

CITY OF WILLITS
Annual Financial Report
Fiscal Year Ended June 30, 2018

CITY OF WILLITS
 ANNUAL FINANCIAL REPORT
 Fiscal Year Ended June 30, 2018

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

The Members of the City Council of the
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 the City of Willits, California (City) as of and for the fiscal year ended June 30, 2018, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 applicable to 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 of the City of Willits, California, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the fiscal 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 on pages 3 through 16, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Sales Tax Special Revenue Fund, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Gas Tax Special Revenue Fund, Schedule of Changes in the Net Pension Liability, and Schedule of Pension Contributions on pages 57 through 61 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Willits' basic financial statements. The Combining Financial Statements for the Nonmajor Governmental Funds, and the Nonmajor Proprietary Funds listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Combining Financial Statements for the Nonmajor Governmental Funds and the Nonmajor Proprietary Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2019, on our consideration of the City's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Moss, Levy & Hartzheim, LLP
Culver City, California
April 3, 2019

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

This discussion and analysis provides an overview of the City of Willits' financial performance for the fiscal year ended June 30, 2018. This report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standard Board (GASB). We encourage our readers to consider this information in conjunction with the information provided in the accompanying basic financial statements and notes.

FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year ended June 30, 2018 include the following:

Government-wide:

- The City's total net position was \$27,529,349 as of June 30, 2018. This was an increase of \$737,020 or 2.75% from the prior year. Of this total, \$2,732,640 was governmental net position and \$24,796,709 was business-type net position.
- Government-wide revenues were \$6,450,474 and were \$987,158 or 18% higher than the prior year. They include program revenues of \$1,362,129 and general revenues and transfers of \$5,088,345.
- Government-wide expenses were \$5,932,485 and were \$1,102,167 or 23% higher than the prior year.
- Business-type revenues were \$6,220,863 including transfers and were \$288,378 or 5% greater than the prior year. They include program revenues of \$6,168,216 and general revenues and transfers of \$52,647.
- Business-type expenses were \$6,001,832 and were \$702,907 or 13% greater than the prior year.

Fund Level:

- Governmental fund balances increased \$471,854 in fiscal year 2018.
- Governmental fund revenues increased \$952,158 or 17% in fiscal year 2018.
- Governmental fund expenditures increased \$821,974 or 16% in fiscal year 2018.
- General Fund revenues of \$5,243,688 represented an \$892,919 increase over the prior year.
- General Fund expenditures of \$4,630,294 represented an increase of \$178,077 over the prior year.
- General Fund balance of \$2,965,660 as of June 30, 2018, increased by \$419,688 or 16% from 2017 fiscal year's fund balance of \$2,545,972.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The financial section of this report consists of five parts.

- Independent Auditor's Report
- Management Discussion and Analysis (Unaudited)
- Basic Financial Statements, which include: Government-Wide Financial Statements, Fund Financial Statements and Notes to Basic Financial Statements
- Required Supplementary Information (Unaudited)
- Supplementary Information, which includes Combining Fund Statements

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position provide information about the activities of the City, presenting an aggregate view of the City's finances. The basic financial statements also include notes explaining pertinent information in the financial statements and provide more detailed data.

The Basic Financial Statements for the District are presented as "Government-Wide" and Proprietary or Enterprise Fund financial statements. The chart below provides an overview of the major features of the financial statements.

Figure A
Major Features of City of Willits' Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: such as water and wastewater systems.
Required financial statements	Statement of net position	Balance sheet	Statement of net position
	Statement of activities	Statement of revenues, expenditures, and changes in fund balances	Statement of revenues expenses, and changes in net position Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources measurement focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the fiscal year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

The Government-wide financial statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations.

The Statement of Activities provides information about all the City's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net positions for the fiscal year.

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

All of the City's activities are grouped into governmental activities and business-type activities, as explained below. The amounts in the Statement of Net Position and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities for the City as a whole.

Government-wide financial statements are prepared on the accrual basis, which mean they measure the flow of all economic resources of the City as a whole.

The Statement of Net Position and the Statement of Activities present information about the following:

Governmental Activities – All of the City's basic services are considered to be governmental activities. These services are supported by the general City revenues such as taxes, and by specific program revenues such as user fees and charges.

Business-type Activities – The City's enterprise activities consists of water, wastewater, solid waste and airport are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of service they use.

Fund Financial Statements

The fund financial statements report on the City's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the City's General Fund and other governmental funds. The fund financial statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

The fund financial statements provide detailed information about each of the City's most significant funds, called major funds. Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. The concept of major funds, and the determination of which funds are major, was established by the Governmental Accounting Standards Board (GASB) Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present detail of these non-major funds. Major funds present the major activities of the City for the fiscal year, and may change from year to year as a result of changes in the pattern of the City's activities.

The fund statements report three major governmental funds: the General Fund, Sales Tax Special Revenue Fund, and Gas Tax Special Revenue Fund.

The major business-type or enterprise funds are Water and Wastewater (Sewer) and two non-major enterprise funds.

Fund financial statements include governmental and proprietary funds as discussed below. 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 fund financial statements.

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Proprietary fund financial statements are prepared on the full accrual basis and include all assets and liabilities, current and long-term.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net positions and changes in net positions of the City as a whole. Table 1 below is a summary of the Statement of Net Position for the City as a whole combining the governmental and business-type activities.

Table 1
City of Willits
Summary of Net Position - Total City
Governmental Funds and Business-type Activities - Enterprise Funds
June 30, 2018 and 2017
(Full Accrual)

	2018	2017	Dollar Change	Percent Change
<u>Assets</u>				
Cash and investments	\$ 11,317,058	\$ 10,311,517	\$ 1,005,541	10%
Other assets	\$ 1,701,284	\$ 1,566,772	\$ 134,512	9%
Capital assets, net	\$ 45,764,429	\$ 46,028,893	\$ (264,464)	-1%
Total Assets	\$ 58,782,771	\$ 57,907,182	\$ 875,589	2%
<u>Deferred Outflows of Resources</u>				
Pension related	\$ 2,701,481	\$ 2,573,492	\$ 127,989	5%
Total Deferred Outflows	\$ 2,701,481	\$ 2,573,492	\$ 127,989	5%
<u>Liabilities</u>				
Long term liabilities	\$ 32,284,024	\$ 32,194,936	\$ 89,088	0%
Other liabilities	\$ 1,427,051	\$ 1,118,606	\$ 308,445	28%
Total Liabilities	\$ 33,711,075	\$ 33,313,542	\$ 397,533	1%
<u>Deferred Inflows of Resources</u>				
Pension related	\$ 243,828	\$ 374,804	\$ (130,976)	-35%
Total Deferred Inflows	\$ 243,828	\$ 374,804	\$ (130,976)	-35%
<u>Net Position</u>				
Net investment in capital assets	\$ 24,122,016	\$ 22,896,091	\$ 1,225,925	5%
Restricted	\$ 4,271,560	\$ 3,613,796	\$ 657,764	18%
Unrestricted	\$ (864,227)	\$ 282,441	\$ (1,146,668)	-406%
Total Net Position	\$ 27,529,349	\$ 26,792,328	\$ 737,021	3%

GOVERNMENTAL FUNDS

Tables 2 and 3 below focus on the City's Governmental Statement of Net Position and Statements of Activities.

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Table 2
City of Willits
Summary of Net Position
June 30, 2018 and 2017
(Full Accrual)

	Governmental Activities		Dollar Change	Percent Change
	2018	2017		
<u>Assets</u>				
Cash and investments	\$ 5,506,639	\$ 5,344,998	\$ 161,641	3%
Other assets	1,359,537	932,307	427,230	46%
Capital assets, net	1,548,450	966,527	581,923	60%
Total Assets	8,414,626	7,243,832	1,170,794	16%
<u>Deferred Outflows of Resources</u>				
Pension related	2,113,190	2,013,074	100,116	5%
Total Deferred Outflows	2,113,190	2,013,074	100,116	5%
<u>Liabilities</u>				
Long term liabilities	7,369,892	6,631,533	738,359	11%
Other liabilities	234,554	117,537	117,017	100%
Total Liabilities	7,604,446	6,749,070	855,376	13%
<u>Deferred Inflows of Resources</u>				
Pension related	190,730	293,185	(102,455)	-35%
Total Deferred Inflows	190,730	293,185	(102,455)	-35%
<u>Net Position</u>				
Net investment in capital assets	1,548,450	966,527	581,923	60%
Restricted	3,665,962	3,613,796	52,166	1%
Unrestricted	(2,481,772)	(2,365,672)	(116,100)	5%
Total Net Position	\$ 2,732,640	\$ 2,214,651	\$ 517,989	23%

The City's governmental net position amounted to \$2,732,640 as of June 30, 2018, an increase of \$517,989 or 23% over 2017. The City's net position as of June 30, 2018 comprised the following:

- Cash and investments comprised \$5,506,639. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 3 to the financial statements.
- Other assets comprised \$844,810 in accounts receivable, \$273,656 of notes receivable, \$229,104 due from other funds, \$8,200 of interest receivable and \$3,767 of inventory totaling \$1,359,537.
- Capital assets of \$1,548,450, net of accumulated depreciation, which included all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims and other amounts due currently, totaled \$234,554.
- Long-term liabilities of \$7,369,892. The liability is primarily related to the City's Net Pension Liabilities. Additional detail is shown in Table 8.
- Net investment in capital assets of \$1,548,450, representing the City's investment in capital assets used in governmental activities, net of accumulated depreciation and amounts borrowed to finance those investments.
- Unrestricted net position, the part of net positions that can be used to finance day to day operations without constraints established by debt covenants or other legal requirements or restrictions, was (\$2,481,772) as of June 30, 2018.

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The Statement of Activities presents program revenues, expenses and general revenues. Program revenues are charges for services and grants/contributions that are generally restrict to funding all or a portion of expenses for specific services. Table 3 below summarizes the governmental revenues by program, general and transfers, and expenses.

Table 3
City of Willits
Summary of Changes in Net Position
For Fiscal Years ending June 30, 2018 and 2017
(Full Accrual)

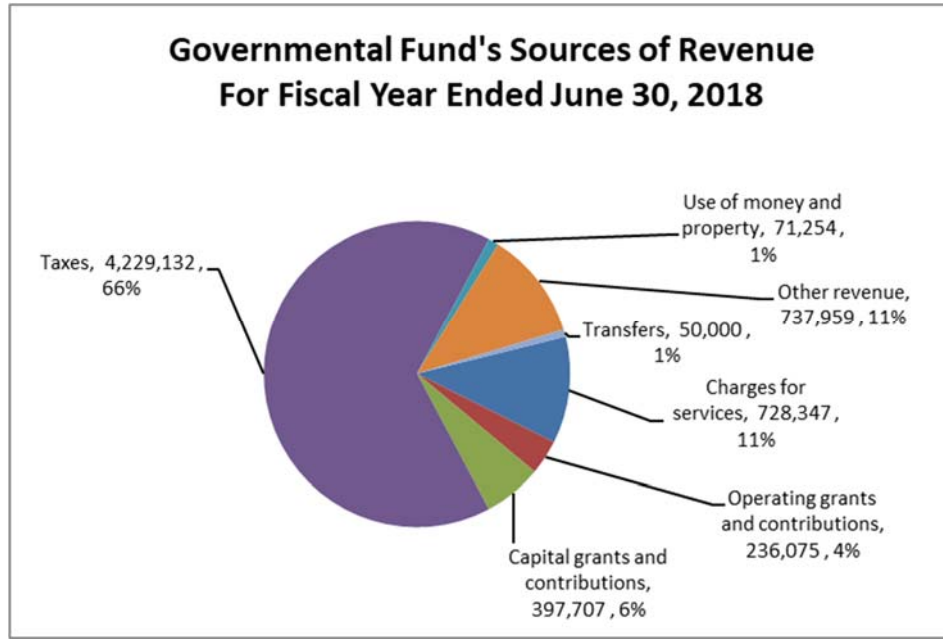
	Governmental Activities		Dollar Change	Percent Change
	2018	2017		
<u>Expenses</u>				
General Government	\$ 1,421,394	\$ 1,024,565	\$ 396,829	39%
Public Safety	2,660,031	2,201,409	458,622	21%
Community Development	701	21	680	3238%
Public Works	1,073,603	756,319	317,284	42%
Parks and Recreation	226,623	212,584	14,039	7%
Planning	348,839	430,246	(81,407)	-19%
Community Services	201,294	205,174	(3,880)	-2%
Total Expenses	5,932,485	4,830,318	1,102,167	23%
<u>Revenues</u>				
<u>Program revenues</u>				
Charges for services	728,347	687,819	40,528	6%
Operating grants and contributions	236,075	321,849	(85,774)	-27%
Capital grants and contributions	397,707		397,707	n/a
Total program revenues	1,362,129	1,009,668	352,461	35%
<u>General revenues and transfers</u>				
Taxes	4,229,132	4,070,810	158,322	4%
Use of money and property	71,254	42,314	28,940	68%
Other revenue	737,959	325,524	412,435	127%
Transfers	50,000	15,000	35,000	233%
Total general revenues and transfers	5,088,345	4,453,648	634,697	14%
Total Revenues and Transfers	6,450,474	5,463,316	987,158	18%
Change in Net Position	517,989	632,998	(115,009)	-18%
Net Position - Beginning of Fiscal Year	2,214,651	1,606,536	608,115	38%
Prior Period Adjustments		(24,883)	24,883	-100%
Net Position - Beginning of Fiscal Year, Restated	2,214,651	1,581,653	632,998	40%
Net Position - End of Fiscal Year	\$ 2,732,640	\$ 2,214,651	\$ 517,989	23%

As Table 3 shows, \$1,362,129, 21%, of the City's fiscal year 2018 governmental revenue, came from program revenues and \$5,088,345, or 79%, came from general revenues such as taxes and interest and transfers. Program revenues were composed of charges for services of \$728,347, which included permit revenues, fees and charges used to fund expenses incurred in providing services; \$236,075 of operating grants and contributions, which included gas tax revenues and housing and police grants; and \$397,707 of capital grants and contributions, which relates to grants allocated for capital improvements. General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

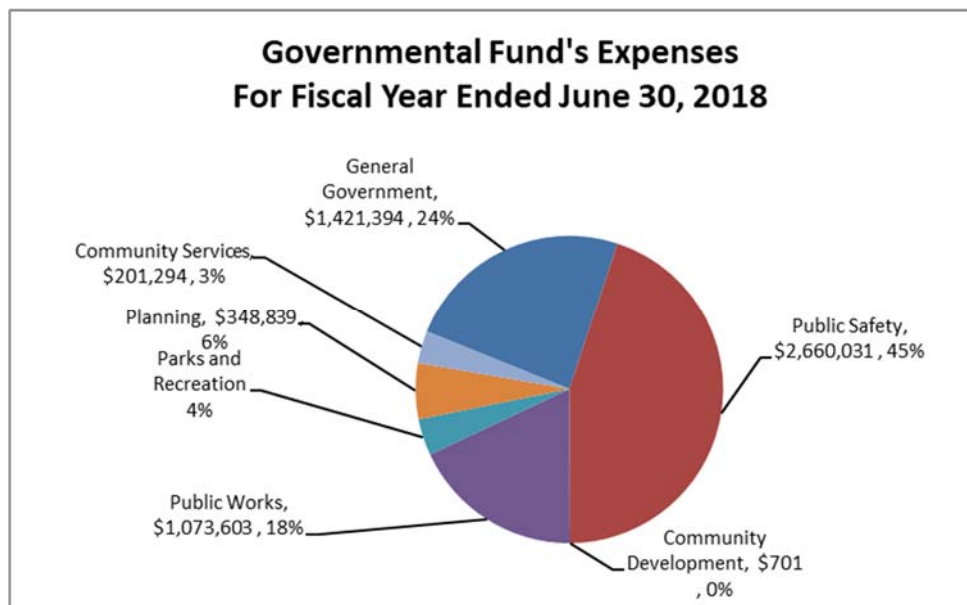
Governmental Revenues

Governmental revenues are primarily from taxes, \$4,229,132, or 66%, with the remaining balance coming from charges for services, \$728,347, or 11%, capital grants and contributions, \$397,707, or 6%, other revenue, \$737,959, or 11% and \$236,075, or 4%, coming from operating grants and contributions along with variety of miscellaneous sources. The chart below shows the relationship of the revenues.



Governmental Expenses

Governmental expenses include only current fiscal year expenses; it does not include capital outlays, which are added to the City's capital assets. As the chart below shows, public safety, public works, and general government make up 87% of the total governmental expenses.



CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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. In Table 4 below, the net position of business-type activities increased by \$219,031, or 1%, in fiscal year 2018.

Table 4
City of Willits
Summary of Net Position
June 30, 2018 and 2017

	Business-Type Activities (Proprietary/Enterprise)		Dollar Change	Percent Change
	2018	2017		
<u>Assets</u>				
Cash and investments	\$ 5,810,419	\$ 4,966,519	\$ 843,900	17%
Other assets	341,747	634,465	(292,718)	-46%
Capital assets, net	44,215,979	45,062,366	(846,387)	-2%
Total Assets	50,368,145	50,663,350	(295,205)	-1%
<u>Deferred Outflows of Resources</u>				
Pension related	588,291	560,418	27,873	5%
Total Deferred Outflows	588,291	560,418	27,873	5%
<u>Liabilities</u>				
Long term liabilities	24,914,132	25,563,403	(649,271)	-3%
Other liabilities	1,192,497	1,001,069	191,428	19%
Total Liabilities	26,106,629	26,564,472	(457,843)	-2%
<u>Deferred Inflows of Resources</u>				
Pension related	53,098	81,619	(28,521)	-35%
Total Deferred Inflows	53,098	81,619	(28,521)	-35%
<u>Net Position</u>				
Net investment in capital assets	22,573,566	21,929,564	644,002	3%
Restricted	605,598	-	605,598	100%
Unrestricted	1,617,545	2,648,113	(1,030,568)	-39%
Total Net Position	\$ 24,796,709	\$ 24,577,677	\$ 219,032	1%

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

From the Statement of Activities, Table 5 summarizes the changes in net position for all the enterprise funds. Program revenues are \$6,168,216 for fiscal year 2018, which is \$280,246 over the prior year. The program revenues make up 99% of the total revenues available to fund the enterprises. The expenses for fiscal year 2018 was \$6,001,832 which was \$702,907, or 13%, greater than the prior year.

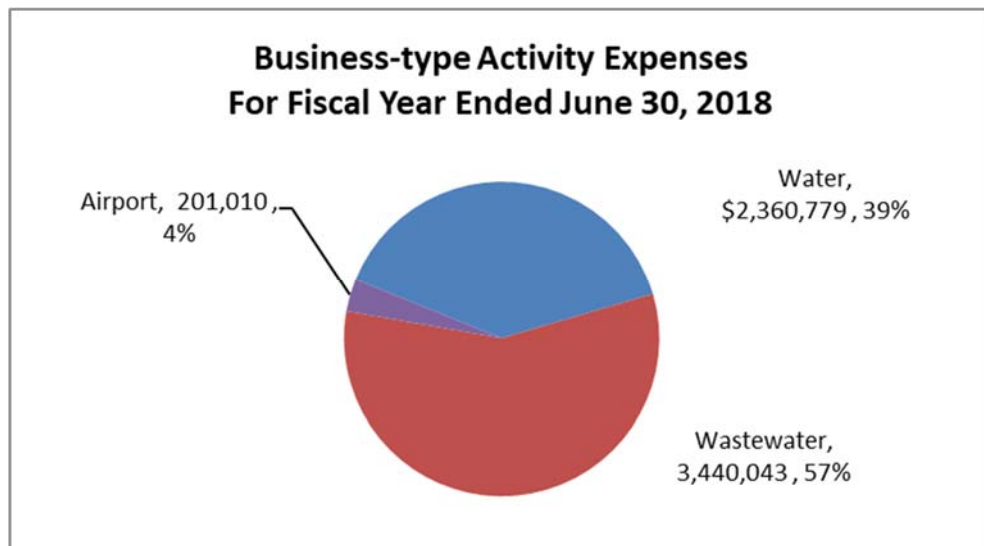
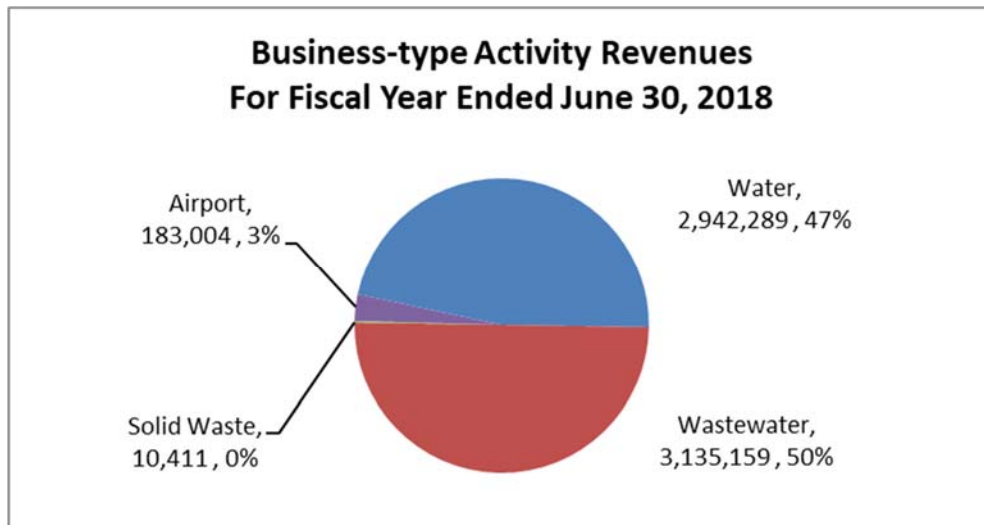
Table 5
City of Willits
Summary of Changes in Net Position
For Fiscal Years ending June 30, 2018 and 2017

	Business-Type Activities (Proprietary/Enterprise)		Dollar Change	Percent Change
	2018	2017		
<u>Expenses</u>				
Water	\$ 2,360,779	\$ 2,060,281	\$ 300,498	15%
Wastewater	3,440,043	3,148,122	291,921	9%
Solid Waste		114	(114)	-100%
Airport	201,010	90,408	110,602	122%
Total Expenses	6,001,832	5,298,925	702,907	13%
<u>Revenues</u>				
<u>Program revenues</u>				
Charges for services	6,025,716	5,845,881	179,835	3%
Operating grants and contributions	142,500	42,089	100,411	239%
Total program revenues	6,168,216	5,887,970	280,246	5%
<u>General revenues and transfers</u>				
Use of money and property	78,172	33,670	44,502	132%
Other revenue	24,475	17,588	6,887	39%
Transfers	(50,000)	(15,000)	(35,000)	233%
Total general revenues and transfers	52,647	36,258	16,389	45%
Total Revenues and Transfers	6,220,863	5,924,228	296,635	5%
Change in Net Position	219,031	625,303	(406,272)	-65%
Net Position - Beginning of Fiscal Year	24,577,678	24,797,012	(219,334)	-1%
Prior Period Adjustments		(844,637)	844,637	-100%
Net Position - End of Fiscal Year	\$ 24,796,709	\$ 24,577,678	\$ 219,031	1%

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The Water Fund operating revenues increased by \$202,716, or 7.5% in fiscal year 2018 and operating expenses increased by \$322,992, or 16% resulting in net operating income of \$553,932 for fiscal year 2018. Most of the increase in expenses is related to operations, materials and supplies and depreciation. The fund's net position increased by \$566,510 to a new total of \$13,649,542. Of this amount, \$11,329,784 was net investment in capital assets and \$2,319,758 was unrestricted.

The Wastewater Fund revenues decreased \$27,275, or less than 1% in the fiscal year 2018. Expenses increased by \$382,663 or 16% due to increase in expenses across the board. The fund's net position decreased by (\$339,884) in fiscal year 2018. As of June 30, 2018, the fund's net position was \$12,188,912, of which \$11,121,759 was net investment in capital assets, \$605,598 was restricted and \$461,555 was unrestricted.



CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

ANALYSIS OF GOVERNMENTAL FUNDS

From the Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, Table 6 below, summarizes the activity for the General Fund and other governmental funds. The revenues and expenditures are on a modified accrual basis and include capital outlay expenditures.

Table 6
City of Willits
Revenue, Expenditures, and Fund Balance Summary - Governmental Funds
For the Fiscal Years Ended June 30, 2018 and 2017

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2018	2017	2018	2017	2018	2017
Revenue						
Taxes	\$ 3,258,316	\$ 3,136,069	\$ 970,816	\$ 934,741	\$ 4,229,132	\$ 4,070,810
Licenses and Permits	240,343	96,882	-	-	240,343	96,882
Fines and Forfeitures	-	4,455	-	-	-	4,455
Interest	32,332	19,863	38,922	22,451	71,254	42,314
Charges for Services	697,667	564,048	30,680	26,889	728,347	590,937
Intergovernmental	570,795	208,413	62,987	113,436	633,782	321,849
Other	444,235	321,039	53,381	30	497,616	321,069
Total Revenues	5,243,688	4,350,769	1,156,786	1,097,547	6,400,474	5,448,316
Expenses						
Current:						
General Government	1,107,856	1,129,847	-	-	1,107,856	1,129,847
Planning	348,839	430,246	-	-	348,839	430,246
Community Services	201,294	205,174	-	-	201,294	205,174
Public Safety	2,297,083	2,289,731	96,679	132,724	2,393,762	2,422,455
Public Works	155,864	184,635	582,795	571,684	738,659	756,319
Parks & Recreation	226,623	212,584	-	-	226,623	212,584
Community Development	-	-	701	21	701	21
Capital Outlay	292,735	-	668,151	-	960,886	-
Total Expenditures	4,630,294	4,452,217	1,348,326	704,429	5,978,620	5,156,646
Excess (Deficiency) of Revenues over Expenditures	613,394	(101,448)	(191,540)	393,118	421,854	291,670
Other Financing Sources (Uses)						
Transfers In	15,000	80,922	243,706	370,304	258,706	451,226
Transfers Out	(208,706)	(9,276)	-	(426,950)	(208,706)	(436,226)
Total Other Financing Sources (Uses)	(193,706)	71,646	243,706	(56,646)	50,000	15,000
Net Change in Fund Balances	419,688	(29,802)	52,166	336,472	471,854	306,670
Fund Balances, Beginning of Year	2,545,972	2,470,229	3,613,796	3,407,752	6,159,768	5,877,981
Prior Period Adjustments	-	105,545	-	(130,428)	-	(24,883)
Fund Balances, End of Year	\$ 2,965,660	\$ 2,545,972	\$ 3,665,962	\$ 3,613,796	\$ 6,631,622	\$ 6,159,768

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The General Fund revenues of \$5,243,688 increased by \$892,919 from the prior year. The change was primarily from increases in license and permits as well as intergovernmental revenue from grants and contributions.

General Fund expenditures were \$4,630,294, an increase of \$178,077, or 4%, from the prior year. Expenditures increased mainly due to capital outlay in the current fiscal year.

As of June 30, 2018 the General Fund's fund balance totaled \$2,965,660. The unassigned portion of \$2,961,893, an increase of \$417,641, or 16%, from the prior year and represents available one-time resources.

The Other governmental funds include the Sales Tax and Gas tax funds which are used to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads.

CAPITAL ASSETS

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

In fiscal year 2018, the City reported the cost of all its infrastructure assets and computed the amounts of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2018, the cost of infrastructure and other capital assets recorded on the City's financial statements is as shown in Table 7 below.

Table 7
City of Willits
Capital Assets (Net of Depreciation)
June 30, 2018 and 2017
(Full Accrual)

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 150,963	\$ 150,963	\$ 1,804,213	\$ 1,804,213	\$ 1,955,176	\$ 1,955,176
Buildings and improvements	1,374,878	140,432	7,683,300	7,683,299	9,058,178	7,823,731
Machinery and Equipment	22,609	39,321	6,969,707	9,449,800	6,992,316	9,489,121
Infrastructure	-	635,811	27,435,655	26,083,402	27,435,655	26,719,213
Construction in progress	-	-	323,102	41,652	323,102	41,652
Total	\$ 1,548,450	\$ 966,527	\$ 44,215,977	\$ 45,062,366	\$ 45,764,427	\$ 46,028,893

Details on capital assets, current fiscal year additions and construction in progress can be found in the Notes under Note 5.

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 the Notes to the financial statements

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

LONG TERM DEBT AND LIABILITIES

The City issues debt financing for capital improvements primarily for water and wastewater enterprises. The long term liabilities are employee compensated absences, Net Pension from CalPERS and Landfill Post-Closure costs. The City's debt issues and Landfill costs are discussed in detail in Note 7 of the financial statements. The Pension liabilities are discussed in Note 12. The City's long-term debt and liability balances as of June 30 were as follows:

Table 8
City of Willits
Outstanding Long-Term Liabilities and Debt (net of debt discounts/premiums)
June 30, 2018 and 2017

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Liabilities						
Compensated Absences	\$ 209,268	\$ 206,018	\$ 82,942	\$ 78,136	\$ 292,210	\$ 284,154
Net Pension Liability	7,160,624	6,425,515	1,993,441	1,788,794	9,154,065	8,214,309
Total Liabilities	<u>7,369,892</u>	<u>6,631,533</u>	<u>2,076,383</u>	<u>1,866,930</u>	<u>9,446,275</u>	<u>8,498,463</u>
Debt						
1984 California Dept. of Water Resources Loan			295,884	483,264	295,884	483,264
2012 Safe Drinking Water State Revolving Fund			2,859,811	2,965,730	2,859,811	2,965,730
2007 USDA Wastewater Sewer Loan A			7,914,500	8,044,500	7,914,500	8,044,500
2007 USDA Wastewater Sewer Loan B			1,133,000	1,151,500	1,133,000	1,151,500
2011 Wastewater Bonds			7,369,000	7,512,000	7,369,000	7,512,000
2015 Wastewater Tax Compliance Certificates			3,058,721	3,207,585	3,058,721	3,207,585
Total Bond and Loan Liabilities			<u>22,630,916</u>	<u>23,364,579</u>	<u>22,630,916</u>	<u>23,364,579</u>
Landfill Post- Closure costs			<u>963,558</u>	<u>1,065,558</u>	<u>963,558</u>	<u>1,065,558</u>
Total Long-Term Liabilities and Debt	<u>\$ 7,369,892</u>	<u>\$ 6,631,533</u>	<u>\$ 25,670,857</u>	<u>\$ 26,297,067</u>	<u>\$ 33,040,749</u>	<u>\$ 32,928,600</u>

Total long-term debt for the City increased by \$112,149 due to a \$939,756 increase in net pension liability and \$8,056 net increase in compensated absences activities and offset by a net decrease in outstanding debt of (\$835,663) from principal repayment. The City made all scheduled repayments of the current debt.

ECONOMIC CONDITION, OUTLOOK, AND ACTIVITY

The City continues to see a slowly improving economy in large part because of the sales tax related to the Willits Highway 101 by-pass. Property Assessment is trending upwards and building has resumed in the community.

City staff continues to research other endeavors that may result in additional tax revenues, while maintaining a fiscally conservative approach as the City is recovering from the effects of by-pass.

During the fiscal year ended June 30, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The

CITY OF WILLITS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

implementation of GASB 68 did not change the City's pension obligations in any significant way but rather created more transparency and disclosure. The City continues with disclosure requirements and has updated the pension information for the fiscal year end June 30, 2018. Please note the Other Supplemental Information section of the Financial Statements for more detailed information.

Overall the City's financial position remains in good condition. The City continues to maintain a fiscally responsible and conservative approach to its fiscal management.

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 the City of Willits, at 111 E Commercial St, Willits, CA 95490.

CITY OF WILLITS
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and Investments	\$ 5,506,639	\$ 5,498,031	\$ 11,004,670
Restricted Cash and Investments		312,388	312,388
Accounts Receivable	844,810	537,368	1,382,178
Notes Receivable	273,656		273,656
Internal Balances	229,104	(229,104)	
Interest Receivable	8,200	8,958	17,158
Prepaid Expenses		3,544	3,544
Inventory	3,767	20,981	24,748
Capital Assets, Not Being Depreciated	150,963	2,127,314	2,278,277
Capital Assets, Net of Accumulated Depreciation	1,397,487	42,088,665	43,486,152
Total Assets	<u>8,414,626</u>	<u>50,368,145</u>	<u>58,782,771</u>
Deferred Outflows of Resources:			
Pension related	2,113,190	588,291	2,701,481
Total Deferred Outflows of Resources	<u>2,113,190</u>	<u>588,291</u>	<u>2,701,481</u>
Liabilities:			
Accounts Payable	230,254	229,932	460,186
Interest Payable		129,389	129,389
Deposits Payable	4,300	76,451	80,751
Noncurrent Liabilities:			
Due Within One Year		756,725	756,725
Due in More Than One Year	7,369,892	24,914,132	32,284,024
Total Liabilities	<u>7,604,446</u>	<u>26,106,629</u>	<u>33,711,075</u>
Deferred Inflows of Resources:			
Pension related	190,730	53,098	243,828
Total Deferred Inflows of Resources	<u>190,730</u>	<u>53,098</u>	<u>243,828</u>
Net Position:			
Net Investment in Capital Assets	1,548,450	22,573,566	24,122,016
Restricted for:			
Debt Service		605,598	605,598
Community Development	592,588		592,588
Streets and Roads	2,858,863		2,858,863
Public Safety	214,511		214,511
Unrestricted	(2,481,772)	1,617,545	(864,227)
Total Net Position	<u>\$ 2,732,640</u>	<u>\$ 24,796,709</u>	<u>\$ 27,529,349</u>

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

CITY OF WILLITS

Statement of Activities

For the Fiscal Year Ended June 30, 2018

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,421,394	\$ 628,221	\$ 173,088	\$ -
Public Safety	2,660,031	22,469	24,124	
Community Development	701			
Public Works	1,073,603	14,298	38,863	397,707
Parks and Recreation	226,623	31,271		
Planning	348,839	32,088		
Community Services	201,294			
Total Governmental Activities	<u>5,932,485</u>	<u>728,347</u>	<u>236,075</u>	<u>397,707</u>
Business-type Activities:				
Water	2,360,779	2,896,607	13,454	
Sewer	3,440,043	3,059,862	32,046	
Airport	201,010	69,247	97,000	
Total Business-type Activities	<u>6,001,832</u>	<u>6,025,716</u>	<u>142,500</u>	
Total Primary Government	<u>\$ 11,934,317</u>	<u>\$ 6,754,063</u>	<u>\$ 378,575</u>	<u>\$ 397,707</u>

General Revenues:

Taxes:

Property Taxes

Sales and Use Taxes

Business License Taxes

Franchise

Transient Occupancy Taxes

Other Taxes

Licenses and Permits

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in net position

Net Position - Beginning of Fiscal Year

Net Position - End of Fiscal Year

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

Net (Expenses) Revenues and Changes in Net Position

Governmental Activities	Business- type Activities	Total
\$ (620,085)	\$ -	\$ (620,085)
(2,613,438)		(2,613,438)
(701)		(701)
(622,735)		(622,735)
(195,352)		(195,352)
(316,751)		(316,751)
(201,294)		(201,294)
<u>(4,570,356)</u>		<u>(4,570,356)</u>
	549,282	549,282
	(348,135)	(348,135)
	(34,763)	(34,763)
	<u>166,384</u>	<u>166,384</u>
<u>(4,570,356)</u>	<u>166,384</u>	<u>(4,403,972)</u>
434,743		434,743
2,374,408		2,374,408
143,718		143,718
304,212		304,212
391,959		391,959
580,092		580,092
240,343		240,343
71,254	78,172	149,426
497,616	24,475	522,091
50,000	(50,000)	
<u>5,088,345</u>	<u>52,647</u>	<u>5,140,992</u>
517,989	219,031	737,020
<u>2,214,651</u>	<u>24,577,678</u>	<u>26,792,329</u>
<u>\$ 2,732,640</u>	<u>\$ 24,796,709</u>	<u>\$ 27,529,349</u>

CITY OF WILLITS
Balance Sheet
Governmental Funds
June 30, 2018

	<u>Special Revenue</u>			Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Sales Tax</u>	<u>Gas Tax</u>		
Assets:					
Cash and Investments	\$ 2,251,377	\$ 2,543,603	\$ 56,029	\$ 655,630	\$ 5,506,639
Accounts Receivable	670,924	155,419	17,858	609	844,810
Interest Receivable	2,727	4,043		1,430	8,200
Due from Other Funds	229,104				229,104
Loans Receivable				273,656	273,656
Inventory	3,767				3,767
Total Assets	<u>\$ 3,157,899</u>	<u>\$ 2,703,065</u>	<u>\$ 73,887</u>	<u>\$ 931,325</u>	<u>\$ 6,866,176</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$ 173,632	\$ 29,354	\$ 7,279	\$ 1,145	\$ 211,410
Accrued Liabilities	14,307	1,758	2,779		18,844
Deposits payable	4,300				4,300
Total Liabilities	<u>192,239</u>	<u>31,112</u>	<u>10,058</u>	<u>1,145</u>	<u>234,554</u>
Fund Balances:					
Nonspendable	3,767				3,767
Restricted for:					
Public safety				214,511	214,511
Public works		2,671,953	63,829	123,081	2,858,863
Community development				592,588	592,588
Unassigned	2,961,893				2,961,893
Total Fund Balances	<u>2,965,660</u>	<u>2,671,953</u>	<u>63,829</u>	<u>930,180</u>	<u>6,631,622</u>
Total Liabilities and Fund Balances	<u>\$ 3,157,899</u>	<u>\$ 2,703,065</u>	<u>\$ 73,887</u>	<u>\$ 931,325</u>	<u>\$ 6,866,176</u>

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

CITY OF WILLITS
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2018

Total fund balances - governmental funds \$ 6,631,622

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	4,813,914	
Accumulated depreciation		<u>(3,265,464)</u>	1,548,450

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred inflows related to pension	(190,730)
Deferred outflows related to pension	2,113,190

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Net pension liability	(7,160,624)
Compensated absences payable	<u>(209,268)</u>

Total net position - governmental activities **\$ 2,732,640**

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

CITY OF WILLITS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	<u>Special Revenue</u>			Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Sales Tax</u>	<u>Gas Tax</u>		
Revenues					
Property Taxes	\$ 434,743	\$ -	\$ -	\$ -	\$ 434,743
Sales and Use Taxes	1,516,489	857,919			2,374,408
Business License Taxes	143,718				143,718
Franchise Fees	304,212				304,212
Transient Occupancy Taxes	391,959				391,959
Other Taxes	467,195		112,897		580,092
Licenses and Permits	240,343				240,343
Interest	32,332	28,601		10,321	71,254
Charges for Services	697,667		14,298	16,382	728,347
Intergovernmental	570,795		38,863	24,124	633,782
Other	444,235		51,281	2,100	497,616
Total Revenues	<u>5,243,688</u>	<u>886,520</u>	<u>217,339</u>	<u>52,927</u>	<u>6,400,474</u>
Expenditures					
Current:					
General Government	1,107,856				1,107,856
Planning	348,839				348,839
Community Services	201,294				201,294
Public Safety	2,297,083			96,679	2,393,762
Public Works	155,864	210,700	372,095		738,659
Parks and Recreation	226,623				226,623
Community Development				701	701
Capital Outlay	292,735	668,151			960,886
Total Expenditures	<u>4,630,294</u>	<u>878,851</u>	<u>372,095</u>	<u>97,380</u>	<u>5,978,620</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>613,394</u>	<u>7,669</u>	<u>(154,756)</u>	<u>(44,453)</u>	<u>421,854</u>
Other Financing Sources (Uses):					
Transfers In	15,000		198,198	45,508	258,706
Transfers Out	(208,706)				(208,706)
Total Other Financing Sources (Uses)	<u>(193,706)</u>		<u>198,198</u>	<u>45,508</u>	<u>50,000</u>
Net Change in Fund Balances	419,688	7,669	43,442	1,055	471,854
Fund Balances - July 1, 2017	<u>2,545,972</u>	<u>2,664,284</u>	<u>20,387</u>	<u>929,125</u>	<u>6,159,768</u>
Fund Balances - June 30, 2018	<u>\$ 2,965,660</u>	<u>\$ 2,671,953</u>	<u>\$ 63,829</u>	<u>\$ 930,180</u>	<u>\$ 6,631,622</u>

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

CITY OF WILLITS
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ 471,854

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

	\$	625,942	
Capital outlay			
Depreciation expense		(44,019)	581,923

Compensated absence expenditures reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in a governmental fund. This is the net change in compensated absences for the current period. (3,250)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contributions was: (532,538)

Change in net position of governmental activities \$ 517,989

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

CITY OF WILLITS
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-type Activities-Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise Funds	Total
Assets				
Current Assets:				
Cash and Investments	\$ 2,534,035	\$ 2,926,918	\$ 37,078	\$ 5,498,031
Restricted Cash and Investments	231,778	80,610		312,388
Accounts Receivable	181,432	333,573	22,363	537,368
Interest Receivable	3,417	5,449	92	8,958
Prepaid Expenses			3,544	3,544
Inventory			20,981	20,981
Total Current Assets	<u>2,950,662</u>	<u>3,346,550</u>	<u>84,058</u>	<u>6,381,270</u>
Noncurrent Assets:				
Capital Assets:				
Land	1,369,269	423,252	11,692	1,804,213
Buildings and Improvements	3,503,720	3,623,290	556,289	7,683,299
Machinery and Equipment	2,129,437	7,761,135	48,116	9,938,688
Infrastructure	33,362,432	11,494,589		44,857,021
Construction In Progress	180,068	143,033		323,101
Less:				
Accumulated Depreciation	(10,635,305)	(9,260,964)	(494,074)	(20,390,343)
Total Noncurrent Assets	<u>29,909,621</u>	<u>14,184,335</u>	<u>122,023</u>	<u>44,215,979</u>
Deferred Outflows of Resources:				
Pension-related	381,485	206,806		588,291
Total Deferred Outflows of Resources	<u>381,485</u>	<u>206,806</u>		<u>588,291</u>
Total Assets and Deferred Outflows of Resources	<u>33,241,768</u>	<u>17,737,691</u>	<u>206,081</u>	<u>51,185,540</u>
Liabilities				
Current Liabilities:				
Accounts Payable	92,258	86,440	51,234	229,932
Interest Payable	114,425	14,964		129,389
Due to Other Funds			229,104	229,104
Deposits Payable		72,521	3,930	76,451
Long Term Debt - Due within One Year	455,581	301,144		756,725
Total Current Liabilities	<u>662,264</u>	<u>475,069</u>	<u>284,268</u>	<u>1,421,601</u>
Noncurrent Liabilities:				
Compensated Absences	43,847	39,095		82,942
Net Pension Liability	1,292,673	700,768		1,993,441
Long Term Debt - Due in More Than One Year	19,019,640	2,854,551	963,558	22,837,749
Total Noncurrent Liabilities	<u>20,356,160</u>	<u>3,594,414</u>	<u>963,558</u>	<u>24,914,132</u>
Deferred Inflows of Resources:				
Pension related	34,432	18,666		53,098
Total Deferred Inflows of Resources	<u>34,432</u>	<u>18,666</u>		<u>53,098</u>
Total Liabilities and Deferred Inflows of Resources	<u>21,052,856</u>	<u>4,088,149</u>	<u>1,247,826</u>	<u>26,388,831</u>
Net Position				
Net Investment in Capital Assets	11,121,759	11,329,784	122,023	22,573,566
Restricted	605,598			605,598
Unrestricted	461,555	2,319,758	(1,163,768)	1,617,545
Total Net Position	<u>\$ 12,188,912</u>	<u>\$ 13,649,542</u>	<u>\$ (1,041,745)</u>	<u>\$ 24,796,709</u>

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

CITY OF WILLITS
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

Business-type Activities - Enterprise funds

	Sewer Fund	Water Fund	Nonmajor Enterprise Funds	Total
Operating Revenues:				
Charges for Services	\$ 3,059,862	\$ 2,896,607	\$ 69,247	\$ 6,025,716
Total Operating Revenues	<u>3,059,862</u>	<u>2,896,607</u>	<u>69,247</u>	<u>6,025,716</u>
Operating Expenses:				
Operations	815,314	780,223	169,481	1,765,018
Administrative	220,158	200,290	21,532	441,980
Materials and Supplies	642,597	761,000		1,403,597
Maintenance	52,527	8,502	1,379	62,408
Depreciation	1,015,447	592,660	8,618	1,616,725
Total Operating Expenses	<u>2,746,043</u>	<u>2,342,675</u>	<u>201,010</u>	<u>5,289,728</u>
Operating Income (loss)	<u>313,819</u>	<u>553,932</u>	<u>(131,763)</u>	<u>735,988</u>
Non-operating Revenues (Expenses):				
Interest Revenue	35,247	32,228	10,697	78,172
Interest Expense	(694,000)	(18,104)		(712,104)
Intergovernmental Revenue	32,046	13,454	97,000	142,500
Miscellaneous Revenue	8,004		16,471	24,475
Total Non-Operating Revenue (Expenses)	<u>(618,703)</u>	<u>27,578</u>	<u>124,168</u>	<u>(466,957)</u>
Income (Loss) before transfers	<u>(304,884)</u>	<u>581,510</u>	<u>(7,595)</u>	<u>269,031</u>
Transfers				
Transfers Out	<u>(35,000)</u>	<u>(15,000)</u>		<u>(50,000)</u>
Total Transfers	<u>(35,000)</u>	<u>(15,000)</u>		<u>(50,000)</u>
Change in Net Position	<u>(339,884)</u>	<u>566,510</u>	<u>(7,595)</u>	<u>219,031</u>
Net Position - Beginning of Fiscal Year	<u>12,528,796</u>	<u>13,083,032</u>	<u>(1,034,150)</u>	<u>24,577,678</u>
Net Position - End of Fiscal Year	<u>\$ 12,188,912</u>	<u>\$ 13,649,542</u>	<u>\$ (1,041,745)</u>	<u>\$ 24,796,709</u>

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

CITY OF WILLITS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Users	\$ 3,205,634	\$ 2,925,912	\$ 46,884	\$ 6,178,430
Cash Payments to Suppliers and Contractors	(845,067)	(990,049)	(157,797)	(1,992,913)
Cash Payments to Employees	(707,711)	(734,767)		(1,442,478)
Net Cash Provided (Used) By Operating Activities	<u>1,652,856</u>	<u>1,201,096</u>	<u>(110,913)</u>	<u>2,743,039</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Interfund Borrowing	103,337	(15,000)	90,767	179,104
Intergovernmental	32,046	13,454	97,000	142,500
Other Nonoperating Expenses			(85,529)	(85,529)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>135,383</u>	<u>(1,546)</u>	<u>102,238</u>	<u>236,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Received	33,406	28,831	10,649	72,886
Net Cash Provided (Used) in Investing Activities	<u>33,406</u>	<u>28,831</u>	<u>10,649</u>	<u>72,886</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Miscellaneous Revenue	8,004			8,004
Principal Payments on Debt Borrowings	(440,365)	(293,299)		(733,664)
Interest Paid	(694,000)	(18,103)		(712,103)
Acquisition of Property, Plant, and Equipment	(403,664)	(366,673)		(770,337)
Net Cash Provided (Used) In Capital and Related Financing Activities	<u>(1,530,025)</u>	<u>(678,075)</u>		<u>(2,208,100)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	291,620	550,306	1,974	843,900
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	2,474,193	2,457,222	35,104	4,966,519
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	\$ 2,765,813	\$ 3,007,528	\$ 37,078	\$ 5,810,419
Reconciliation to Statement of Net Position:				
Cash and Investments	\$ 2,534,035	\$ 2,926,918	\$ 37,078	\$ 5,498,031
Restricted Cash and Investments	231,778	80,610		312,388
	<u>\$ 2,765,813</u>	<u>\$ 3,007,528</u>	<u>\$ 37,078</u>	<u>\$ 5,810,419</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 313,819	\$ 553,932	\$ (131,763)	\$ 735,988
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,015,447	592,660	8,618	1,616,725
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	145,772	(43,216)	(22,363)	80,193
Increase (Decrease) in Accounts Payable	70,215	49,923	45,888	166,026
Increase (Decrease) in Compensated Absences	11,467	(6,661)		4,806
Increase (decrease) in Net Pension Liability	96,136	52,117		148,253
Increase (Decrease) in Deposits Payable		2,341		2,341
Increase (Decrease) in Inventory			(11,293)	(11,293)
Total Adjustments	<u>1,339,037</u>	<u>647,164</u>	<u>20,850</u>	<u>2,007,051</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 1,652,856</u>	<u>\$ 1,201,096</u>	<u>\$ (110,913)</u>	<u>\$ 2,743,039</u>

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

**CITY OF WILLITS
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
June 30, 2018**

	Private Purpose Trust Fund	Agency Fund
	RDA	
	Successor Agency	Trust and Agency
ASSETS		
Cash and investments	\$ 455,934	\$ 73,308
Cash and investments with fiscal agent	426,661	
Interest receivable	1,215	
Total Assets	883,810	\$ 73,308
LIABILITIES		
Interest payable	\$ 42,148	\$ -
Deposits payable		72,761
Accounts payable	1,684	547
Long-term debt, due within one year	290,000	
Long-term debt, due in more than one year	2,130,000	
Total Liabilities	2,463,832	\$ 73,308
NET POSITION		
Held in trust for others	(1,580,022)	
Total Net Position	\$ (1,580,022)	

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

**CITY OF WILLITS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2018**

	Private Purpose Trust Fund
	RDA
	Successor Agency
Additions:	
Intergovernmental	\$ 491,221
Interest	2,230
	493,451
Total additions	493,451
Deductions:	
Community development	67,301
Interest expense	123,722
Administration allocation	32,585
	223,608
Total deductions	223,608
Change in net position	269,843
Net Position - July 1, 2017	(1,849,865)
Net Position - June 30, 2018	\$ (1,580,022)

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

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Willits (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 accounting principles generally accepted in the United States of America (USGAAP), these basic financial statements present the City of Willits (the primary government) and any component units.

Individual Component Unit Disclosures

There are no entities which meet the Governmental Accounting Standards Board (GASB) Statement No.14 as amended by GASB Statement No.39 and GASB Statement No. 61 criteria for disclosure within these financial statements.

Description of Joint Powers Agreements

The City participates in several joint power agreements (JPAs) as described in Note 8. 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.

B. Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and 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 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net positions are available, unrestricted resources are used only after the restricted resources are depleted.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements

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

Proprietary funds distinguish *operating* revenues, such as charges for services, and 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.

The City reports three major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes activities such as public protection, public works and facilities, parks and recreation, and community development.
- The *Sales Tax Special Revenue Fund* was established to account for all sales tax revenues set aside for transportation improvements.
- The *Gas Tax Special Revenue Fund* was established to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads funded State gas taxes.

The City reports the following two major enterprise funds:

- The *Sewer Fund* was established to account for the financial activity for the purpose of operation and maintenance of the City's sewer system including the wastewater treatment plant. The costs of providing these services to the general public are financed or recovered through user charges.
- The *Water Fund* was established to account for the financial activity for the purpose of operation and maintenance of City's water utility. The costs of providing these services to the general public are financed or recovered through user charges.

Fiduciary Funds

Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other government units, and/or other funds.

Private Purpose Trust Fund accounts for the operations of the former redevelopment agency.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting and Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements except for Agency Funds (that have no measurement focus) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for debt service expenditures which are recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and capital leases are reported as other financing sources.

Property taxes, transient occupancy taxes, and interest are susceptible to accrual. Sales taxes collected and held by the state at fiscal year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position or Equity

1. Deposits and Investments

In order to maximize the flexibility of its investment program and to aid in cash budgeting, the City pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of a particular fund's equity in the pool, the pool operates like a demand deposit account for the participating funds.

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on month-end balances and is adjusted at fiscal year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

In accordance with the State of California Government Code, the City adopts an investment policy annually that, among other things, authorizes types and concentrations of investments and maximum investment terms.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position or Equity (Continued)

1. Deposits and Investments (Continued)

The City’s investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. LAIF determines the fair value of its portfolio quarterly and reports a factor to the City; the City applies that factor to convert its share of LAIF from amortized cost to fair value. Changes in fair value are allocated to each participating fund.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents to be change and petty cash funds, equity in the City’s cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

Investments are stated at fair value in accordance with GASB Statement No.31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Short-term investments are reported at cost, which approximates fair value. The fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Interest, dividends, and realized and unrealized gains and losses, based on the specific identification method, are included in interest revenue when earned.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”. Advances between funds are reported in the fund financial statements as nonspendable to indicate that they are not available for appropriation and are not available financial resources.

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	January 1	January 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 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.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. As a phase 3 government under GASB Statement 34, the City has elected to restate its capital assets as of July 1, 2008, to report infrastructure assets acquired prior to June 30, 2003. The City has determined that it is preferable to report all City infrastructure to provide for more accurate reporting. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. The City utilizes a capitalization threshold of \$10,000.

Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	30 years
Vehicles	5 years
Machinery and equipment	5 to 15 years
Infrastructure	50 to 80 years

5. 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 offer post-employment benefits.

6. 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 statements of net position. Debt premiums and discounts are deferred and amortized over the life of the indebtedness using the straight line method. Notes payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize debt premiums and discounts 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.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position or Equity (Continued)

7. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment In Capital Assets – This category groups all capital assets, including infrastructure, 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.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the City, not restricted for any project or other purpose.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the City’s policy is to apply restricted resources first.

8. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 68 and 71, the City recognizes deferred outflows and inflows of resources. Deferred outflow and inflow of resources are defined as a consumption or resource of net position by the government that is applicable to a future reporting period.

E. Use of Estimates

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

F. New Accounting Pronouncements

The City has implemented the following Governmental Accounting Standards Board (GASB) Statements during the fiscal year ended June 30, 2018:

Governmental Accounting Standards Board Statement No. 75

For the fiscal year ended June 30, 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation of GASB Statement No. 75 did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2018.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the City’s highest level of decision-making authority (the City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the City’s intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.
- Unassigned fund balance – the residual classification for the City’s funds that include amounts not contained in the other classifications.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, followed by committed, assigned and unassigned resources as they are needed.

H. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements.

The provisions of Statement Number 83 “*Certain Asset Retirement Obligations*” are effective for fiscal years beginning after June 15, 2018.

The provisions of Statement Number 84 “*Fiduciary Activities*” are effective for fiscal years beginning after December 15, 2018.

The provisions of Statement Number 87 “*Leases*” are effective for fiscal years beginning after December 15, 2019,

The provisions of Statement Number 88 “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*” are effective for fiscal years beginning after June 15, 2018.

The provisions for Statement Number 89 “*Accounting for Interest Cost Incurred before the End of a Construction Period*” are effective for fiscal years beginning after December 15, 2019.

The provisions for Statement Number 90 “*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*” are effective for fiscal years beginning after December 15, 2018.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City Council adopts an Annual Budget no later than the second meeting of June of each year for the fiscal year commencing the following July 1. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During May of each year, the City Manager submits to the City Council a proposed operating budget for the next following fiscal year. The operating budget includes proposed revenues and expenditures.
2. After a review by the City Council, a public hearing is conducted and further comment is received from the City Council and the general public.
3. Upon completion of the hearings and modifications, if any, to the proposed budget, it is adopted by the City Council through passage of an appropriate resolution.
4. Generally, the budget is amended in the middle of the year and at the end of the year. All approved additional appropriations are added to the adopted budget and an amended budget is presented to the City Council, which adopts it after due review.
5. The City Manager is authorized to make transfers between operational expenditure categories within certain departments and funds.
6. City Council approval is required for all fund to fund transfers, department to department transfers, fund reserve to appropriations transfers, transfers for new revenue sources with offsetting appropriations, and for transfer to/from the capital expenditure category.

B. Budget/USGAAP Reconciliation

No funds adopted project-length or budgetary basis budgets and, therefore, no schedule reconciling the amounts on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget to Actual to the amounts on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances has been prepared.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2018, no fund had expenditures over appropriations.

D. Deficit Fund Equity

At June 30, 2018, the following fund had an accumulated deficit:

Fund	Amount
<u>Nonmajor Enterprise Fund:</u>	
Solid Waste	\$ 1,195,314

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 11,004,670
Restricted cash and investments	312,388
Fiduciary funds:	
Cash and investments	529,242
Cash and investments with fiscal agent	426,661
Total cash and investments	\$ 12,272,961

Cash and investments as of June 30, 2018 consist of the following:

Cash on hand	\$ 550
Deposits with financial institutions	3,564,334
Investments	8,708,077
Total cash and investments	\$ 12,272,961

A. Investments Authorized by the California Government Code and the City’s Investment Policy

The table below identifies the investment types that are authorized for the City of Willits (City) by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City rather than the general provisions of the California Government Code or the City’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Bonds issued by the City	N/A	None	None
US Treasury Obligations	5 years	None	None
Federal Agency Issues	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Bankers' Acceptances	180 days	40%	30%
Medium Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	None	10%
Commercial Paper	270 days	25%	None
County Pool Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65 Million
Collateralized Bank Deposits	N/A	None	None
Mortgage Pass-through Securities	5 years	20%	None
Shares of Beneficial Interest by a JPA	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the City.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the City’s investment policy. The table below identifies the Investment types that are authorized for investments held by bond trustee. 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 of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
State Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Money Market Mutual Fund	N/A	None	None
Bankers Acceptances	N/A	None	None
Commercial Paper	270 days	None	None
Certificates of Deposit	N/A	None	None
Repurchase Agreements	N/A	None	None
Investment Agreements	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the City.

C. 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, the greater the sensitivity of its fair value 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 (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity:

Investment Type	Totals	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
State Investment Pool (LAIF)	\$ 3,871,844	\$ 3,871,844	\$ -	\$ -	\$ -
Money Market Funds	570,374	570,374			
Certificates of Deposit	2,615,428	128,125	743,000	1,744,303	
US Government Securities	1,223,770			1,223,770	
Held by Bond Trustees:					
Money Market Funds	426,661	426,661			
	<u>\$ 8,708,077</u>	<u>\$ 4,997,004</u>	<u>\$ 743,000</u>	<u>\$ 2,968,073</u>	<u>\$ -</u>

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

D. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

E. 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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 3,871,844	N/A	\$ -	\$ -	\$ -	\$ -	\$ 3,871,844
Money Market Funds	570,374	N/A					570,374
Certificates of Deposit	2,615,428	N/A			2,615,428		
US Governmental Securities	1,223,770	A		1,223,770			
Held by Bond Trustee:							
Money Market Funds	426,661	N/A					426,661
Total	\$ 8,708,077		\$ -	\$ 1,223,770	\$ 2,615,428	\$ -	\$ 4,868,879

F. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than money market) that represent 5% or more of total City’s investments.

G. Custodial Credit Risk

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. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, all of the City’s deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

H. Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City’s investment in this pool is reported in the accompanying financial statements at amounts 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 balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

I. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy establish by generally accepted accounting principles. These principles recognize a three tiered fair value hierarchy as follows: Level 1 – Investments reflect prices quoted in active markets; Level 2 – Investments reflect prices that are based on similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and Level 3 – Investments reflect prices based upon unobservable sources. The City’s investments applicable to recurring fair value measurements as of June 30, 2018 are all shown at fair value. The City’s US Governmental Securities fair value are based on Level 1 inputs.

NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

During the course of normal operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds”. The following presents a summary of current interfund balances at June 30, 2018.

Receivable Fund	Amount	Payable Fund	Amount
Major Fund:		Nonmajor Enterprise Fund:	
General Fund	\$ 229,104	Solid Waste	\$ 229,104
Totals	<u>\$ 229,104</u>	Totals	<u>\$ 229,104</u>

B. Transfers between Funds

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various City operations, and re-allocations of special revenues. All inter-fund transfers between individual government funds have been eliminated on the government-wide statements. The following schedule briefly summarizes the City’s transfer activity for the fiscal year ended June 30, 2018:

Fund	Transfers-in	Transfers-out
Major Governmental Funds:		
General Fund	\$ 15,000	\$ 208,706
Gas Tax	198,198	
Nonmajor Governmental Funds:		
Traffic Safety Special Revenue Fund	10,508	
Lateral Repair Loan Special Revenue Fund	35,000	
Major Proprietary Funds:		
Water		15,000
Wastewater		35,000
Totals	<u>\$ 258,706</u>	<u>\$ 258,706</u>

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 150,963	\$ -	\$ -	\$ 150,963
Total capital assets, not being depreciated	<u>150,963</u>			<u>150,963</u>
Capital assets, being depreciated:				
Buildings and improvements	1,650,020			1,650,020
Machinery and equipment	1,751,178	7,441		1,758,619
Infrastructure	635,811	618,501		1,254,312
Total capital assets being depreciated	<u>4,037,009</u>	<u>625,942</u>		<u>4,662,951</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,509,588)	(15,034)		(1,524,622)
Machinery and equipment	(1,711,857)	(24,453)		(1,736,310)
Infrastructure		(4,532)		(4,532)
Total accumulated depreciation	<u>(3,221,445)</u>	<u>(44,019)</u>		<u>(3,265,464)</u>
Total capital assets, being depreciated, net	<u>815,564</u>	<u>581,923</u>		<u>1,397,487</u>
Governmental activities capital assets, net	<u>\$ 966,527</u>	<u>\$ 581,923</u>	<u>\$ -</u>	<u>\$ 1,548,450</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,804,213	\$ -	\$ -	\$ 1,804,213
Construction in progress	41,652	281,450		323,102
Total capital assets, not being depreciated	<u>1,845,865</u>	<u>281,450</u>		<u>2,127,315</u>
Capital assets, being depreciated:				
Buildings and improvements	7,683,299			7,683,299
Machinery and equipment	9,449,800	488,887		9,938,687
Infrastructure	44,857,020			44,857,020
Total capital assets, being depreciated	<u>61,990,119</u>	<u>488,887</u>		<u>62,479,006</u>
Less accumulated depreciation	<u>(18,773,619)</u>	<u>(1,616,725)</u>		<u>(20,390,344)</u>
Total capital assets, being depreciated, net	<u>43,216,500</u>	<u>(1,127,838)</u>		<u>42,088,662</u>
Business-type activities capital assets, net	<u>\$ 45,062,365</u>	<u>\$ (846,388)</u>	<u>\$ -</u>	<u>\$ 44,215,977</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 44,019
Total depreciation expense – governmental functions	<u>\$ 44,019</u>

Depreciation expense was charged to business-type functions as follows:

Sewer	\$ 1,015,447
Water	592,660
Airport	8,618
Total depreciation expense – business-type functions	<u>\$ 1,616,725</u>

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 – NOTES RECEIVABLE

The City has established a number of housing assistance loan programs using HOME Investment Partnerships Program grant funds. These loans consist of several loans for first-time home buyers assistance and home rehabilitation assistance loans for qualified persons. The City also utilizes Community Development Block Grant (CDBG) to provide business assistance loans and home rehabilitation loans to qualified persons.

NOTE 7 – LONG-TERM LIABILITIES

The following is a schedule of long-term liabilities for Governmental Activities and Business-type Activities for the fiscal year ended June 30, 2018:

	Balance at June 30, 2017	Additions	Repayments	Balance at June 30, 2018	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 206,018	\$ 86,675	\$ (83,425)	\$ 209,268	\$ -
Net Pension Liability	6,425,515	735,109		7,160,624	
Business-type Activities:					
Compensated absences	78,136	80,039	(75,233)	82,942	
California Dept. Water Loan	483,264		(187,380)	295,884	195,225
State Water Revolving Fund Loan	2,965,730		(105,919)	2,859,811	105,919
2007 Wastewater Sewer Loan A	8,044,500		(130,000)	7,914,500	135,500
2007 Wastewater Sewer Loan B	1,151,500		(18,500)	1,133,000	19,500
2011 Wastewater Bonds	7,512,000		(143,000)	7,369,000	146,000
Landfill Post-closure Costs	1,065,558		(102,000)	963,558	
Net Pension Liability	1,788,794	204,647		1,993,441	
2015 Tax Compliance Certificates	3,207,585		(148,864)	3,058,721	154,581
Total	<u>\$ 32,928,600</u>	<u>\$ 1,106,470</u>	<u>\$ (994,321)</u>	<u>\$ 33,040,749</u>	<u>\$ 756,725</u>

1. Business -type Activities – California Department of Water Resources Loan

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.

Annual debt service requirements for the loan are shown below:

Fiscal Year Ended June 30,	California Department of Water Resources Loan		
	Principal	Interest	Total
2019	\$ 195,225	\$ 10,260	\$ 205,485
2020	100,659	2,086	102,745
	<u>\$ 295,884</u>	<u>\$ 12,346</u>	<u>\$ 308,230</u>

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – LONG-TERM LIABILITIES (Continued)

2. Business -type Activities – California State Water Resources Control Board Revolving 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 loan consists 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 0% interest. The maximum loan amount \$3,170,935. Principal and interest are payable semi-annually on January 1 and July 1. Annual principal payments are \$105,919 and continue through the fiscal year ending 2045.

Annual debt service requirements for the loan are shown below:

Fiscal Year Ended June 30,	State Water Revolving Fund Loan		
	Principal	Interest	Total
2019	\$ 105,919	\$ -	\$ 105,919
2020	105,919		105,919
2021	105,919		105,919
2022	105,919		105,919
2023	105,919		105,919
2024-2028	529,595		529,595
2029-2033	529,595		529,595
2034-2038	529,595		529,595
2039-2043	529,595		529,595
2044-2045	211,836		211,836
	<u>\$ 2,859,811</u>	<u>\$ -</u>	<u>\$ 2,859,811</u>

3. Business -type Activities – 2007 Wastewater Sewer Loans Series A and B

On May 2, 2008, the City issued \$10,285,000 in debt to provide funds for construction of a Wastewater 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 \$516,000 through the fiscal year ending 2046.

Annual debt service requirements for the loan are shown below:

Fiscal Year Ended June 30,	2007 Wastewater Sewer Loan A		
	Principal	Interest	Total
2019	\$ 135,500	\$ 333,593	\$ 469,093
2020	141,000	327,718	468,718
2021	147,000	321,598	468,598
2022	153,500	315,212	468,712
2023	160,000	308,550	468,550
2024-2028	907,500	1,432,558	2,340,058
2029-2033	1,117,500	1,218,105	2,335,605
2034-2038	1,376,000	954,084	2,330,084
2039-2043	1,693,500	629,095	2,322,595
2044-2046	2,083,000	228,959	2,311,959
	<u>\$ 7,914,500</u>	<u>\$ 6,069,472</u>	<u>\$ 13,983,972</u>

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – LONG-TERM LIABILITIES (Continued)

3. Business -type Activities – 2007 Wastewater Sewer Loans Series A and B (Continued)

Annual debt service requirements for the loan are shown below (continued):

Fiscal Year Ended June 30,	2007 Wastewater Sewer Loan B		
	Principal	Interest	Total
2019	\$ 19,500	\$ 47,632	\$ 67,132
2020	20,000	46,793	66,793
2021	21,000	45,922	66,922
2022	22,000	45,008	67,008
2023	23,000	44,051	67,051
2024-2028	129,500	204,520	334,020
2029-2033	159,500	173,877	333,377
2034-2038	196,000	136,275	332,275
2039-2043	242,500	89,835	332,335
2044-2046	300,000	32,672	332,672
	<u>\$ 1,133,000</u>	<u>\$ 866,585</u>	<u>\$ 1,999,585</u>

4. Business -type Activities – 2011 Wastewater Sewer Bond

On March 1, 2011, the City issued \$8,300,000 in debt to provide funds for the construction of a Wastewater 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 ending 2046.

Annual debt service requirements for the bond are shown below:

Fiscal Year Ended June 30,	2011 Wastewater Bond		
	Principal	Interest	Total
2019	\$ 146,000	\$ 182,401	\$ 328,401
2020	150,000	178,701	328,701
2021	154,000	174,901	328,901
2022	158,000	171,001	329,001
2023	161,000	167,013	328,013
2024-2028	871,000	771,613	1,642,613
2029-2033	985,000	655,815	1,640,815
2034-2038	1,114,000	524,751	1,638,751
2039-2043	1,261,000	376,488	1,637,488
2044-2046	2,369,000	244,591	2,613,591
	<u>\$ 7,369,000</u>	<u>\$ 3,447,275</u>	<u>\$ 10,816,275</u>

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – LONG-TERM LIABILITIES (Continued)

5. Business -type Activities – 2015 Tax Compliance Certificates

On December 1, 2015, the City issued \$3,350,945 in debt to provide for refunding and redemption of the outstanding 1993 Sewer Revenue Bonds. Interest on the bond is 3.84% and interest payments are due semi-annually on November 1 and May 1. Principal payments are due annually on November 1, ranging from \$143,360 to \$261,976 through the fiscal year 2033.

Annual debt service requirements for the certificates are shown below:

Fiscal Year Ended June 30,	2015 Tax Compliance Certificates		
	Principal	Interest	Total
2019	\$ 154,581	\$ 114,486	\$ 269,067
2020	160,517	108,437	268,954
2021	166,681	102,155	268,836
2022	173,081	95,631	268,712
2023	179,727	88,857	268,584
2024-2028	1,007,616	333,214	1,340,830
2029-2033	1,216,518	120,305	1,336,823
	<u>\$ 3,058,721</u>	<u>\$ 963,085</u>	<u>\$ 4,021,806</u>

Fiscal Year Ended June 30,	Total Business-type Activities		
	Principal	Interest	Total
2019	\$ 756,725	\$ 688,372	\$ 1,445,097
2020	678,095	663,735	1,341,830
2021	594,600	644,576	1,239,176
2022	612,500	626,852	1,239,352
2023	629,646	608,471	1,238,117
2024-2028	3,445,211	2,741,905	6,187,116
2029-2033	4,008,113	2,168,102	6,176,215
2034-2038	3,215,595	1,615,110	4,830,705
2039-2043	3,726,595	1,095,418	4,822,013
2044-2046	4,963,836	506,222	5,470,058
	<u>\$ 22,630,916</u>	<u>\$ 11,358,763</u>	<u>\$ 33,989,679</u>

6. Landfill 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, 2018 was \$963,558. 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, 2018. However, the actual cost of post-closure care may change due to inflation, changes in technology, or changes in landfill laws and regulations.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – LONG-TERM LIABILITIES (Continued)

7. Compensated Absences

The City's policy relating to compensated absences is described in Note (1). Compensated absences are liquidated primarily by the General Fund. The total amount outstanding at June 30, 2018, was \$82,942 for business-type activities and \$209,268 for governmental activities.

NOTE 8 – JOINT POWER AGREEMENTS

The City is a member of various joint powers authorities, which provide goods for 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, 2018, the City paid \$202,708 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 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 for each city and two members who are appointed by the Mendocino County Board of Supervisors.

Mendocino Emergency Services Authority:

Mendocino Emergency Services Authority (Authority) consists of four 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.

Solid Waste Disposal Facility Operations Agreement:

The City and the County 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 7.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 – 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 a 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 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 expected 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 resolutions of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City offers its employees deferred compensation plans created in accordance with IRS 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 12 – PENSION PLAN

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 Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS Financial Office. 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.

A. General Information about the Pension Plan

Plan Descriptions - All qualified employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, cost sharing defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government 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.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 – PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

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 Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	City Misc Plan		
	Prior to January 1,	On or after January 1,	
	2013	2013	
Hire date			
Benefit formula	2.7% @ 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 compensation	2.0% to 2.5%	1.0% to 2.5%	
Required employee contribution rates	8.00%	6.25%	
Required employer contribution rates	21.229%	6.25%	

	City Safety Plan		
	Prior to January 1,	On or after January 1,	On or after January 1,
	2012	2012	2013
Hire date			
Benefit formula	3.0% @ 50	3.0% @ 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 compensation	3.0%	2.4 to 3%	2.0 to 2.7%
Required employee contribution rates	9.0%	9.0%	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 both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 – PENSION PLAN (Continued)

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

As of June 30, 2018, the City reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

Proportionate Share of Net Pension Liability	
Misc. Plan	Safety Plan
\$ 5,608,277	\$ 3,545,788

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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 the Plan as of June 30, 2016 and 2017 was as follows:

	City Miscellaneous Plan	City Safety Plan
Proportion - June 30, 2016	0.143320%	0.062470%
Proportion - June 30, 2017	0.142270%	0.059340%
Change - Increase (Decrease)	-0.001050%	-0.003130%

For the fiscal year ended June 30, 2018, the City recognized pension expense of \$843,351. At June 30, 2018, the City 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	\$ 873,006	\$ -
Net differences between projected and actual earnings on pension plan investments	269,187	
Differences based on actual experience	37,740	94,495
Differences based on change of assumptions	1,206,775	92,235
Differences between actual vs proportionate contribution	130,489	9,129
Adjustment due to differences in proportions	184,284	47,969
Total	\$ 2,701,481	\$ 243,828

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 – PENSION PLAN (Continued)

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

\$843,351 reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and will be recognized as pension expense as follows:

Fiscal Year Ended	Amount
June 30,	
2019	\$ 486,971
2020	780,772
2021	475,865
2022	(158,961)
Total	<u>\$ 1,584,647</u>

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.30%-14.20% (1)	3.30%-14.20% (1)
Investment Rate of Return	7.50% (2)	7.50% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds	

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 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 be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 – PENSION PLAN (Continued)

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

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

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

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 of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Year 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 – PENSION PLAN (Continued)

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

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

	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	\$8,069,719	\$5,065,579
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$5,608,277	\$3,545,788
1% Increase	8.15%	8.15%
Net Pension Liability	\$3,569,667	\$2,303,435

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 13 - SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Willits (City) that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets units until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of the City resolution number 2012-04. After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as of the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Long-term debt of the Successor Agency as of June 30, 2018, consisted of the following:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due within one year
Tax Allocation Bonds	\$ 2,695,000	\$ -	\$ (275,000)	\$ 2,420,000	\$ 290,000
Totals	\$ 2,695,000	\$ -	\$ (275,000)	\$ 2,420,000	\$ 290,000

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 13 - SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (CONTINUED)

Tax Allocation Bonds – Series 2002

The former redevelopment agency issued \$4,310,000 of tax allocation refunding bonds on September 10, 2002. The principal balance outstanding at June 30, 2018 was \$2,420,000. The remaining annual debt service requirements as of June 30, 2018 are as follows:

Fiscal Year Ended June 30,	2002 Tax Allocation Bonds		
	Principal	Interest	Total
2019	\$ 290,000	\$ 114,321	\$ 404,321
2020	310,000	100,066	410,066
2021	325,000	86,663	411,663
2022	345,000	68,075	413,075
2023	360,000	50,270	410,270
2024-2026	790,000	41,807	831,807
	<u>\$ 2,420,000</u>	<u>\$ 461,202</u>	<u>\$ 2,881,202</u>

NOTE 14 – OTHER POST EMPLOYMENT BENEFITS

The City does not offer other post-employment benefits.

NOTE 15 – NON-COMMITMENT DEBT

The City has sponsored the issuance of \$5,500,000 of Certificates of Participation for Frank R. Howard Foundation, a nonprofit corporation. The Trust agreement is dated July 1, 2015. The funds will be used for 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 16 – RISK MANAGEMENT/JOINT VENTURE

A. Risk Management

The City of Willits is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The City participates in a public entity risk pool for workers' compensation, general liability and property insurance coverage. During fiscal year 2017-18, there were no significant reductions in insurance coverage.

B. Risk Pool Arrangements

The City is an associate member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity pool comprised of fifteen northern California charter and associate member cities. REMIF is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of REMIF is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 16 – RISK MANAGEMENT/JOINT VENTURE (CONTINUED)

B. Risk Pool Arrangements (Continued)

For each of its insurance programs, REMIF has a multilevel risk sharing arrangement. Initially each individual charter or associate member city participating in a program assumes its own losses up to a predetermined deductible level. Losses and claims in excess of the deductibles and within REMIF's stated retention limits are paid out of a central pool maintained by REMIF. This central pool is

funded by all of the cities participating in that program through premium assessments. REMIF purchases excess loss insurance policies (reinsurance) to provide coverage for losses and claims in excess of REMIF's stated retention limits up to specified amounts. Losses and claims ceded to reinsurers would represent a contingent liability to REMIF if the reinsurers were unable to meet their existing obligations under the reinsurance agreements. Losses and claims which surpass the limits of the excess of loss insurance policies are the responsibility of the individual city in which the loss or claim originates.

The City of Willits participates in the following REMIF programs:

General Liability Insurance – Annual premiums are paid by the member cities and are adjusted retrospectively to cover costs. The City of Willits self-insures for the first \$5,000 of each loss and pays 100% of all losses incurred under \$5,000. The City does not share or pay for losses of other cities under a range of between \$5,000 to \$25,000, depending on the entity's deductible amount. Participating cities then share in the next \$5,000 to \$500,000 per loss occurrence. Specific coverage includes comprehensive and general liability, personal injury, contractual liability, professional liability, and certain other coverage. REMIF is a member of the California Joint Powers Risk Management Authority, which provides REMIF with an additional \$39,500,000 liability insurance coverage over and above REMIF retention level of \$500,000.

Worker's Compensation – Periodic deposits are paid by member cities and are adjusted retrospectively to cover costs. The City of Willits is self-insured for the first \$10,000 of each loss and pays 100% of all losses incurred under \$10,000. The City does not share or pay for losses of other cities under \$10,000. Excess worker's compensation insurance coverage is maintained with a limit of \$1,000,000 to protect against catastrophic losses.

Property Insurance –The City of Willits maintains the following property insurance coverages:

Automobile – Loss limit: Stated Value. Deductible: \$10,000.

Boiler/Machinery – Loss limit: \$100 million. Deductible: \$5,000.

Cyber Coverage – Loss Limit: \$2 million. Deductible: \$100,000.

Pollution: - Loss Limit: \$2 million. Deductible: \$100,000.

Property Loss: Loss Limit: \$400 million. Deductible: \$10,000 (excludes flood, earthquake, and boiler/machinery).

Earthquake and Flood – Loss Limit: \$20 million. Deductible: \$100,000.

CITY OF WILLITS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 16 – RISK MANAGEMENT/JOINT VENTURE (CONTINUED)

B. Risk Pool Arrangements (Continued)

The following is a summary of the financial statements of REMIF as of and for the fiscal year ended June 30, 2017:

Total Assets	\$ 21,917,772
Total Deferred Outflows	851,545
Total Liabilities	26,887,778
Total Deferred Inflows	105,039
Total Net Position	(4,223,500)
Total Revenues	24,020,234
Total Expenses	25,618,977
Decrease in Net Position	(1,598,743)

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF WILLITS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Property Taxes	\$ 388,657	\$ 388,657	\$ 434,743	\$ 46,086
Sales and Use Taxes	1,545,400	1,545,400	1,516,489	(28,911)
Business License Taxes	155,000	155,000	143,718	(11,282)
Franchise Fees	254,000	254,000	304,212	50,212
Transient Occupancy Taxes	285,000	285,000	391,959	106,959
Other Taxes	448,603	448,603	467,195	18,592
Licenses and Permits	425,064	425,064	240,343	(184,721)
Interest	11,000	11,000	32,332	21,332
Charges for Services	662,723	662,723	697,667	34,944
Intergovernmental	271,357	271,357	570,795	299,438
Other	92,350	92,350	444,235	351,885
Total Revenues	<u>4,539,154</u>	<u>4,539,154</u>	<u>5,243,688</u>	<u>704,534</u>
Expenditures				
Current				
General Government	1,138,901	1,138,901	1,107,856	31,045
Planning	690,472	690,472	348,839	341,633
Community Service	291,328	291,328	201,294	90,034
Public Safety	2,115,667	2,115,667	2,297,083	(181,416)
Public Works	303,429	303,429	155,864	147,565
Parks and Recreation	240,888	240,888	226,623	14,265
Capital Outlay	33,167	33,167	292,735	(259,568)
Total Expenditures	<u>4,813,852</u>	<u>4,813,852</u>	<u>4,630,294</u>	<u>183,558</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(274,698)</u>	<u>(274,698)</u>	<u>613,394</u>	<u>888,092</u>
Other Financing Sources (uses):				
Transfers In	15,000	15,000	15,000	
Transfers Out	(15,920)	(15,920)	(208,706)	(192,786)
Total Other Financing Sources (Uses)	<u>(920)</u>	<u>(920)</u>	<u>(193,706)</u>	<u>(192,786)</u>
Net Change in Fund Balance	(275,618)	(275,618)	419,688	695,306
Fund Balance - July 1, 2017	<u>2,545,972</u>	<u>2,545,972</u>	<u>2,545,972</u>	
Fund Balance - June 30, 2018	<u>\$ 2,270,354</u>	<u>\$ 2,270,354</u>	<u>\$ 2,965,660</u>	<u>\$ 695,306</u>

CITY OF WILLITS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
SALES TAX SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales and Use Taxes	\$ 804,200	\$ 804,200	\$ 857,919	\$ 53,719
Interest	1,500	1,500	28,601	27,101
Total Revenues	<u>805,700</u>	<u>805,700</u>	<u>886,520</u>	<u>80,820</u>
Expenditures				
Current:				
Public Works	179,140	179,140	210,700	(31,560)
Capital Outlay	<u>852,330</u>	<u>852,330</u>	<u>668,151</u>	<u>184,179</u>
Total Expenditures	<u>1,031,470</u>	<u>1,031,470</u>	<u>878,851</u>	<u>152,619</u>
Net Change in Fund Balance	(225,770)	(225,770)	7,669	233,439
Fund Balance - July 1, 2017	<u>2,664,284</u>	<u>2,664,284</u>	<u>2,664,284</u>	
Fund Balance - June 30, 2018	<u>\$ 2,438,514</u>	<u>\$ 2,438,514</u>	<u>\$ 2,671,953</u>	<u>\$ 233,439</u>

**CITY OF WILLITS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GAS TAX SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Other Taxes	\$ 61,095	\$ 61,095	\$ 112,897	\$ 51,802
Charges for Services	18,300	18,300	14,298	(4,002)
Intergovernmental	387,690	387,690	38,863	(348,827)
Other	52,500	52,500	51,281	(1,219)
Total Revenues	519,585	519,585	217,339	(302,246)
Expenditures				
Current:				
Public Works	447,170	447,170	372,095	75,075
Total Expenditures	447,170	447,170	372,095	75,075
Excess (Deficiency) of Revenues Over (Under) Expenditures	72,415	72,415	(154,756)	(227,171)
Other Financing Sources (uses):				
Transfers In			198,198	198,198
Total Other Financing Sources (Uses)			198,198	198,198
Net Change in Fund Balance	72,415	72,415	43,442	(28,973)
Fund Balance - July 1, 2017	20,387	20,387	20,387	
Fund Balance - June 30, 2018	\$ 92,802	\$ 92,802	\$ 63,829	\$ (28,973)

**CITY OF WILLITS
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2018**

Cost Sharing Defined Benefit Pension Plans

Schedule of the City's Proportionate Share of the Net Pension Liability – Last 10 Years*

	June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Proportion of the net pension liability	0.142270%	0.059340%	0.143320%	0.093130%	0.152275%	0.067911%	0.151177%	0.067559%
Proportionate share of the net pension liability	\$ 5,608,277	\$ 3,545,788	\$ 4,978,929	\$ 3,235,381	\$ 4,177,620	\$ 2,798,221	\$ 3,736,327	\$ 2,534,118
Covered-employee payroll	\$ 1,798,882	\$ 537,809	\$ 1,678,686	\$ 587,395	\$ 1,743,044	\$ 747,527	\$ 1,612,018	\$ 773,076
Proportionate Share of the net pension liability as a percentage of covered-employee payroll	311.76%	659.30%	296.60%	550.80%	239.67%	374.33%	231.78%	327.80%
Plan's fiduciary net position	\$ 17,178,465	\$ 9,001,638	\$ 11,065,481	\$ 6,687,054	\$ 11,402,375	\$ 6,825,730	\$ 11,269,690	\$ 6,833,187
Plan's total pension liability	\$ 22,786,742	\$ 12,547,426	\$ 16,044,411	\$ 9,922,435	\$ 15,579,995	\$ 9,623,951	\$ 15,006,017	\$ 9,367,305
Plan fiduciary net position as a percentage of total pension liability	75.39%	71.74%	68.97%	67.39%	73.19%	70.92%	75.10%	72.95%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions: Discount rate has changed to 7.15% in fiscal year 2017.

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

**CITY OF WILLITS
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2018**

Cost Sharing Defined Benefit Pension Plans

Schedule of Contributions – Last 10 Years*

	June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015	
	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan	Miscellaneous Plan	Safety Plan
Contractual required contribution (actuarially determined)	\$ 470,671	\$ 338,047	\$ 448,765	\$ 370,313	\$ 331,977	\$ 236,700	\$ 332,087	\$ 285,632
Contributions in relation to the actuarially determined contributions	(470,671)	(338,047)	(448,765)	(370,313)	(331,977)	(236,700)	(332,087)	(285,632)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,798,882	\$ 537,809	\$ 1,678,686	\$ 587,395	\$ 1,743,044	\$ 747,527	\$ 1,612,018	\$ 773,076
Contributions as a percentage of covered employee payroll	26.16%	62.86%	26.73%	63.04%	19.05%	31.66%	20.60%	36.95%

Notes to Schedule

Valuation Date: June 30, 2016

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Investment Rate of Return	7.15%, net of pension plan investment and administrative Expenses; includes Inflation
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership Data for all Funds

⁽¹⁾The mortality table 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 2014 experience study report.

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

OTHER SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Haehl Creek Fund was established to account for the development of improvements at the intersections of Baechtel Road with South Main Street or along the Haehl Creek Drive, East Hill Road or Baechtel Road corridors.

Low Income Housing Fund was established to account for low income housing loans.

Narcotics Forfeiture Fund was established to account for funds distributed to the Willits Police Department in accordance with law as a result of a local or state narcotics forfeiture and/or seizure. As required by law these funds will be utilized exclusively to support the law enforcement and prosecutor efforts of the Willits Police Department.

Business Rehab Fund was established to account for funds set aside for the business rehabilitation program loans and to account for revenues and expenditures associated with repayment and disbursement of loans.

Vehicle Abatement Fund was established to account for funds received as part of the CHP abandoned vehicle abatement program.

HSG Rehab Fund was established to account the CDBG Housing Rehabilitation program loans.

DNA Cost Fund was established to account for funds distributed to the Willits Police Department in accordance with California State laws for funds from the State Department of Justice.

H&S Restitution Fund was established to account for funds distributed to the Willits Police Department by offenders whose actions have caused resources to be expended to remediate their operations/locations, according to the District Attorney's 11470.2 H&S Restitution Fund.

Business Loan Fund was established to account for local small business loans and to account for revenues and expenditures associated with repayment and disbursement of loans.

Traffic Safety Fund was established to account for funds received and utilized for traffic safety.

HSB Rehab Revolving Fund was established to account the CDBG Housing Rehabilitation loans and to account for revenues and expenditures associated with repayment and disbursement of loans.

Lateral Repair Loan Fund was established to account for loans given by the City for residents to make necessary repairs to sewer lateral improvement and repairs.

**CITY OF WILLITS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018**

Special Revenue Funds

	Haehl Creek	Low Income Housing	Narcotics Forfeiture	Bus Rehab	Vehicle Abatement	HSG Rehab
Assets						
Cash and Investments	\$ 117,744	\$ -	\$ 151,208	\$ 5,046	\$ 671	\$ 4,261
Accounts Receivable						
Interest Receivable	291		374			
Loans Receivable						273,656
Total Assets	<u>\$ 118,035</u>	<u>\$ -</u>	<u>\$ 151,582</u>	<u>\$ 5,046</u>	<u>\$ 671</u>	<u>\$ 277,917</u>
Liabilities						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities						
Fund Balances						
Restricted	118,035		151,582	5,046	671	277,917
Total Fund Balances	<u>118,035</u>		<u>151,582</u>	<u>5,046</u>	<u>671</u>	<u>277,917</u>
Total Liabilities and Fund Balances	<u>\$ 118,035</u>	<u>\$ -</u>	<u>\$ 151,582</u>	<u>\$ 5,046</u>	<u>\$ 671</u>	<u>\$ 277,917</u>

**CITY OF WILLITS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018**

<u>Special Revenue Funds</u>						Total Nonmajor Governmental Funds
<u>DNA Cost Reimb</u>	<u>H&S Restitution</u>	<u>Business Loan</u>	<u>Traffic Safety</u>	<u>HSB Rehab Revolving</u>	<u>Lateral Repair Loan</u>	
\$ 20,691	\$ 95,984	\$ 96,977	\$ 42,052	\$ 85,994	\$ 35,002	\$ 655,630
			609			609
51	237	252		225		1,430
						273,656
<u>\$ 20,742</u>	<u>\$ 96,221</u>	<u>\$ 97,229</u>	<u>\$ 42,661</u>	<u>\$ 86,219</u>	<u>\$ 35,002</u>	<u>\$ 931,325</u>
\$ -	\$ -	\$ -	\$ 1,145	\$ -	\$ -	\$ 1,145
			1,145			1,145
20,742	96,221	97,229	41,516	86,219	35,002	930,180
20,742	96,221	97,229	41,516	86,219	35,002	930,180
<u>\$ 20,742</u>	<u>\$ 96,221</u>	<u>\$ 97,229</u>	<u>\$ 42,661</u>	<u>\$ 86,219</u>	<u>\$ 35,002</u>	<u>\$ 931,325</u>

CITY OF WILLITS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018

	Special Revenue Funds					
	Haehl Creek	Low Income Housing	Narcotics Forfeiture	Bus Rehab	Vehicle Abatement	HSG Rehab
Revenues:						
Interest	\$ 901	\$ -	\$ 1,114	\$ -	\$ -	\$ 5,925
Charges for Services					5,729	
Intergovernmental			24,124			
Other						
Total Revenues	<u>901</u>		<u>25,238</u>		<u>5,729</u>	<u>5,925</u>
Expenditures:						
Current:						
Community Development		281		420		
Public Safety			77,992		5,058	
Total Expenditures		<u>281</u>	<u>77,992</u>	<u>420</u>	<u>5,058</u>	
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>901</u>	<u>(281)</u>	<u>(52,754)</u>	<u>(420)</u>	<u>671</u>	<u>5,925</u>
Other Financing Sources (Uses):						
Transfers In						
Total Other Financing Sources (Uses)						
Net Change in Fund Balances	901	(281)	(52,754)	(420)	671	5,925
Fund Balances - July 1, 2017	<u>117,134</u>	<u>281</u>	<u>204,336</u>	<u>5,466</u>		<u>271,992</u>
Fund Balances - June 30, 2018	<u>\$ 118,035</u>	<u>\$ -</u>	<u>\$ 151,582</u>	<u>\$ 5,046</u>	<u>\$ 671</u>	<u>\$ 277,917</u>

CITY OF WILLITS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018

Special Revenue Funds						Total Nonmajor Governmental Funds
DNA Cost Reimb	H&S Restitution	Business Loan	Traffic Safety	HSB Rehab Revolving	Lateral Repair Loan	
\$ 166	\$ 736	\$ 780	\$ -	\$ 697	\$ 2	\$ 10,321
7,532			3,121			16,382
	2,100					24,124
<u>7,698</u>	<u>2,836</u>	<u>780</u>	<u>3,121</u>	<u>697</u>	<u>2</u>	<u>52,927</u>
						701
			13,629			96,679
			13,629			97,380
7,698	2,836	780	(10,508)	697	2	(44,453)
			10,508		35,000	45,508
			10,508		35,000	45,508
7,698	2,836	780		697	35,002	1,055
<u>13,044</u>	<u>93,385</u>	<u>96,449</u>	<u>41,516</u>	<u>85,522</u>		<u>929,125</u>
<u>\$ 20,742</u>	<u>\$ 96,221</u>	<u>\$ 97,229</u>	<u>\$ 41,516</u>	<u>\$ 86,219</u>	<u>\$ 35,002</u>	<u>\$ 930,180</u>

NONMAJOR PROPRIETARY FUNDS

PROPRIETARY FUNDS

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - for these funds, it is the intent of the City Council that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Solid Waste - This fund is used to account for revenues and expenses associated with solid waste services.

Airport - This fund is used to account for revenues and expenses associated with the Airport.

CITY OF WILLITS
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	Enterprise Funds		Total Nonmajor Enterprise Funds
	Solid Waste Fund	Airport Fund	
Assets			
Current Assets:			
Cash and Investments	\$ -	\$ 37,078	\$ 37,078
Accounts Receivable		22,363	22,363
Interest Receivable		92	92
Prepaid Expenses		3,544	3,544
Inventory		20,981	20,981
		84,058	84,058
Total Current Assets			
Noncurrent Assets:			
Capital Assets:			
Land		11,692	11,692
Buildings and Improvements		556,289	556,289
Machinery and Equipment		48,116	48,116
Less:			
Accumulated Depreciation		(494,074)	(494,074)
		122,023	122,023
Total Noncurrent Assets			
Total Assets			
		206,081	206,081
Liabilities			
Current Liabilities:			
Accounts Payable	2,652	48,582	51,234
Due to Other Funds	229,104		229,104
Deposits Payable		3,930	3,930
Total Current Liabilities	231,756	52,512	284,268
Noncurrent Liabilities:			
Landfill Closure Costs	963,558		963,558
Total Noncurrent Liabilities	963,558		963,558
Total Liabilities			
	1,195,314	52,512	1,247,826
Net Position			
Net Investment in Capital Assets		122,023	122,023
Unrestricted	(1,195,314)	31,546	(1,163,768)
	(1,195,314)	153,569	(1,041,745)
Total Net Position			
	\$ (1,195,314)	\$ 153,569	\$ (1,041,745)

CITY OF WILLITS
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Enterprise Funds		Total Nonmajor Enterprise Funds
	Solid Waste Fund	Airport Fund	
Operating Revenues			
Charges for Services	\$ -	\$ 69,247	\$ 69,247
Total Operating Revenues	-	69,247	69,247
Operating Expenses			
Operations		169,481	169,481
Administrative		21,532	21,532
Maintenance		1,379	1,379
Depreciation		8,618	8,618
Total Operating Expenses		201,010	201,010
Operating Income (Loss)		(131,763)	(131,763)
Non-Operating Revenue (Expenses)			
Interest Revenue	10,411	286	10,697
Intergovernmental		97,000	97,000
Miscellaneous		16,471	16,471
Total Non-Operating Revenue (Expenses)	10,411	113,757	124,168
Changes in Net Position	10,411	(18,006)	(7,595)
Net Position - Beginning of Fiscal Year	(1,205,725)	171,575	(1,034,150)
Net Position - End of Fiscal Year	\$ (1,195,314)	\$ 153,569	\$ (1,041,745)

**CITY OF WILLITS
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Enterprise Funds		Total Nonmajor Enterprise Funds
	Solid Waste Fund	Airport Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Users	\$ -	\$ 46,884	\$ 46,884
Cash Payments to Suppliers and Contractors	822	(158,619)	(157,797)
Net Cash Provided (Used) By Operating Activities	822	(111,735)	(110,913)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund Borrowing	90,767		90,767
Intergovernmental		97,000	97,000
Other nonoperating revenue (expenses)	(102,000)	16,471	(85,529)
Net Cash Provided (Used) By Noncapital Financing Activities	(11,233)	113,471	102,238
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	10,411	238	10,649
Net Cash Provided (Used) in Investing Activities	10,411	238	10,649
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		1,974	1,974
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR			
		35,104	35,104
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR			
	\$ -	\$ 37,078	\$ 37,078
Reconciliation to Statement of Net Position:			
Cash and Cash Equivalents	\$ -	\$ 37,078	\$ 37,078
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ -	\$ (131,763)	\$ (131,763)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense		8,618	8,618
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable		(22,363)	(22,363)
Increase (Decrease) in Accounts Payable	822	45,066	45,888
(Increase) Decrease in Inventory		(11,293)	(11,293)
Total Adjustments	822	20,028	20,850
Net Cash Provided (Used) By Operating Activities	\$ 822	\$ (111,735)	\$ (110,913)