u>34,960,418</u>	<u>14,260,523</u>	<u>34,950</u>	<u>167,481</u>	<u>49,423,372</u>
DEFERRED OUTFLOWS					
Deferred outflows related to pensions	42,152	56,202	-	-	98,354
LIABILITIES					
Current liabilities:					
Accounts payable	12,526	64,748	24,387	922	102,583
Accrued expenses	169,428	222,290	-	3,830	395,548
Current maturities of long-term debt:					
California Dept of Water Resources loan	-	172,662	-	-	172,662
USDA WWTP Loan	136,500	-	-	-	136,500
2011 USDA WWTP	136,000	-	-	-	136,000
State Revolving Fund	-	99,287	-	-	99,287
1993 Sewer bond	110,000	-	-	-	110,000
Capital lease	103,048	-	-	-	103,048
Total current liabilities	<u>667,502</u>	<u>558,987</u>	<u>24,387</u>	<u>4,752</u>	<u>1,255,628</u>
Long-term liabilities:					
California Dept of Water Resources loan	-	663,114	-	-	663,114
State Revolving Fund	-	3,071,648	-	-	3,071,648
2007 USDA WWTP Loan	9,338,000	-	-	-	9,338,000
2011 USDA WWTP	7,651,000	-	-	-	7,651,000
Landfill post closure	-	-	378,890	-	378,890
Capital Lease	22,406	-	-	-	22,406
1993 Sewer bond	3,225,000	-	-	-	3,225,000
Net pension liability	412,150	549,533	-	-	961,683
Total noncurrent liabilities	<u>20,648,556</u>	<u>4,284,295</u>	<u>378,890</u>	<u>-</u>	<u>25,311,741</u>
Total liabilities	<u>21,316,058</u>	<u>4,843,282</u>	<u>403,277</u>	<u>4,752</u>	<u>26,567,369</u>
DEFERRED INFLOWS					
Deferred inflows related to pensions	(24,391)	(32,521)	-	-	(56,912)
NET POSITION					
Invested in capital assets, net of related debt	11,355,556	7,452,270	-	153,934	18,961,760
Restricted	1,594,991	58,725	-	-	1,653,716
Unrestricted	760,356	1,994,969	(368,327)	8,795	2,395,793
Total net position	<u>\$ 13,710,903</u>	<u>\$ 9,505,964</u>	<u>\$ (368,327)</u>	<u>\$ 162,729</u>	<u>\$ 23,011,269</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 PROPRIETARY FUNDS
STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET POSITION
 For the year ended June 30, 2015

	Sewer	Water	Solid Waste	Airport	Total
Operating revenues:					
Charges for services	\$ 3,112,013	\$ 2,533,239	\$ -	\$ 63,120	\$ 5,708,372
Other	3,207	-	-	-	3,207
Total operating revenues	<u>3,115,220</u>	<u>2,533,239</u>	<u>-</u>	<u>63,120</u>	<u>5,711,579</u>
Operating expenses:					
Administration	288,607	532,587	-	-	821,194
Operations	631,867	855,692	-	98,954	1,586,513
Maintenance	292,431	734,580	-	-	1,027,011
Engineering	32,669	-	-	-	32,669
Depreciation	994,378	325,702	-	14,675	1,334,755
Other	351,293	42,408	-	-	393,701
Total operating expenses	<u>2,591,245</u>	<u>2,490,969</u>	<u>-</u>	<u>113,629</u>	<u>5,195,843</u>
Operating income (loss)	<u>523,975</u>	<u>42,270</u>	<u>-</u>	<u>(50,509)</u>	<u>515,736</u>
Non-operating revenues (expenses):					
Intergovernmental	-	1,464,340	-	10,000	1,474,340
Interest income	24,172	11,002	6,424	10	41,608
Interest expense	(782,349)	(39,280)	-	-	(821,629)
Total non-operating revenues (expenses)	<u>(758,177)</u>	<u>1,436,062</u>	<u>6,424</u>	<u>10,010</u>	<u>694,319</u>
Income (Loss) before contributions and transfers	<u>(234,202)</u>	<u>1,478,332</u>	<u>6,424</u>	<u>(40,499)</u>	<u>1,210,055</u>
Transfers out	-	(15,000)	-	-	(15,000)
Change in net position	<u>(234,202)</u>	<u>1,463,332</u>	<u>6,424</u>	<u>(40,499)</u>	<u>1,195,055</u>
Net position, beginning of period	14,418,795	8,674,219	(374,751)	203,228	22,921,491
Prior period adjustments	(473,690)	(631,587)	-	-	(1,105,277)
Net position, beginning of period, restated	<u>13,945,105</u>	<u>8,042,632</u>	<u>(374,751)</u>	<u>203,228</u>	<u>21,816,214</u>
Net position, end of period	<u>\$ 13,710,903</u>	<u>\$ 9,505,964</u>	<u>\$ (368,327)</u>	<u>\$ 162,729</u>	<u>\$ 23,011,269</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
 For the year ended June 30, 2015

	Sewer	Water	Solid Waste	Airport	Total
Cash flows from operating activities:					
Receipts from customers	\$ 3,059,796	\$ 2,385,831	\$ -	\$ 64,295	\$ 5,509,922
Payments to suppliers	(1,326,841)	(1,828,157)	24,299	(100,286)	(3,230,985)
Payments to employees	(416,690)	(703,364)	-	-	(1,120,054)
Net cash provided (used) by operating activities	<u>1,316,265</u>	<u>(145,690)</u>	<u>24,299</u>	<u>(35,991)</u>	<u>1,158,883</u>
Cash flows from noncapital financing activities:					
Transfers	-	(15,000)	-	-	(15,000)
Intergovernmental revenue	-	1,464,340	-	10,000	1,474,340
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>1,449,340</u>	<u>-</u>	<u>10,000</u>	<u>1,459,340</u>
Cash flows from capital and related financing activities:					
Principal payments on capital debt	(470,011)	(486,701)	(104,727)	-	(1,061,439)
Debt proceeds	-	(294,862)	-	-	(294,862)
Interest paid on capital debt	(782,349)	(39,280)	-	-	(821,629)
Inventory	-	-	-	(6,336)	(6,336)
Acquisition of capital assets	1	(763,978)	-	-	(763,977)
Net cash provided (used) by capital and related financing activities	<u>(1,252,359)</u>	<u>(1,584,821)</u>	<u>(104,727)</u>	<u>(6,336)</u>	<u>(2,948,243)</u>
Cash flows from investing activities:					
Interest earned	24,172	11,002	6,424	14	41,612
Net cash provided by investing activities	<u>24,172</u>	<u>11,002</u>	<u>6,424</u>	<u>14</u>	<u>41,612</u>
Net increase (decrease) in cash and cash equivalents	88,078	(270,169)	(74,004)	(32,313)	(288,408)
Cash and cash equivalents - beginning of period	2,603,863	2,221,530	108,954	14,249	4,948,596
Cash and cash equivalents - end of period	<u>\$ 2,691,941</u>	<u>\$ 1,951,361</u>	<u>\$ 34,950</u>	<u>\$ (18,064)</u>	<u>\$ 4,660,188</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:					
Operating income (loss)	\$ 523,975	\$ 42,270	\$ -	\$ (50,509)	\$ 515,736
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	994,378	325,702	-	14,675	1,334,755
Pension expense	(128,083)	(170,777)	-	-	(298,860)
Changes in certain assets and liabilities:					
Accounts receivable	(55,424)	(147,408)	-	1,175	(201,657)
Accrued expenses	3,186	18,157	(88)	-	21,255
Prepaid items	-	(46,327)	-	-	(46,327)
Due from/Due to other funds	-	-	-	-	-
Accounts payable	(21,767)	(167,307)	24,387	(1,332)	(166,019)
Total adjustments	<u>792,290</u>	<u>(187,960)</u>	<u>24,299</u>	<u>14,518</u>	<u>643,147</u>
Net cash provided (used) by operating activities	<u>\$ 1,316,265</u>	<u>\$ (145,690)</u>	<u>\$ 24,299</u>	<u>\$ (35,991)</u>	<u>\$ 1,158,883</u>
Cash and investments					\$ 3,006,472
Cash and investments with fiscal agent					1,343,158
Restricted cash and investments					310,558
Total cash and cash equivalents					<u>\$ 4,660,188</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
 June 30, 2015

	<u>Expendable Trust</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 526,358	\$ 691,540	\$ 85,339
Accounts receivable	163	247	-
Loans receivable	<u>284,080</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>810,601</u>	 <u>691,787</u>	 <u>\$ 85,339</u>
 <u>LIABILITIES</u>			
Liabilities:			
Accounts payable	1,672	869	\$ 85,339
Due to City of Willits	-	171,060	-
Accrued interest payable	-	53,633	-
Long-term liabilities:			
Due within one year	-	200,000	-
Due in more than one year	<u>-</u>	<u>3,010,000</u>	<u>-</u>
Total liabilities	<u>1,672</u>	<u>3,435,562</u>	<u>\$ 85,339</u>
 <u>NET POSITION</u>			
Held in trust for successor agency and other purposes	<u>808,929</u>	<u>(2,743,775)</u>	
 Total net position	 <u>\$ 808,929</u>	 <u>\$ (2,743,775)</u>	

City of Willits
 FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 For the Year Ended June 30, 2015

	<u>Expendable Trust</u>
Additions:	
Use of money and property	\$ 6,927
Other revenue	<u>174,168</u>
Total additions	<u>181,095</u>
Deductions:	
Other services	50,125
Narcotics forfeiture	<u>84,235</u>
Total deductions	<u>134,360</u>
Change in net position	46,735
Net position, beginning of period	<u>762,194</u>
Net position, end of period	<u><u>\$ 808,929</u></u>

City of Willits
 FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 For the Year Ended June 30, 2015

	<u>Private Purpose Trust Fund</u>
Additions:	
Taxes	\$ 413,668
Use of money and property	<u>805</u>
Total additions	<u>414,473</u>
Deductions:	
Project costs	379,220
Debt service:	
Interest	<u>167,292</u>
Total deductions	<u>546,512</u>
Change in net position	(132,039)
Net position, beginning of period	<u>(2,611,736)</u>
Net position, end of period	<u>\$ (2,743,775)</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of City of Willits (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles are described below.

A. Description of Financial Reporting Entity

The City is a general law City incorporated in the State of California. The City is governed by an elected, five-member City Council. The following services are provided by the City to its citizens: public safety (police); streets; drinking water; wastewater collection, treatment and disposal; public improvements, parks and recreation; planning and zoning; and general administrative services.

As required by U.S. generally accepted accounting principles, these financial statements present the City as the primary government, and the component units for which the City is financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational and/or financial relationships with the City.

B. Description of Joint Powers Agreements

The City participates in several joint power agreements (JPAs) as described in Note 12. The financial activities of the JPAs are not included in the accompanying basic financial statements because JPAs are administered by governing boards that are separate from and independent of the City.

C. Description of Funds

The accounts of the City are organized on the basis of funds, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, and revenues and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

D. Government-wide Financial Statements

The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities and business-type activities for the City, accompanied by a total column. These financial statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

Governmental activities are financed generally through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed generally through user fees.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Government-wide Financial Statements (concluded)

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB No. 34) in regards to inter-fund activities, payables and receivables.

E. Governmental Fund Financial Statements

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

F. Major Funds

GASB No. 34 defines major funds and requires that the City's major governmental funds be identified and presented separately in the fund financial statements. All other governmental funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as governmental funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total or five percent of the grand total. The general fund is always a major fund. The City may select other governmental funds it believes should be presented as major funds, although no such funds were selected in fiscal year 2015.

The major governmental funds of the City are:

General Fund:

The General Fund is used to account for the resources to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation, which are not required to be accounted for in another fund.

Sales Tax Transportation Improvement Fund:

This fund is used to account for sales tax revenues set aside for transportation improvements.

Gas Tax Fund

This fund is used to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads funded by State gas taxes.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Major Funds (concluded)

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Fund:

This fund accounts for all financial transactions relating to the City's water service. Services are on a user charge basis to residents and business owners located in Willits.

Sewer Fund:

This fund accounts for all financial transactions relating to the City's wastewater collection and treatment. Services are on a user charge basis to residents and business owners located in Willits and Brooktrails Cityship.

Solid Waste Fund:

This fund accounts for all financial transactions relating to the City's solid waste post-closure maintenance.

Airport Fund:

This fund accounts for all financial transactions relating to the City's airport.

Fiduciary Funds:

The City uses an Expendable Trust Fund and Agency Funds to account for assets held by the City as a fiscal agent. The City has one Private Purpose Trust Fund, which is used to report the resources held and administered by the Successor Agency to the former Community Development Agency of the City. Agency Funds have no measurement focus and are excluded from the government-wide financial statements but are presented in separate fiduciary fund financial statements.

G. Basis of Accounting

The government-wide, proprietary and fiduciary funds financial statements required by GASB No. 34 are reported using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

The governmental fund financial statements are accounted for on a spending or "current financial resources" measurement focus, and the modified accrual basis of accounting. Accordingly, only current assets and liabilities (except for long-term advances from the City) are included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Basis of Accounting (concluded)

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year end) are recognized when due. The primary revenue sources that have been treated as susceptible to accrual by the City, are property taxes, sales taxes, intergovernmental revenues, other taxes and investment earnings. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving value in exchange, include taxes, grants, entitlements and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with GASB pronouncements. The reconciliations of the fund financial statements to the government-wide financial statements are provided to explain the differences created by the integrated approach of GASB No. 34.

H. Budgetary Policies

Each year, all departments of the City submit a request for appropriation to the City Manager so a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

Before June 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

Expenditures may not legally exceed budgeted appropriations at the activity level.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Deposits and Investments

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The City's investment policy and section 53601 of the California Government Code allow the following investments:

- a) Certificates of Deposit;
- b) Obligations of the State of California.

The City does not enter into reverse repurchase agreements.

The City's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material, and it includes the effects of these adjustments in income for that fiscal year.

The City places certain funds with the State of California's Local Agency Investment Fund (LAIF). The City is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the City's investment in this pool is reported in the accompanying financial statements based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours' notice. Included in LAIF's investments are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. Financial statements for LAIF can be obtained from the California State Treasurer's Office: State Treasurer's Office, 915 Capitol Mall, Suite 110, Sacramento, CA 95814.

Cash and Cash Equivalents:

Cash and investments are used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

J. Inventories

The City does not record and maintain inventory records of unused materials and supplies for the various funds. Inventories are considered immaterial and materials and supplies are currently expensed.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Restricted Assets

Certain proceeds of enterprise fund loans (as well as certain resources set aside for their repayment) and resources set aside for repayment of capital leases are classified as restricted assets on the balance sheet because their use is limited by applicable loan or other covenants.

L. Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$10,000. Gifts or contributions of capital assets are recorded at fair market value on the date donated. Depreciation of capital assets is charged as an expense each year, and the total amount of accumulated depreciation taken over the years is reported on the Statement of Net Position as a reduction in the book value of capital assets.

M. Compensated Absences

Full-time employees accumulate earned vacation, holiday and compensated leave of varying amounts dependent upon length of service with the City. These amounts are deemed fully vested with the employee when earned. The City also provides full time employees with sick leave that generally must be used for sickness and injury-related leave time. However, upon an employee's retirement after 5 years of employment with the City, an employee is paid 30% of unused sick leave and after 10 years of employment they are paid 50%. In both cases the limit is 1,000 hours. Therefore, a liability has been recorded for the estimated benefits that will be taken as a result of retirement.

The City does not currently provide post-employment benefits.

N. Deposits

The City collects refundable deposits on behalf of the enterprise funds for general purposes that are primarily accounted for in enterprise funds.

O. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Net Position

Government-wide net position consists of the following:

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “invested in capital assets, net of related debt” or “restricted net position”.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Net Position (concluded)

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Governmental fund balance consists of the following:

Fund Equity:

The accompanying financial statements reflect certain changes that have been made with respect to the reporting components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB No. 54, the components of the fund balances of governmental *funds* now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Nonspendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level decision-making authority. The City Council serves as the City's highest level decision-making authority and has the authority to establish, modify or rescind a fund balance commitment via minute's action.

Assigned fund balance includes amounts intended to be used by the City for specific purposes, subject to change, as established either directly by the City Council or by management officials to whom the assignment authority has been delegated by the City Council.

Unassigned fund balance is the residual classification that includes the spendable amounts in the General Fund that are available for any purpose.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy specifies that restricted revenues will be applied first. When expenditures are incurred for the purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balances first, then apply assigned fund balances, and finally unassigned fund balances.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Property Tax

The County of Mendocino assesses properties, bills for, collects, and distributes property taxes for the City per the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10, April 10	August 31

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

R. Inter-fund Transactions

A description of the two basic types of the City’s inter-fund transactions during the fiscal year and the related accounting policies are set forth as follows:

- a) Transactions related directly to services rendered, or facilities provided, are recorded as revenues in the fund providing the service or facility and as expenditures (or expenses) in the fund receiving them.
- b) Transactions to allocate resources from one fund to another, not contingent on the occurrence of specific expenditures in the receiving fund, are recorded appropriately as transfers in and transfers out in the respective funds.

S. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

T. Revenue Recognition for Water and Sewer Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There is one billing cycle per month that includes all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued. Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

U. Deferred Outflows and Inflows of Resources

Pursuant to GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period.

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's California Public Employees' Retirement System (CalPERS) plans (Plans) and 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.

NOTE 2 - CASH AND INVESTMENTS

A. Pooled Cash and Investments

The City pools cash from all sources and funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as custodian of all City managed investments, regardless of their form.

Investments are carried at fair value and are categorized as follows at June 30, 2015:

Restricted cash and investments with fiscal agent	\$ 1,343,158
State of California Local Agency Investment Fund	3,788,239
Cash deposits with banks	<u>5,522,209</u>
Total City cash and investments	<u>\$ 10,653,606</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (continued)

A. Pooled Cash and Investments (continued)

The City's total cash and investments consist of:

City Treasury	\$ 7,696,653
Fiduciary Funds	1,303,237
Fiscal Agent	1,343,158
Restricted	<u>310,558</u>
Total City cash and investments	<u>\$ 10,653,606</u>

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

California Law requires banks and savings and loan associations to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the City's name and places the City ahead of general creditors of the institution.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments in LAIF and the fiscal agent money market funds are not evidenced by specific securities and, therefore, are not subject to custodial credit risk.

Authorized Investments

The City's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles.

The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material and it includes the effects of these adjustments in income for that fiscal year.

Investments Authorized by Debt Agreements

Investments of bond proceeds, held by bond trustees, are governed by the provisions of the debt agreements, rather than the general provisions for the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Money Market Accounts	N/A	None	None

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (concluded)

A. Pooled Cash and Investments (concluded)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater its fair value sensitivity to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Held by Fiscal Agent:					
Money Market Accounts	\$ 1,343,158	\$ 1,343,158	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized rating organization. Presented below is the minimum rating required by the California Government Code, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	AA	Not Rated
Held by Fiscal Agent:						
Money Market Accounts	\$ 1,343,158	N/A	\$ -	\$ -	\$ -	\$ 1,343,158

NOTE 3 - LOANS RECEIVABLE

The City engages in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, homeowners or developers who agree to spend these funds in accordance with the City's terms.

These loans receivable were comprised of the following at June 30, 2015:

Housing Rehabilitation and Affordable Housing Notes (fiduciary funds)	\$ <u>284,080</u>
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Housing Rehabilitation, Business Enterprise and Affordable Housing:

The City has provided loans to various homeowners and businesses for rehabilitation. The maximum loan amount is \$59,000, carrying various interest rates and payment dates. Although these notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance. The balance of these notes receivable at June 30, 2015 was \$284,080.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 4 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

With the implementation of GASB No. 34, the City has begun recording costs and depreciation of current infrastructure assets. The City does not record depreciation in the year of acquisition and records a full year of depreciation in the year of disposition for capital assets related to governmental activities.

GASB No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of the depreciation is to spread the cost of the capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro-rata share of the cost of the capital assets. Depreciation is provided using the straight-line method over its expected useful life. Capital assets with a value of \$10,000 or more are capitalized.

The City has assigned the following useful lives to capital assets: Buildings and Improvements (10-75 years); Vehicles and Equipment (3-40 years); Infrastructure (10-50 years); and Utility Plant (10-50 years).

The following is a summary of capital assets activity for governmental activities as of June 30, 2015:

	Balance 7/1/14	Additions	Deletions	Balance 6/30/15
Land (not depreciated)	\$ 150,963	\$ -	\$ -	\$ 150,963
Buildings and improvements	1,650,020	-	-	1,650,020
Equipment	1,705,248	14,624	-	1,719,872
Total cost	3,506,231	<u>\$ 14,624</u>	<u>\$ -</u>	3,520,855
Accumulated depreciation	(3,000,908)			(3,078,895)
Net capital assets	<u>\$ 505,323</u>			<u>\$ 441,960</u>

The changes in proprietary fund types fixed assets for the fiscal year are:

	Balance 7/1/14	Additions	Deletions	Balance 6/30/15
Land (not depreciated)	\$ 1,804,213	\$ -	\$ -	\$ 1,804,213
Construction in progress (not depreciated)	31,675,576	763,978	26,700,739	5,738,815
Buildings	7,695,901	-	-	7,695,901
Infrastructure	8,655,568	26,700,739	-	35,356,307
Plant and equipment	8,988,680	-	-	8,988,680
Total cost	58,819,938	<u>\$27,464,717</u>	<u>\$ 26,700,739</u>	59,583,916
Accumulated depreciation	(14,558,735)			(15,893,488)
Net book value of enterprise funds	<u>\$ 44,261,203</u>			<u>\$ 43,690,428</u>

Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program, are as follows:

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 4 - CAPITAL ASSETS (concluded)

Governmental Activities

Public safety	\$	38,993
Public works		<u>38,994</u>
Total Governmental Activities	\$	<u><u>77,987</u></u>

Business-type Activities

Water	\$	325,702
Airport		14,675
Sewer		<u>994,378</u>
Total Business-type Activities	\$	<u><u>1,334,755</u></u>

NOTE 5 - LONG-TERM OBLIGATIONS

Changes in long-term obligations and debt for the fiscal year ended June 30, 2015 are as follows:

	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Governmental Activity Debt:						
Capital Leases	<u>\$ 116,112</u>	<u>\$ 21,114</u>	<u>\$ -</u>	<u>\$ 6,114</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Total Governmental Activity Debt	<u>\$ 116,112</u>	<u>\$ 21,114</u>	<u>\$ -</u>	<u>\$ 6,114</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Business-type Activity Debt:						
1994 Public Facilities Bond	\$ 4,765,000	\$ 340,000	\$ -	\$ 340,000	\$ -	\$ -
1993 Sewer Bonds	4,710,000	3,440,000	-	105,000	3,335,000	110,000
California Dept. Water Loan	3,375,000	1,081,764	-	246,003	835,761	172,662
State Water Revolving Fund loan	-	3,366,510	-	195,575	3,170,935	99,287
2007 Waste Water Sewer Loan A	9,000,000	8,405,500	-	117,000	8,288,500	119,500
2007 Waste Water Sewer Loan B	1,285,000	1,202,500	-	16,500	1,186,000	17,000
2011 Waste Water Bonds	51,000	7,920,000	-	133,000	7,787,000	136,000
Capital Lease	394,923	223,950	-	98,481	125,469	91,313
Landfill Post-closure	<u>1,147,553</u>	<u>483,618</u>	<u>-</u>	<u>104,728</u>	<u>378,890</u>	<u>-</u>
Total Business-type Activity Debt	<u>\$24,728,476</u>	<u>\$26,463,842</u>	<u>\$ -</u>	<u>\$ 1,356,287</u>	<u>\$ 25,107,555</u>	<u>\$ 745,762</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

Bonds and Notes Payable

Long-term debt at June 30, 2015 consists of the following:

<u>Year Ending</u> <u>June 30</u>	<u>2007A Sewer WW</u> <u>Treatment</u>		<u>2007B Sewer WW</u> <u>Treatment</u>		<u>2011 A Sewer WW</u> <u>Treatment</u>	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2016	\$ 349,828	\$ 119,500	\$ 49,937	\$ 17,000	\$ 192,976	\$ 136,000
2017	344,643	124,500	49,204	17,500	189,538	139,000
2018	339,235	130,000	48,439	18,500	186,013	143,000
2019	333,593	135,500	47,632	19,500	182,401	146,000
2020	327,717	141,000	46,793	20,000	178,701	150,000
2021-2025	1,541,347	801,000	220,075	114,500	834,565	809,000
2026-2030	1,352,103	986,500	193,013	141,000	727,001	914,000
2031-2035	1,119,037	1,214,500	159,756	173,000	605,315	1,035,000
2036-2040	832,129	1,495,000	118,881	213,500	467,638	1,171,000
2041-2045	478,964	1,840,500	68,363	263,000	311,876	1,324,000
2046-2050	84,597	1,303,000	12,071	186,000	135,753	1,498,000
2051-2055	-	-	-	-	4,025	322,000
Totals	<u>\$ 7,103,193</u>	<u>\$ 8,291,000</u>	<u>\$ 1,014,164</u>	<u>\$ 1,183,500</u>	<u>\$ 4,015,802</u>	<u>\$ 7,787,000</u>

<u>Year Ending</u> <u>June 30</u>	<u>Capital Leases</u>		<u>State Water Resource</u> <u>Loan</u>		<u>2011 State Water Revolving</u> <u>Fund Loan</u>	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2016	\$ -	\$ 106,313	\$ 32,943	\$ 172,514	\$ -	\$ 99,287
2017	-	22,406	25,601	179,856	-	105,919
2018	-	11,750	18,126	187,331	-	105,919
2019	-	-	10,281	195,176	-	105,919
2020	-	-	2,101	100,884	-	105,919
2021-2025	-	-	-	-	-	529,595
2026-2030	-	-	-	-	-	529,595
2031-2035	-	-	-	-	-	529,594
2036-2040	-	-	-	-	-	529,594
2041-2045	-	-	-	-	-	529,594
Totals	<u>\$ -</u>	<u>\$ 140,469</u>	<u>\$ 89,052</u>	<u>\$ 835,761</u>	<u>\$ -</u>	<u>\$ 3,170,935</u>

<u>Year Ending</u> <u>June 30</u>	<u>1993 Sewer Bonds</u>	
	<u>Interest</u>	<u>Principal</u>
2016	\$ 168,100	\$ 110,000
2017	162,335	115,000
2018	156,313	120,000
2019	150,035	125,000
2020	143,500	130,000
2021-2025	606,029	770,000
2026-2030	383,582	980,000
2031-2035	<u>103,911</u>	<u>985,000</u>
Totals	<u>\$ 1,873,805</u>	<u>\$ 3,335,000</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

Compensated Absences Payable

There is no fixed payment schedule to pay the liability of \$372,060 for compensated absences through June 30, 2015.

The net changes of the compensated absences are allocated to the public safety department on the Statement of Activities.

<u>Capital Leases:</u> The City leases equipment under various capital lease agreements with interest rates ranging from 0-6.5%.	\$ 140,469
Less current portion	<u>106,313</u>
	<u>\$ 34,156</u>

<u>2007 Waste Water Sewer Loans Series A and B:</u> On May 1, 2008, the City issued \$10,285,000 in debt to provide funds for the construction of a Waste Water Treatment Plant. Interest is payable semi-annually on May 1 and November 1, at a rate of 4.25%. The outstanding principal balance is payable in annual installments, due each November 1, ranging from \$100,000 to \$516,500 through the fiscal year 2047.	\$ 9,474,500
Less current portion	<u>136,500</u>
	<u>\$ 9,338,000</u>

<u>2011 Waste Water Sewer Loans Series:</u> On March 1, 2011, the City issued \$8,300,000 in debt to provide funds for the construction of a Waste Water Treatment Plant. Interest is payable semi-annually on May 1 and November 1, at a rate of 2.5%. The outstanding principal balance is payable in annual installments, due each November 1, ranging from \$125,000 to \$322,000 through the fiscal year 2050.	\$ 7,787,000
Less current portion	<u>136,000</u>
	<u>\$ 7,651,000</u>

<u>Loan Payable to Other Agency:</u> The City has obtained a loan from the California Department of Water Resources to finance an upgrade of the water treatment plant to comply with safe drinking water standards. The debt is required to be serviced through water system user charges. The maximum loan amount is \$3,375,000 plus a 4% administrative fee of \$135,000. Principal and interest are payable semi-annually on April 1 and October 1. The rate of interest is 4.1439%. Semi-annual principal payments range from \$48,107 to \$100,657, and continue through the fiscal year 2020.	\$ 835,761
Less current portion	<u>172,662</u>
	<u>\$ 663,099</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (concluded)

Long-term obligations for the business-type activities at June 30, 2015 by individual issue are as follows:

2011 State Revolving Fund Loan: In November of 2011, the City Council adopted a Resolution approving funding in the amount of \$5,779,623 for the Water Plant Improvements Project. The funding is through the California Department of Public Health revolving loan fund, consisting of loan principal of \$3,366,510 and a grant in the amount of \$3,000,000. The term of the loan is 30 years, with interest at zero (0%) percent. The maximum loan amount is \$3,170,935. Principal and interest are payable semi-annually on January 1 and July 1. The rate of interest is 0%. Semi-annual principal payments are \$105,919, and continue through the fiscal year 2040.

	\$ 3,170,935
Less current portion	99,287
	\$ 3,071,648

City of Willits Sewer Revenue Bonds of 1993: On November 23, 1993, the City issued \$4,710,000 in serial bonds whereby the City pledges revenue derived from the acquired or constructed assets to pay debt service. The entire bond issue was purchased by the U.S. Farmers Home Administration. The proceeds from the bond issue were used to repay \$4,710,000 of Sewer Bond Anticipation Notes which had been issued in 1992. Interest is payable semi-annually on November 1 and May 1, at a rate of 5.125%. The outstanding principal is payable in annual installments, due each November 1, ranging from \$55,000 to \$265,000 through the fiscal year 2034.

	\$ 3,335,000
Less current portion	110,000
	\$ 3,225,000

NOTE 6 - SUCCESSOR AGENCY DISCLOSURES

Long-term Liabilities: In accordance with the provisions of ABX1 26 (Bill) and the California Supreme Court's decision to uphold the Bill, the obligations of the former Community Development Agency became vested with the funds established for the Successor Agency upon the date of dissolution, February 1, 2012. Former tax increment revenues pledged to fund the debts of the former Community Development Agency will be distributed to the Successor Agency subject to the reapportionment of such revenues as provided by the Bill.

2002 Tax Allocation Bonds: On September 10, 2002, the City's Community Development Agency issued \$4,310,000 in Tax Allocation Bonds to provide funds for improvement projects, establish a reserve fund for the Bonds, and pay expenses related to the issuance of the Bonds. Interest is payable semi-annually on March 1 and September 1, at rates ranging from 4-5%.

The debt of the Successor Agency as of June 30, 2015 is as follows:

	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Successor Agency:						
2002 Tax Allocation Bonds	\$ 4,310,000	\$ 3,410,000	\$ _____	\$ 200,000	\$ 3,210,000	\$ 250,000

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 6 - SUCCESSOR AGENCY DISCLOSURES (concluded)

Allocation Bonds 2002

As of February 1, 2012, the bonds were transferred to the Successor Agency of the Willits Community Development Agency due to ABX1 26, which dissolved redevelopment agencies in the State of California as of January 1, 2012. The Successor Agency, a separate legal entity, is responsible for the repayment of the principal and interest of the outstanding bonds. Additions to the Successor Agency, in the form of property taxes, have been pledged for the repayment of enforceable obligations (which include the bonds). Since the Community Development Agency no longer exists, the bonds have been removed from the City's government-wide financial statements.

The annual requirements to amortize the 2002 Tax Allocation Bonds outstanding as of June 30, 2015, are as follows:

<u>Year Ending June 30</u>	2002 Tax Allocation Bonds	
	Interest	Principal
2016	\$ 151,179	\$ 250,000
2017	139,748	265,000
2018	127,460	275,000
2019	114,320	290,000
2020-2024	100,065	310,000
2025-2029	244,815	1,820,000
Totals	\$ 877,587	\$ 3,210,000

NOTE 7 - FUND EQUITY

The following funds have deficits in fund balances or net position at June 30, 2015:

Business-type – Solid Waste	\$ 368,327
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The governmental funds are expected to have their deficit eliminated through grant and loan reimbursements and transfers from the General Fund and Enterprise Funds. The Solid Waste fund deficit is related to the future post-closure costs estimated liability, which may be funded through grant reimbursements, reduction to the estimated liability and transfers from the General Fund.

NOTE 8 - INTERFUND BALANCES

Current interfund balances arise in the normal course of business; resources may be transferred from one City fund to another. The purpose of the majority of the balances is to reimburse a fund that has made an expenditure on behalf of another fund. The City had no inter-fund balances at year end.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 8 - INTERFUND BALANCES (concluded)

Transfers

The following schedule summarizes the transfers in and out for the fiscal year ended June 30, 2015:

	Transfers in	Transfers out
Major Funds:		
General Fund	\$ 15,000	\$ 36,601
Sales Tax	-	694,388
Other Governmental Funds:		
Traffic Safety	36,601	-
Gas Tax	234,349	-
Regional Transportation Improvement Program	451,873	-
Humboldt Street	8,166	-
Proprietary Funds:		
Water	-	15,000
Totals	\$ 745,989	\$ 745,989

NOTE 9 - LANDFILL CLOSURE AND POST-CLOSURE COSTS

The City's solid waste landfill was closed during the 1997/98 fiscal year. State and federal laws and regulations require that the City place a final cover (closure) on its landfill when closed, and perform certain maintenance and monitoring functions (post-closure) at the landfill site for thirty years after closure. At June 30, 2000, the City had completed its landfill closure activities and, therefore, no closure liability is included in the accompanying financial statements. The City's estimated liability for the continuing landfill post-closure care costs at June 30, 2015 was \$378,890.

The estimated total current cost of the landfill post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of June 30, 2015. However, the actual cost of post-closure care may change due to inflation, changes in technology, or changes in landfill laws and regulations.

NOTE 10 - CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City violated the National Primary Drinking Water Regulations maximum contaminant level for total Trihalomethanes (TTHMs) which is one of the contaminant standards required by the Safe Drinking Water Act. The cost of the violation to the City cannot be currently determined.

There are other pending lawsuits in which the City is involved. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City Attorney that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 11 - CONTRACTED SERVICES

The City has entered into an agreement to provide services to persons living outside the City limits. The general purpose and description of this contract agreement is as follows:

Brooktrails Community Services District:

The City has made an agreement with the District to provide the District with sewage treatment. Under the terms of the agreement, the District is to reimburse the City for costs allocated to the District based on the ratio of total flow entering the treatment plant. The cost allocation was carried over from previous years. During the fiscal year ended June 30, 2015, the City settled the lawsuit with the District. The new District allocation of \$22,000 per month begins July 1, 2015 as well as 36% of the bond payments.

NOTE 12 - JOINT POWERS AGREEMENTS

The City is a member of various joint powers authorities, which provide goods or services to the City and other authority members. Under the criteria established by GASB No. 14, the City does not have sufficient authority, influence or accountability over these entities to incorporate them in this annual report. Additionally, the City has determined that it has no ongoing financial interest in or responsibility for any of these organizations as defined by GASB No. 14. The names and general functions of these joint powers are as follows:

Redwood Empire Municipal Insurance Fund (REMIF):

A group of Northern California cities participate in this agreement to provide themselves with various levels of liability, property and workers' compensation insurance. REMIF is administered by a commission comprised of one member and one alternate appointed by each member city. The City provides for its general insurance needs through REMIF. During the fiscal year ended June 30, 2015, the City paid \$483,010 to REMIF for insurance coverage. Beginning July 1, 2015 REMIF city members have become self-insured with their health benefits.

Mendocino Solid Waste Management Authority:

Mendocino Solid Waste Management Authority consists of three (3) Mendocino County cities and the County of Mendocino. Mendocino Solid Waste Management Authority was created for the purpose of: (a) siting, licensing, developing, constructing, maintaining, and operating disposal sites and sanitary landfills and (b) preparing and implementing a solid waste management plan. Mendocino Solid Waste Management Authority is governed by a commission comprised of one member from each city and two members who are appointed by the Mendocino County Board of Supervisors.

Mendocino Emergency Services Authority:

Mendocino Emergency Services Authority (the Authority) consists of four (4) Mendocino County cities and the County of Mendocino. The Authority was created for the purpose of coordinating disaster and other emergency preparedness planning and recovery programs, training of employees and volunteers, administration of disaster recovery assistance programs, and other related activities. The Authority is governed by a commission comprised of one member from each member agency.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 12 - JOINT POWERS AGREEMENTS (concluded)

Solid Waste Disposal Facility Operations Agreement:

The City and the County of Mendocino have entered into an agreement for the purpose of joint ownership, maintenance and operation of the solid waste landfill serving the City and certain unincorporated areas of the County of Mendocino. The City has been granted complete control of and authority over the administration, operation and maintenance of the landfill. The City and County will equally share the costs associated with the landfill including the purchase of equipment and closure/post-closure costs. Due to the City's overall control of the landfill activity, the accompanying financial statements include 100% of the landfill activity, including the liability for closure/post-closure costs described in Note 9 above.

NOTE 13 - DEFERRED COMPENSATION PLAN

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit employees to defer a portion of their salary until future years. Participation in the plans is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. As explained previously, the City has adopted the provisions of GASB No. 32 and, therefore, assets and liabilities of these plans have been excluded from the accompanying financial statements.

NOTE 14 - DEFINED BENEFIT PENSION PLAN

A. Public Employees Retirement System

Plan Description: Based on PERS eligibility criteria all qualified permanent and probationary employees are eligible to participate in the City's following cost-sharing multiple employer defined benefit pension plans (Plans):

- City Miscellaneous (Tier 1)
- City Miscellaneous (Tier 2 - PEPRA)
- City Safety (Tier 1)
- City Safety (Tier 2 - PEPRA)

The Plans are administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a 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. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is 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 applicable PERS plan depends on the employee classification and hire date. In some situations hiring of an employee who was previously an active member in PERS results in the "Classic" Plan benefit regardless of the date of hiring.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

The Plan provisions and benefits in effect at June 30, 2015, are summarized as follows:

	City Miscellaneous		
	Prior to January 1, 2012	On or after January 1, 2013	
Hire date			
Benefit formula	2.5% @ 55	2% @ 62	
Benefit vesting schedule	5 years service	5 years service	
Benefit payments	monthly for life	monthly for life	
Retirement age	50 - 55	52 - 67	
Monthly benefits, as a % of eligible compensations	2.0% to 2.5%	1.0% to 2.5%	
Required employee contribution rates	8%	6.25%	
Required employer contribution rates	21.229%	6.25%	
	City Safety		
	Prior to January 1, 2012	On or after January 1, 2012 (or Classic)	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensations	3%	2.4 to 3%	2.0% to 2.7%
Required employee contribution rates	9%	9%	11.5%
Required employer contribution rates	43.587%	20.774%	11.5%

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 the 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 City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Misc Tier 1	Misc Tier 2
Employer Contributions	\$351,264	\$0
	Safety Tier 1	Safety Tier 2
Employer Contributions	\$263,299	\$0

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous and Safety Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 3,434,583
Safety	2,623,500
Total Net Pension Liability	\$ 6,058,083

The City's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2014, 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, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

<u>City Miscellaneous Plan</u>	Miscellaneous
Proportion - June 30, 2013	.13%
Proportion - June 30, 2014	.075%
Change – Increase (Decrease)	.0106%
 <u>City Safety Plan</u>	 Safety
Proportion - June 30, 2013	.064%
Proportion - June 30, 2014	.070%
Change – Increase (Decrease)	.006%

For the year ended June 30, 2015, the District recognized pension expense of (\$981,114). At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 607,282	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	7,281	(44,091)
Net differences between projected and actual earnings on plan investments	-	(1,274,154)
Total	\$ 614,563	\$ (1,318,245)

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

\$614,563 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

<u>Year Ended June 30</u>	
2015	\$ (332,339)
2016	(332,339)
2017	(329,578)
2018	(318,540)
2019	-
Thereafter	-

Actuarial Assumptions - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>All Plans(3)</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data for all Funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.
- (4) All of the City's plans for miscellaneous employed the same assumptions.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50% for each 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 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 7.50 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 7.65 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 years. 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.

In determining 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 on 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.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10⁽¹⁾</u>	<u>Real Return Years 11+(²)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City'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:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.5%	6.5%
Net Pension Liability	\$5,475,513	\$3,856,154
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$3,434,584	\$2,623,500
1% Increase	8.50%	8.50%
Net Pension Liability	\$1,740,806	\$1,607,846

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CALPERS financial reports.

As of June 30, 2015

Last 10 Years*

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

2014

<u>City Safety Plan</u>	<u>City Safety Plan</u>	<u>Miscellaneous Plan</u>
Proportion of the net pension liability	0.04216%	0.05520%
Proportionate share of the net pension liability	\$2,623,500	\$3,434,584
Covered - employee payroll	\$773,076	\$1,612,018
Proportionate Share of the net pension liability as percentage of covered-employee payroll	339.36%	213.06%
Plan fiduciary net position as a percentage of the total pension liability	71.49%	77.67%

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (concluded)

A. Public Employees Retirement System (concluded)

Notes to Schedule:

Benefit changes. In 2014, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2014, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

As of June 30, 2015
 Last 10 Years*
SCHEDULE OF CONTRIBUTIONS
 2014

	Safety Plan	Miscellaneous Plan
Contractually required contribution (actuarially determined)	\$ 285,632	\$ 332,087
Contributions in relation to the actuarially determined contributions	(285,632)	(332,087)
	\$ -	\$ -
Contribution deficiency (excess)	-	-
Covered-employee payroll	\$773,076	\$1,612,018
Contributions as a percentage of covered-employee payroll	36.95%	20.60%

Notes to Schedule:

Valuation date:

6/30/2013

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.75%, net of pension plan investment expense, incl. inflation
Retirement age	57 yrs.
Mortality	RP-2000 Healthy Annuitant Mortality Table

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

The prior period adjustment of \$(6,712,190) represents the change to the July 1, 2014 net position resulting from the GASB 68 implementation and the recording of the net pension liability.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 16 - DEBT WITHOUT CITY COMMITMENT

The City has sponsored the issuance of \$5,500,000 of Certificates of Participation for the Frank R. Howard Foundation, a nonprofit corporation. The Trust agreement is dated July 1, 2015. The funds will be used for the construction; installation and furnishing of a single story 16,000 square foot medical office. The medical office will be located at 3 Marcela Drive in Willits, California. The City is not liable for repayment of the debt but was assisting the Frank R. Howard Foundation obtain tax exempt financing.

NOTE 17 - SUBSEQUENT EVENTS

The City is scheduled to refund their 1993 Sewer Bonds on December 1, 2015. The new loan balance will be \$3,350,945 and will bear a 3.84% interest rate with a maturity date of November 1, 2032.

City of Willits
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Budget and Actual
For the year ended June 30, 2015
(UNAUDITED)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Taxes	\$ 2,764,145	\$ 2,764,145	\$ 2,896,602	\$ 132,457
Licenses and permits	430,230	430,230	480,480	50,250
Fines and forfeitures	5,200	5,200	9,734	4,534
Charges for services	48,060	48,060	46,647	(1,413)
Use of money and property	8,100	8,100	16,833	8,733
Intergovernmental revenue	147,451	147,451	142,814	(4,637)
Other revenues	793,831	793,831	853,190	59,359
Total revenues	<u>4,197,017</u>	<u>4,197,017</u>	<u>4,446,300</u>	<u>249,283</u>
Expenditures:				
Current:				
General government	1,060,085	1,060,085	1,003,063	57,022
Public safety	2,475,997	2,475,997	2,317,117	158,880
Public works	427,394	427,394	437,541	(10,147)
Planning	45,710	45,710	101,430	(55,720)
Community services	53,712	53,712	53,712	-
Parks and recreation	215,642	215,642	178,655	36,987
Debt service:				
Principal	14,082	14,082	6,114	7,968
Interest	1,087	1,087	4,612	(3,525)
Total expenditures	<u>4,293,709</u>	<u>4,293,709</u>	<u>4,102,244</u>	<u>191,465</u>
Excess of revenues over (under) expenditures	<u>(96,692)</u>	<u>(96,692)</u>	<u>344,056</u>	<u>440,748</u>
Other financing sources (uses):				
Transfers in	15,000	15,000	15,000	-
Transfers out	<u>(42,157)</u>	<u>(42,157)</u>	<u>(36,601)</u>	<u>5,556</u>
Total other financing sources (uses)	<u>(27,157)</u>	<u>(27,157)</u>	<u>(21,601)</u>	<u>5,556</u>
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	<u>\$ (123,849)</u>	<u>\$ (123,849)</u>	<u>322,455</u>	<u>\$ 446,304</u>
Fund balance, beginning of period			<u>1,999,156</u>	
Fund balance, end of period			<u>\$ 2,321,611</u>	

City of Willits
SALES TAX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual
For the year ended June 30, 2015
(UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 901,418	\$ 901,418	\$ 919,520	\$ 18,102
Other revenues	7,500	7,500	11,693	4,193
Total revenues	908,918	908,918	931,213	22,295
Expenditures:				
Current:				
Public works	279,649	279,649	186,221	93,428
Total expenditures	279,649	279,649	186,221	93,428
Excess of revenues over (under) expenditures	629,269	629,269	744,992	115,723
Other financing sources (uses):				
Transfers out	(256,346)	(256,346)	(694,388)	(438,042)
Total other financing sources (uses)	(256,346)	(256,346)	(694,388)	(438,042)
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	\$ 372,923	\$ 372,923	50,604	\$ (322,319)
Fund balance, beginning of period			2,087,084	
Fund balance, end of period			\$ 2,137,688	

City of Willits
GAS TAX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual
For the year ended June 30, 2015
(UNAUDITED)

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
Revenues:				
Taxes	\$ 152,297	\$ 152,297	\$ 153,063	\$ 766
Charges for services	271,788	271,788	21,296	(250,492)
Other revenues	<u>-</u>	<u>-</u>	594	594
Total revenues	<u>424,085</u>	<u>424,085</u>	<u>174,953</u>	<u>(249,132)</u>
Expenditures:				
Current:				
General government	99,658	99,658	108,720	(9,062)
Public works	<u>415,073</u>	<u>415,073</u>	280,262	134,811
Total expenditures	<u>514,731</u>	<u>514,731</u>	<u>388,982</u>	<u>125,749</u>
Excess of revenues over (under) expenditures	<u>(90,646)</u>	<u>(90,646)</u>	<u>(214,029)</u>	<u>(123,383)</u>
Other financing sources (uses):				
Transfers in	<u>90,646</u>	<u>90,646</u>	234,349	143,703
Total other financing sources (uses)	<u>90,646</u>	<u>90,646</u>	234,349	143,703
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	20,320	<u>\$ 20,320</u>
Fund balance, beginning of period			<u>(20,320)</u>	
Fund balance, end of period			<u>\$ -</u>	