

CITY OF COLFAX, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2015

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Audited Financial Statements and Supplemental Information

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INDEPENDENT AUDITOR'S REPORT

To the City Council
Colfax, California

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 Colfax, California as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council
City of Colfax, California

Change in Accounting Principle

As discussed in Note K to the basic financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended June 30, 2015. Due to the implementation of these Statements, the City recognized deferred outflows of resources, a pension liability and deferred inflows of resources for its cost-sharing pension plans in the financial statements as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions 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's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic 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 January 6, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, 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.

Richardson & Company, LLP

January 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Colfax (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. We encourage the readers to consider the information presented here in conjunction with the accompanying basic financial statements and the additional information provided.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of Fiscal Year 2014-2015 by \$17,803,796 (*Net Position*) which represents an increase of 2.54% or \$441,418. These assets are allocated as follows:
 - Net Investment in capital assets - \$14,853,752. Total capital expenditures for the fiscal year were \$378,000.
 - Restricted net position - \$1,456,607. This amount is for both governmental and business type activities and is restricted for capital projects, debt service and legally segregated taxes, grants and fees.
 - Unrestricted net position for combined governmental and business type activities - \$1,493,437. This is an increase of \$274,743 over the previous year. These funds may be used to meet ongoing obligations of the City.
- Total revenue from all sources was \$4,022,043 of which \$144,375 was from capital grants and contributions. Total operating expenditures from all sources were \$3,540,420.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$696,110, of which \$327,000 is designated by City Council as General Fund reserves (25% of annual operating expenditures)

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Government-Wide Statement of Net Position on page 12 and the Government-Wide Statement of Activities on page 13 provide information about the activities as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements explain how programs and services were financed in the short term (the most recently completed fiscal year), as well as the amounts remaining available for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Fund financial statements also provide financial information about activities for which the City acts solely as a trustee or agent (fiduciary) for the benefit of individuals and entities external to this governmental unit.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 12. One of the most important questions asked about the City's finances is, "*Is the City as a whole better off or worse off as a result of the year's activities?*" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector business entities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and related changes. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. To reach a conclusion on this issue, you may need to consider other matters of a non-financial nature, such as:

- the condition of the City's infrastructure (streets and roadways, storm drainage improvements, sewer system, city hall), or
- the economic vitality of the core business districts, or
- the adequacy of emergency response times of police and fire personnel, in order to properly assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two (2) kinds of activities:

1. Governmental activities: most of the City's basic services are reported here, including the operations of the police, fire, building inspection, public works and general administration. Taxes (primarily property and sales), licenses, permits, state and federal grants, and franchise payments finance most of these activities.
2. Business-type activities: the City charges fees to customers to cover most of the cost of certain services and programs it provides. The City's wastewater treatment operations are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 14. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law (Gas Tax and Law Enforcement Grants funds). However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two (2) kinds of funds – *governmental* and *proprietary* (business activities/enterprise funds) – use different accounting approaches:

- **Governmental funds:** Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds, and the balances left at year-end that may be available for future spending. These funds are reported using an accounting method described as *modified accrual* accounting. This accounting method (basis) measures the availability of cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations, and the basic services it provides to residents and visitors of the City. Governmental fund information helps you to determine what financial resources are available to be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and the governmental *funds*, in a reconciliation (see pages 15 and 17).
- **Proprietary funds:** When the City charges customers for the full cost for the services it provides, those services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The City's enterprise funds (Sewer Operations) are the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

THE CITY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Colfax, assets exceeded liabilities by \$17,803,796 at the close of the current fiscal year.

By far the largest portion of the City's net position reflects its investment in capital assets (e.g., land, street, sewer and storm drain systems, buildings and park assets, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's combined net position for the years ending June 30, 2015 and 2014 are summarized (Table 1), as follows:

Table 1
City of Colfax, Net Position
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and other assets	\$ 2,493	\$ 1,995	\$ 1,111	\$ 1,007	\$ 3,604	\$ 3,002
Non-current and Capital assets	4,303	4,270	20,541	21,029	24,844	25,299
Total Assets	6,796	6,265	21,652	22,036	28,448	28,301
Liabilities:						
Long-term liabilities	681	816	9,107	9,451	9,788	10,267
Other liabilities	344	155	513	516	857	671
Total Liabilities	1,025	971	9,620	9,967	10,645	10,938
Net Position:						
Net Investment in capital assets	4,193	4,018	10,661	10,857	14,854	14,875
Restricted	921	793	536	476	1,457	1,269
Unrestricted	657	483	835	736	1,492	1,219
Total Net Position	<u>\$ 5,771</u>	<u>\$ 5,294</u>	<u>\$ 12,032</u>	<u>\$ 12,069</u>	<u>\$ 17,803</u>	<u>\$ 17,363</u>

The amount reported for net position of Governmental activities does not include the value of the City's infrastructure (roadways, bridges and storm drainage improvements) constructed prior to July 1, 2003.

Governmental Activities

Total program revenues for Governmental Activities increased 5.8% in fiscal year 2014-2015 as compared to the previous year. The increase was consistent in all revenue categories with the exception of capital grants which decreased slightly – which also relates to a reduction of capital outlay. The City's governmental activities net position increased by \$499,255 for the fiscal year before restatements. Sources of revenue and expenditures are noted in Table 2 below.

The restatement is for the new GASB 68 reporting requirement that requires the reporting of net pension liability.

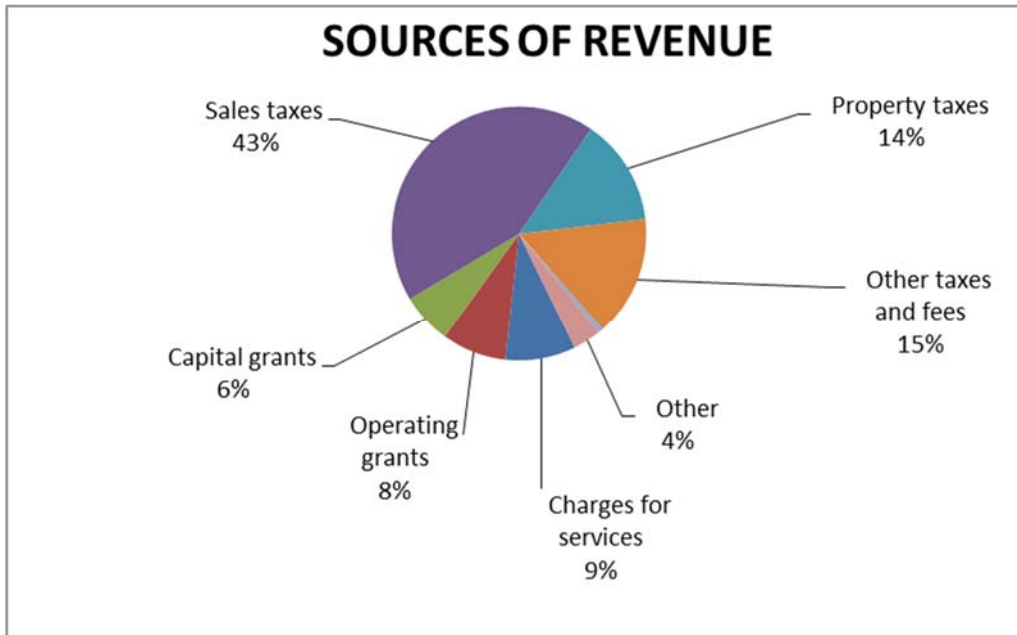
Business-Type Activities

Business-type activities decreased the City of Colfax's net position by \$17,632 for the fiscal year before restatements. Detailed revenues and expenditures are reported in Table 2 below. The restatement is for the new GASB reporting requirement that requires the reporting of the net pension liability.

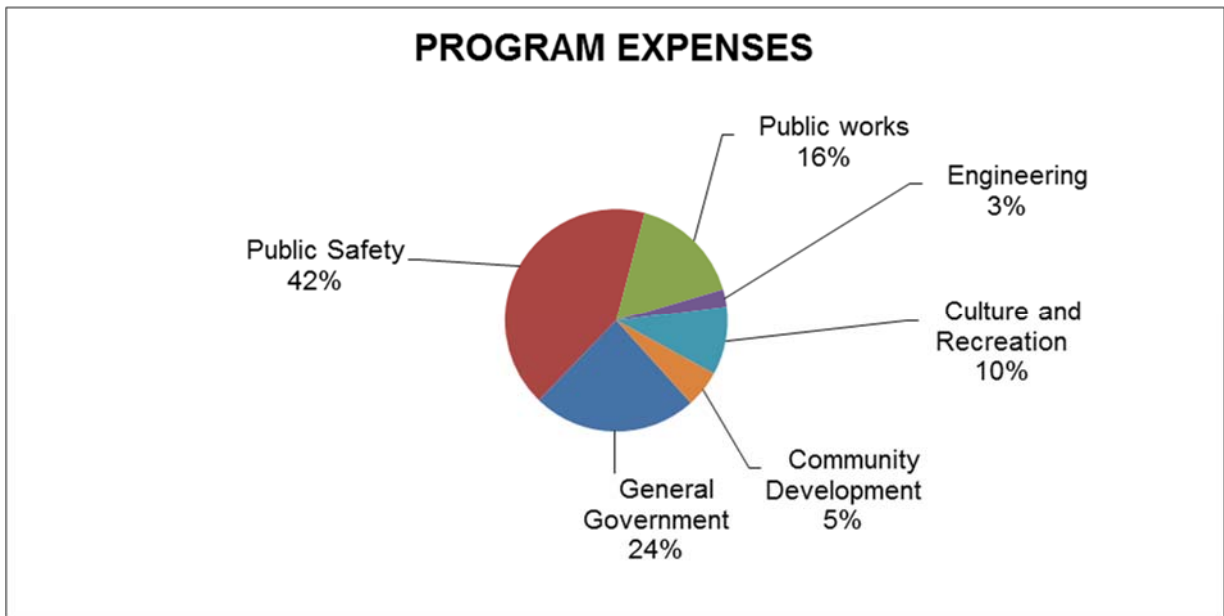
Table 2
City of Colfax, Change in Net Position
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 198	\$ 158	\$ 1,791	\$ 1,705	\$ 1,989	\$ 1,863
Operating grants and contributions	182	149	-	-	182	149
Capital grants and contributions	144	172	-	-	144	172
General revenues:						
Sales taxes	956	929	-	-	956	929
Property taxes	300	292	3	6	303	298
Other taxes and fees	342	339	-	-	342	339
Earnings on investments	13	5	13	9	26	14
Other	80	49	-	-	80	49
Total revenues	2,215	2,093	1,807	1,720	4,022	3,813
Expenses:						
General government	410	468	-	-	410	468
Public Safety	719	732	-	-	719	732
Public works	280	286	-	-	280	286
Engineering	44	38	-	-	44	38
Culture and recreation	171	60	-	-	171	60
Community development	92	87	-	-	92	87
Sewer	-	-	1,825	1,681	1,825	1,681
Garbage	-	-	-	-	-	-
Total expenses	1,716	1,671	1,825	1,681	3,541	3,352
Change in net position	499	422	(18)	39	481	461
Net position, July 1						
-as previously reported	5,294	4,674	12,069	12,030	17,363	16,704
Restatement	(22)	198	(19)		(41)	198
Net position, July 1	5,272	4,872	12,050	12,030	17,322	16,902
-as restated						
Net position, June 30	\$ 5,771	\$ 5,294	\$ 12,032	\$ 12,069	\$ 17,803	\$ 17,363

Fiscal Year 2014-2015
Governmental Activities – Sources of Revenue
(Graphic representation of Table 2 in percentages)



Fiscal Year 2014-2015
Governmental Activities – Program Expenses
(Graphic representation of Table 2 in percentages)



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital assets include police, fire and public works equipment, vehicles, buildings, roads, wastewater treatment facilities and sewer lines. At June 30, 2015, net capital assets of the governmental activities totaled \$4,302,968 and the net capital assets of the business-type activities totaled \$20,005,638. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See table 3 and Note D to the financial statements.)

Table 3
City of Colfax, Capital Assets
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 758	\$ 758	\$ 135	\$ 135	\$ 893	\$ 893
Construction in progress	236	121	-	-	236	121
Building and Improvements	4,345	4,291	24,343	24,343	28,688	28,634
Vehicles	420	420	3	3	423	423
Furniture and Fixtures	7	7	-	-	7	7
Machinery and equipment	382	382	594	509	976	891
Accumulated depreciation	(1,845)	(1,709)	(5,069)	(4,437)	(6,914)	(6,146)
Total Assets	\$ 4,303	\$ 4,270	\$ 20,006	\$ 20,553	\$ 24,309	\$ 24,823

Major capital asset improvements and additions/deletions during the current fiscal year included the following:

- Construction costs incurred for Grass Valley Street Road Rehabilitation and Railroad Pedestrian crossing improvements.
- Purchase of equipment for Business Activities including a new wastewater and storm water systems trailer mounted Jetter.

Long-Term Debt

At the end of fiscal year 2014-2015, the City of Colfax had total long-term debts outstanding of \$10,175,282, as compared to a total of \$10,723,805 last year after the pension liability restatement (See Table 4 and Note E to the financial statements).

Table 4
City of Colfax, Outstanding Debt
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Note Payable	\$ 109	\$ 252	\$ -	\$ -	\$ 109	\$ 252
Compensated absences	8	23	8	11	16	34
Landfill Closure	537	552	-	-	537	552
General obligation bond	-	-	20	26	20	26
County Loan	-	-	-	-	-	-
State Loans	-	-	9,325	9,670	9,325	9,670
Legal Settlements	-	-	111	112	111	112
Pension Liability	31	42	26	36	57	78
Total Long-term Debt	\$ 685	\$ 869	\$ 9,490	\$ 9,855	\$ 10,175	\$ 10,724

The City's long-term debt includes: compensated absences due employees for accrued vacation and sick leave pay, Post Closure expenses related to the City's closed landfill site, notes payable for the construction of the sewer plant and improvements projects, and notes payable for the purchase of property, legal settlements, and the pension liability. Additionally, the City issued general obligation bonds to finance the sewer facility back in 1978.

The activity in outstanding debt for the fiscal year ended was:

- Payments made on Note Payable associated with the purchase of property (Governmental Activities)
- First payment on State loan associated with Pond 3 liner, I&I mitigation and SCADA project which started in fiscal year 2011-2012. This project completed in early fiscal year 2013-2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In considering the City Budget for fiscal year 2015-2016, the City Council and management were cautiously optimistic as to the growth of revenues and expenditures due to the lingering effects of the economic downturn in recent years.

Operating revenues and expenses are projected to remain fairly level with fiscal year 2014-2015. The budget is balanced, with expenditure amounts in the General Fund and Enterprise Fund within projected revenues and available funds, while providing for contributions toward prudent fund balance reserves. The City will continue to provide existing services at the reduced staff levels achieved over the past several years.

The City's Capital Improvement program is in transition, from recent very large expenditure projects required to bring the wastewater system in compliance, to smaller projects addressing deferred infrastructure needs. For fiscal year 2015-2016, the City expects to complete the Road rehabilitation and Railroad Pedestrian Crossing improvements which were started in the fiscal year ended June 30, 2013. Funding is secured for these improvements. Staff is pursuing appropriate grant opportunities to assist in funding other improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, City of Colfax, 33 S. Main Street, Colfax, California 95713.

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BASIC FINANCIAL STATEMENTS

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CITY OF COLFAX

GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,268,022	\$ 904,903	\$ 3,172,925
Accounts receivable, net of allowance for doubtful accounts	37,946	180,299	218,245
Due from other government agencies	137,028	3,953	140,981
Interest receivable	1,250	832	2,082
Notes receivable	49,652	20,327	69,979
Prepaid expenses		864	864
Total current assets	<u>2,493,898</u>	<u>1,111,178</u>	<u>3,605,076</u>
Noncurrent assets:			
Restricted cash		535,762	535,762
Capital assets, net of accumulated depreciation			
Non-depreciable	994,122	134,700	1,128,822
Depreciable	<u>3,308,846</u>	<u>19,870,938</u>	<u>23,179,784</u>
	<u>4,302,968</u>	<u>20,541,400</u>	<u>24,844,368</u>
Total assets	<u>6,796,866</u>	<u>21,652,578</u>	<u>28,449,444</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions made subsequent to measurement date	<u>17,647</u>	<u>15,072</u>	<u>32,719</u>
LIABILITIES			
Current liabilities:			
Accounts payable	337,462	65,593	403,055
Accrued expenses	1,420	63,679	65,099
Unearned revenue	1,500		1,500
Current portion of long-term liabilities	<u>3,960</u>	<u>383,361</u>	<u>387,321</u>
Total current liabilities	<u>344,342</u>	<u>512,633</u>	<u>856,975</u>
Long-term liabilities:			
Postclosure landfill costs	536,561		536,561
Bonds payable		14,000	14,000
Notes payable	109,564	9,063,057	9,172,621
Compensated absences	3,960	3,809	7,769
Net pension liability	<u>30,748</u>	<u>26,262</u>	<u>57,010</u>
Total long-term liabilities	<u>680,833</u>	<u>9,107,128</u>	<u>9,787,961</u>
Total liabilities	<u>1,025,175</u>	<u>9,619,761</u>	<u>10,644,936</u>
DEFERRED INFLOWS OF RESOURCES			
Unamortized gains on pension investments	<u>18,031</u>	<u>15,400</u>	<u>33,431</u>
NET POSITION			
Net investment in capital assets	4,193,404	10,660,348	14,853,752
Restricted net position	920,845	535,762	1,456,607
Unrestricted net position	<u>657,058</u>	<u>836,379</u>	<u>1,493,437</u>
Total net position	<u>\$ 5,771,307</u>	<u>\$ 12,032,489</u>	<u>\$ 17,803,796</u>

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

CITY OF COLFAX

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

	Program Revenues				Governmental Activities	Business-type Activities	Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions			
Governmental Activities							
General government	\$ 410,221	\$ 111,463			\$ (298,758)		\$ (298,758)
Public safety	718,795	85,189	\$ 128,649		(504,957)		(504,957)
Public works	279,942			\$ 106,307	(173,635)		(173,635)
Community development	92,208		53,278	38,068	(862)		(862)
Engineering services	44,435				(44,435)		(44,435)
Culture and recreation	170,436	1,330			(169,106)		(169,106)
Total governmental activities	<u>1,716,037</u>	<u>197,982</u>	<u>181,927</u>	<u>144,375</u>	<u>(1,191,753)</u>		<u>(1,191,753)</u>
Business-type activities:							
Sewer	1,728,680	1,791,170				\$ 62,490	62,490
Interest on long-term debt	95,703					(95,703)	(95,703)
Total business-type activities	<u>1,824,383</u>	<u>1,791,170</u>				<u>(33,213)</u>	<u>(33,213)</u>
Total government	<u>\$3,540,420</u>	<u>\$1,989,152</u>	<u>\$ 181,927</u>	<u>\$ 144,375</u>	<u>(1,191,753)</u>	<u>(33,213)</u>	<u>(1,224,966)</u>
General revenues							
Taxes:							
Sales and use taxes							
					956,342		956,342
Property taxes							
					300,708	2,958	303,666
Transient occupancy tax							
					13,601		13,601
Franchises							
					74,834		74,834
Gas taxes							
					56,100		56,100
Construction fee assessments							
					4,838		4,838
Transportation impact fees							
					70,755		70,755
Motor vehicle in-lieu							
					120,108		120,108
Investment income							
					13,429	12,623	26,052
Rental income							
					44,350		44,350
Miscellaneous							
					35,943		35,943
Total general revenues					<u>1,691,008</u>	<u>15,581</u>	<u>1,706,589</u>
Changes in net position					<u>499,255</u>	<u>(17,632)</u>	<u>481,623</u>
Net position, beginning of year, as previously reported							
					5,293,737	12,068,641	17,362,378
Restatement							
					(21,685)	(18,520)	(40,205)
Net position, beginning of year							
					<u>5,272,052</u>	<u>12,050,121</u>	<u>17,322,173</u>
Net position, end of year							
					<u>\$ 5,771,307</u>	<u>\$ 12,032,489</u>	<u>\$17,803,796</u>

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

CITY OF COLFAX

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2015

	Major Funds			Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 1,560,192	\$ 94,803	\$ 613,027	\$ 2,268,022
Accounts receivable, net of allowance for doubtful accounts	37,946			37,946
Due from other governmental agencies	131,538		5,490	137,028
Interest receivable	866	35	349	1,250
Notes receivable			49,652	49,652
TOTAL ASSETS	\$ 1,730,542	\$ 94,838	\$ 668,518	\$ 2,493,898
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 223,671	\$ 70,087	\$ 43,704	\$ 337,462
Accrued expenses	1,221		199	1,420
Unearned revenue	1,500			1,500
Total liabilities	226,392	70,087	43,903	340,382
Fund balances:				
Nonspendable			49,652	49,652
Restricted	808,040	24,751	574,963	1,407,754
Unassigned	696,110			696,110
TOTAL FUND BALANCES	1,504,150	24,751	624,615	2,153,516
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 1,730,542	\$ 94,838	\$ 668,518	\$ 2,493,898

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

CITY OF COLFAX

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2015

Total Governmental Fund Balances	\$ 2,153,516
Amounts reported for governmental activities in the statement of net position are different because:	
Pension contributions subsequent to the valuation measurement date will reduce the pension liability in the future and are reported as deferred outflows of resources on the statement of net position.	17,647
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	4,302,968
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	(684,793)
Employee pension differences to be recognized in the futures as pension expense are reported as deferred inflows of resources on the statement of net position.	<u>(18,031)</u>
Net Position of Governmental Activities	<u>\$ 5,771,307</u>

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

CITY OF COLFAX

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
REVENUES:				
Taxes	\$ 1,343,454		\$ 56,100	\$ 1,399,554
Licenses, fees and permits	66,504	\$ 4,838	71,487	142,829
Intergovernmental revenues	177,646	125,933	266,056	569,635
Charges for services	83,191			83,191
Fines, forfeitures and penalties	5,699			5,699
Use of money and property	54,835	170	2,774	57,779
Other revenue	1,192			1,192
Total revenues	<u>1,732,521</u>	<u>130,941</u>	<u>396,417</u>	<u>2,259,879</u>
EXPENDITURES:				
General government	422,090			422,090
Public safety	579,291		110,363	689,654
Public works	89,986		163,564	253,550
Community development		16,871	5,437	22,308
Engineering services	44,435			44,435
Cultural and recreation	43,805			43,805
Debt Service:				
Principal	142,831			142,831
Capital outlay		293,878		293,878
Total expenditures	<u>1,322,438</u>	<u>310,749</u>	<u>279,364</u>	<u>1,912,551</u>
Excess (deficiency) of revenues over (under) expenditures	<u>410,083</u>	<u>(179,808)</u>	<u>117,053</u>	<u>347,328</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	6,077	21,692	36,546	64,315
Transfers out			(64,315)	(64,315)
Total other financing sources (uses)	<u>6,077</u>	<u>21,692</u>	<u>(27,769)</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses	416,160	(158,116)	89,284	347,328
Fund balance - beginning of year	<u>1,087,990</u>	<u>182,867</u>	<u>535,331</u>	<u>1,806,188</u>
Fund balance - end of year	<u>\$ 1,504,150</u>	<u>\$ 24,751</u>	<u>\$ 624,615</u>	<u>\$ 2,153,516</u>

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

CITY OF COLFAX

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 347,328
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	
Capital outlay	293,878
Depreciation expense	(145,890)
Governmental funds report proceeds from disposal of capital assets as revenues. However, in the government-wide statement of activities only the gain or (loss) on the sale of capital assets is reported. This is the difference between the gain or (loss) and proceeds.	
	(115,213)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. These are the amount by which repayments exceed proceeds.	
Gard Family Living Trust note payments	142,831
Postclosure landfill costs	15,071
Some receivables are deferred in the governmental funds because the amounts do not represent current financial resources that are recognized under the accrual basis in the statement of activities.	
Deferred revenue recognized last year	(44,587)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not expenditures in the governmental funds.	
Change in compensated absences	15,284
Change in deferred outflow of resources	(2,681)
Change in net pension obligation	11,265
Change in deferred inflow of resources	(18,031)
Change in Net Position of Governmental Activities	<u>\$ 499,255</u>

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

CITY OF COLFAX

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,060,000	\$ 1,060,000	\$ 1,343,454	\$ 283,454
Licenses, fees and permits	57,700	57,700	66,504	8,804
Intergovernmental	130,000	130,000	177,646	47,646
Charges for services	144,850	144,850	83,191	(61,659)
Fines and forfeitures	10,000	10,000	5,699	(4,301)
Use of money and property	46,300	46,300	54,835	8,535
Other revenue	1,000	1,000	1,192	192
Total revenues	<u>1,449,850</u>	<u>1,449,850</u>	<u>1,732,521</u>	<u>282,671</u>
Expenditures:				
Current:				
General government and administration	469,952	469,952	422,090	47,862
Public safety	573,142	573,142	579,291	(6,149)
Public works	97,249	97,249	89,986	7,263
Engineering services	32,000	32,000	44,435	(12,435)
Culture and recreation	52,847	52,847	43,805	9,042
Debt Service:				
Principal	120,000	120,000	142,831	(22,831)
Capital outlay	15,000	15,000		15,000
Total expenditures	<u>1,360,190</u>	<u>1,360,190</u>	<u>1,322,438</u>	<u>37,752</u>
Excess (deficiency) of revenues over expenditures	89,660	89,660	410,083	320,423
Other financing sources (uses):				
Transfers in			6,077	6,077
Transfers out	(40,194)	(40,194)		40,194
Total other financing uses	<u>(40,194)</u>	<u>(40,194)</u>	<u>6,077</u>	<u>46,271</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	49,466	49,466	416,160	366,694
Fund balances - beginning of year	<u>1,087,990</u>	<u>1,087,990</u>	<u>1,087,990</u>	
Fund balances - end of year	<u>\$ 1,137,456</u>	<u>\$ 1,137,456</u>	<u>\$ 1,504,150</u>	<u>\$ 366,694</u>

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

CITY OF COLFAX

STATEMENT OF NET POSITION
 PROPRIETARY FUND - SEWER FUND

June 30, 2015

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 904,903
Accounts receivable, net of allowance for doubtful accounts of \$20,000	180,299
Notes receivable	20,327
Due from other governmental agencies	3,953
Interest receivable	832
Prepaid expenses	864
Total current assets	<u>1,111,178</u>

Noncurrent Assets:

Restricted cash	535,762
Capital assets:	
Nondepreciable	134,700
Depreciable	19,870,938
Total capital assets, net of accumulated depreciation	<u>20,005,638</u>
Total assets	<u>21,652,578</u>

DEFERRED OUTFLOWS OF RESOURCES:

Pension contributions subsequent to measurement date	<u>15,072</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	65,593
Accrued expenses	63,679
Current portion of long-term liabilities	383,361
Total current liabilities	<u>512,633</u>

Long-term Liabilities:

Bonds payable, long-term portion	14,000
Notes payable, long-term portion	9,063,057
Compensated absences	3,809
Net pension liability	26,262
Total long-term liabilities	<u>9,107,128</u>
Total liabilities	<u>9,619,761</u>

DEFERRED INFLOWS OF RESOURCES:

Unamortized gains on pension investments	<u>15,400</u>
--	---------------

NET POSITION:

Invested in capital assets, net of related debt	10,660,348
Restricted	535,762
Unrestricted	836,379
Total net position	<u>\$ 12,032,489</u>

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

CITY OF COLFAX

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUND - SEWER FUND

For the Year Ended June 30, 2015

Operating revenues:	
Service charges	\$ 1,737,189
Permits	18,556
Miscellaneous	35,425
Total operating revenues	<u>1,791,170</u>
Operating expenses:	
Personnel services	274,892
Operation and maintenance	822,040
Depreciation	631,748
Total operating expenses	<u>1,728,680</u>
Income from operations	<u>62,490</u>
Non-operating revenues (expenses):	
Interest income	12,623
Tax assessment	2,958
Interest expense	(95,703)
Total nonoperating revenues	<u>(80,122)</u>
Change in net position	(17,632)
Net position, beginning of year - as previously reported	12,068,641
Restatement	(18,520)
Net position, beginning of year - as restated	<u>12,050,121</u>
Net position, end of year	<u>\$ 12,032,489</u>

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

CITY OF COLFAX

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND - SEWER FUND

For the Year Ended June 30, 2015

Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,809,650
Cash paid to suppliers	(834,970)
Cash paid to employees and related benefits	(277,290)
Cash provided by operating activities	<u>697,390</u>
Cash Flows from Noncapital Financing Activities:	
Tax assessments received	<u>2,607</u>
Cash provided by noncapital financing activities	<u>2,607</u>
Cash Flows from Capital and Related Financing Activities:	
Capital expenditures	(84,122)
Debt principal paid	(350,977)
Interest paid	(95,297)
Cash used for capital and related financing activities	<u>(530,396)</u>
Cash Flows from Investing Activities:	
Interest received	12,412
Payments received on issued notes	626
Cash used for investing activities	<u>13,038</u>
Increase in cash and cash equivalents	182,639
Cash and cash equivalents, beginning of year	<u>1,258,026</u>
Cash and cash equivalents, end of year	<u>\$ 1,440,665</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and investments	\$ 904,903
Restricted cash and investments	<u>535,762</u>
Cash and cash equivalents	<u>\$ 1,440,665</u>
Reconciliation of operating income from operations to cash provided by operating activities:	
Operating income	\$ 62,490
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation	631,748
Pension expense	23,142
(Increase) decrease in assets:	
Accounts receivable	18,480
Deferred outflows of resources for pension contribution	(15,072)
(Decrease) increase in liabilities:	
Accounts payable	(12,930)
Accrued expenses	(6,994)
Accrued compensated absences	<u>(3,474)</u>
Cash provided by operating activities	<u>\$ 697,390</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Colfax was incorporated in 1910, under the laws and regulations of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety, highways and streets, sewer, culture-recreation, public improvements, planning and zoning, and general administrative services. The voters of the City of Colfax, California, give authority and responsibility for operations to the City Council. The City Council has the authority to employ administrative and support personnel to carry out its directives. The primary method used to monitor the performance of the City's management is the financial budget, which is adopted annually by the City Council.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The City applies all GASB pronouncements. In addition the City applies all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity: The City operates as a self-governing local government unit within the state of California. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. Voters elect a city council that passes laws and determines broad policies. The council also oversees the operations of the City and approves all budgets, fund transfers and fund balance reserves. The City's main funding sources include property taxes, sales taxes, other inter-governmental revenue from state and federal sources, user fees, and federal and state financial assistance.

Government-wide and Fund Financial Statements: The government-wide financial statements (i.e., the statement of net position and statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services and privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounts of the City are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the last is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements and fiduciary fund statements, with the exception of agency funds, which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, with the exception of property taxes. Property taxes are considered to be available if they are collected within 60 days of the current fiscal period. Amounts received after the availability period are reported as unavailable revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Major revenues that are determined to be susceptible to accrual include property taxes and assessments, sales taxes, franchise taxes, charges for services, intergovernmental revenues, and earnings on investments. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time. Entitlements and shared revenues (government mandated nonexchange transactions) are recognized when the City has satisfied all applicable eligibility requirements and if the amounts are measurable. If the grant funds are received before the revenue recognition criteria are satisfied, the unearned amounts are reported as unearned revenue.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

The City reports the following major enterprise fund:

Sewer Fund – The Sewer Fund is used to account for the operations of the City’s sewer services.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the City reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (not including private purpose trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

PROPRIETARY FUNDS

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers or other funds for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents: The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including the City's investment in California Local Agency Investment Fund (LAIF). Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost.

Receivables and Payables: Sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 90 days of year end. Property taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net position. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and collectible. Unbilled utility revenue earned is recognized as revenue and accounts receivable in the enterprise funds.

Transactions between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Eliminations have not been made between or within the fund types.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An allowance for doubtful accounts of \$20,000 has been provided for the Sewer Fund for accounts that are deemed uncollectible.

Property Taxes: The County of Placer (the County) is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year end. Secured property taxes are levied on or before January 1 of each year. They become a lien on real property on January 1. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, costs and interest when paid. These taxes are secured by liens on the property being taxed.

The term “unsecured” refers to taxes on personal property other than land and buildings. Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. The County apportions secured property tax revenue in accordance with the alternate methods of distribution, the “Teeter Plan,” as prescribed by Section 4717 of the California Revenue and Taxation code. Therefore, the City receives 100% of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible.

These taxes are accrued as intergovernmental receivables only if they are received from the County within 60 days after year end for the governmental funds and are accrued when earned for government-wide presentation regardless of the timing of the related cash flows.

Capital Assets: Capital assets for governmental fund types of the City are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as expenditure in the governmental fund, and the related assets are reported in the government-wide financial statements at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at their estimated fair market value on the date donated.

Public domain (infrastructure) capital assets consisting of certain improvements other than buildings, but including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have been capitalized prospectively beginning July 1, 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not included in the current year’s additions to governmental or business-type capital assets. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 to 50 years
Sewer facility improvements and design costs	20 to 40 years
Safety equipment	5 to 10 years
Vehicles and heavy equipment	5 to 15 years
Furniture and other equipment	5 to 7 years

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

It is the policy of the City to capitalize all land, building, improvements, equipment, and eventually infrastructure assets, except assets costing less than \$5,000. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Costs of assets sold or retired and the resulting gain or loss is included in the operating statement of the related proprietary fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale. The proceeds reported in the governmental fund are eliminated and the gain or loss on sale is reported in the government-wide presentation.

Compensated Absences: It is the City's policy to permit employees to accumulate earned but unused vacation. Vacation credits must be used during the next succeeding year. Vacation is accrued when incurred in the government-wide presentation and in the proprietary funds and reported as a fund liability. Amounts that are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations or retirements that are currently payable, are reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources represent a reconciling item between the fund and government-wide presentation. No expenditure is reported in the governmental fund financial statements for these amounts.

Unused vacation is paid to employees upon termination after one year of service. The maximum accrual for all employees for vacation is one times the employees' annual vacation leave credits. There is no limit as to the accrual of sick leave. Sick leave is not payable upon termination, but may be converted to service credits under the City's defined benefit pension plan.

Long-term Obligations: Long-term debt of governmental funds are reported at face value in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, proceeds from borrowing are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

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

Fund Equity: In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonspendable Funds – Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Nonspendable balances are not expected to be converted to cash within the next operating cycle, which comprise prepaid items and long-term receivables.

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. These amounts cannot be used for any other purpose unless the government's City Council modifies, or removes the fund balance commitment.

Assigned Funds – Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Funds – Unassigned fund balance is the residual classification of the City's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

Net Position: The government-wide financial statements utilize a net position presentation. Net position is categorized as investment in capital assets (net of related debt), restricted and unrestricted.

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

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.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of a resolution. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted, committed, assigned and unassigned resources as they are needed. The City's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information: The City Council annually adopts the budget resolution for all operating funds of the City. Budgetary control is legally maintained at the fund level. Department heads submit budget requests to the City Administrator. The Administrator prepares an estimate of revenues and prepares recommendations for the next year’s budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30.

All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budgets during the year. Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year. Amounts shown in the financial statements represent the original budgeted amounts and all supplemental appropriations. The supplemental appropriations were immaterial. The budgetary data is prepared on the modified accrual basis consistent with the related “actual” amounts. The City does not use encumbrance accounting.

Excess Expenditures Over Appropriations: The following funds had excess expenditures over appropriations:

Fund	Appropriations	Total Expenditures and Transfers Out	Excess Expenditures
Nonmajor Governmental Funds:			
Supplemental Law Enforcement Fund	\$ 100,000	\$ 106,230	\$ 6,230
Transportation and Road Fund	99,700	143,505	43,805
Gas Tax	74,826	78,297	3,471
Oil Grant Fund	5,105	5,437	332

Deficit Fund Equity: The City has no funds with fund deficits at June 30, 2015.

New Pronouncements: In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The City implemented this Statement in the June 30, 2015 financial statements, which resulted in the City accruing a pension plan liability of \$57,010.

In June 2015, the GASB issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)”, replaces the requirements of GASB Statement No. 45 and requires governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments, on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective beginning the year ended June 30, 2018.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE B – CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds. Cash represents cash on hand, demand deposits in the bank and amounts invested in the State of California Local Agency Investment Fund (LAIF). Cash and investments at June 30, 2015 are classified in the accompanying financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,268,022	\$ 904,903	\$ 3,172,925
Restricted cash		535,762	535,762
	<u>\$ 2,268,022</u>	<u>\$ 1,440,665</u>	<u>\$ 3,708,687</u>

As of June 30, 2015, the City's cash and investments consisted of the following:

Cash on hand	\$ 300
Deposits in financial institutions	137,142
Investments	
California Local Agency Investment Fund	<u>3,571,245</u>
Total cash and investments	<u>\$ 3,708,687</u>

Investment policy: California statutes authorize cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the City by 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.

	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
Local agency bonds	None	None	10%
Mortgage-back securities	None	20%	None
Bankers acceptances	180 days	40%	30%
High grade commercial paper	270 days	40%	10%
Negotiable certificates of deposit	None	None	None
LAIF	N/A	None	None
Medium term corporate notes	5 years	30%	5%
Repurchase Agreements	365 days	20%	None
Money market fund	None	None	None

The City complied with the provisions of California Government Code pertaining to the types of investments held, institutions in which deposits were made and security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE B – CASH AND INVESTMENTS (Continued)

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. The City's investment in LAIF has an average maturity of 239 days.

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. The City's only investment is in LAIF, which is not rated.

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 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, other than the following provision for deposits: The California Governmental 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 market 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2015, the carrying amount of the City's deposits was \$137,142 and the balance in financial institutions was \$120,856. The City had no bank balances above the federally insured limit of \$250,000.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$69,641,162,418 managed by the State Treasurer. Of that amount, 2.08% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. 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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE C – INTERFUND TRANSACTIONS

Transfers during the year ended June 30, 2015 were as follows:

Transfers out	Transfers In			Total
	General	Capital Projects	Nonmajor Governmental Transportation and Road	
Nonmajor Governmental Funds:				
CDBG	\$ 6,077			\$ 6,077
Gas Tax		\$ 21,692	\$ 36,546	58,238
	<u>\$ 6,077</u>	<u>\$ 21,692</u>	<u>\$ 36,546</u>	<u>\$ 64,315</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

NOTE D – CAPITAL ASSETS

Governmental capital assets activity for the year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Additions	Retirements	Transfers	Balance at June 30, 2015
Capital assets, not being depreciated:					
Land	\$ 758,329				\$ 758,329
Construction in progress	121,074	\$ 293,878		\$ (179,159)	235,793
Total capital assets, not being depreciated	879,403	293,878	-	(179,159)	994,122
Capital assets, being depreciated:					
Buildings and improvements	4,290,749		\$ (124,555)	179,159	4,345,353
Vehicles	419,525				419,525
Machinery and equipment	382,298				382,298
Furniture and fixtures	6,764				6,764
Total capital assets, being depreciated	5,099,336	-	(124,555)	179,159	5,153,940
Less accumulated depreciation for:					
Buildings and improvements	(941,057)	(116,349)	9,342		(1,048,064)
Vehicles	(389,681)	(18,287)			(407,968)
Machinery and equipment	(371,044)	(11,254)			(382,298)
Furniture and fixtures	(6,764)				(6,764)
Total accumulated depreciation	(1,708,546)	(145,890)	9,342	-	(1,845,094)
Capital assets being depreciated, net	3,390,790	(145,890)	(115,213)	179,159	3,308,846
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 4,270,193</u>	<u>\$ 147,988</u>	<u>\$ (115,213)</u>	<u>\$ -</u>	<u>\$ 4,302,968</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE D – CAPITAL ASSETS (Continued)

Depreciation expense for governmental capital assets was charged to functions as follows:

General governmental	\$ 13,942
Public safety	28,225
Public works	23,089
Culture and recreation	10,770
Community development	<u>69,864</u>
Total governmental activities depreciation expense	<u><u>\$ 145,890</u></u>

Business-type capital assets activities for the year ended June 30, 2015 was as follows:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2015</u>
Capital assets, not being depreciated:					
Land	\$ 134,700				\$ 134,700
Total capital assets, not being depreciated	<u>134,700</u>				<u>134,700</u>
Capital assets, being depreciated:					
Buildings and improvements	24,342,595				24,342,595
Vehicles	3,400				3,400
Machinery and equipment	509,377	\$ 84,122			593,499
Total capital assets, being depreciated	<u>24,855,372</u>	<u>84,122</u>			<u>24,939,494</u>
Less accumulated depreciation for:					
Buildings and improvements	(4,095,820)	(590,670)			(4,686,490)
Vehicles	(3,400)				(3,400)
Machinery and equipment	(337,588)	(41,078)			(378,666)
Total accumulated depreciation	<u>(4,436,808)</u>	<u>(631,748)</u>			<u>(5,068,556)</u>
Capital assets being depreciated, net	<u>20,418,564</u>	<u>(547,626)</u>			<u>19,870,938</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u><u>\$ 20,553,264</u></u>	<u><u>\$ (547,626)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 20,005,638</u></u>

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

Sewer	<u>\$ 631,748</u>
Total business-type activities depreciation expense	<u><u>\$ 631,748</u></u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE E – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Payments	Balance June 30, 2015	Due Within One Year
Governmental Activities:					
Note payable	\$ 252,395		\$ (142,831)	\$ 109,564	
Postclosure landfill costs	551,632		(15,071)	536,561	
Pension liability	42,013		(11,265)	30,748	
Compensated absences	23,204		(15,284)	7,920	\$ 3,960
Governmental activities long-term liabilities	<u>\$ 869,244</u>	<u>\$ -</u>	<u>\$ (184,451)</u>	<u>\$ 684,793</u>	<u>\$ 3,960</u>
Business-Type Activities:					
General obligation bonds	\$ 26,000		\$ (6,000)	\$ 20,000	\$ 6,000
State loan - restructured	9,670,267		(344,977)	9,325,290	345,721
Legal settlement 2009	111,318			111,318	27,830
Total bonds, loans, settlements payable	9,807,585		(350,977)	9,456,608	379,551
Pension liability	35,883		(9,621)	26,262	
Compensated absences	11,093		(3,474)	7,619	3,810
Business-type activities long-term liabilities	<u>\$ 9,854,561</u>	<u>\$ -</u>	<u>\$ (364,072)</u>	<u>\$ 9,490,489</u>	<u>\$ 383,361</u>

Long-term debt of the City's governmental activities consists of the following as of June 30, 2015:

On December 8, 2010, the City entered into an agreement with the Gard Family Living Trust to purchase the Winner Chevrolet auto dealership building. The agreement provides that the City lease the property to the seller for one dollar per year for a term of 50 years, and that the seller upgrade the existing property. The City and seller believe that the upgrades to the auto dealership will provide additional sales tax for the City. The City will pay 50% of the increase in sales tax over the base year sales amount in semi-annual payments over a period of 10 years with two 5-year extensions, or until paid in full, whichever is earlier.

\$ 109,564

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE E – LONG-TERM LIABILITIES (Continued)

Postclosure landfill cost: State and Federal laws and regulations require the City to perform certain maintenance and monitoring functions on its landfill for 30 years after closure. The City has recorded a liability for landfill closure in the General Fund in accordance with GASB 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Costs*. The City hired a private consultant to perform an analysis to determine estimated total cost of the landfill closure, postclosure care costs, total capacity and remaining life. The City's landfill closure liability, based on landfill capacity used to date, is recorded based on the information provided by the consultant's analysis. The consultant's analysis is an estimate only and is subject to change due to inflation or deflation, technology, or applicable laws and regulations. The City is currently estimating that 100% of the landfill is used and there is no remaining life. As of June 30, 2015, the remaining closure and postclosure maintenance costs to be recognized over the next 23 years is \$536,561.

Long-term debt of the City's business-type activities consists of the following as of June 30, 2015:

On June 1, 1978, the City issued 100 \$1,000 USDA Rural Development general obligation bonds. The interest rate applicable on these bonds is 5%. The final maturity of these bonds is June 1, 2018. \$ 20,000

On September 19, 2011, the City entered into a loan agreement with the State for \$12,825,600 at an interest rate of 1%, the City received proceeds of \$7,761,000, which includes the \$36,000 to refund the City's 1978 USDA Sewer Revenue Bond and \$7,725,000 to restructure the original loan. The State forgave \$3,319,000 of the loan principal during 2013. Additionally, the City received loan disbursements of \$982,088 during the fiscal years 2013 and 2014, respectively. Annual principal and interest payments of \$438,974 are due on October 1. The note matures in 2038. 9,325,290

During 2009, the City settled a legal claim for \$450,000 related to the operations of its wastewater treatment plant. The City's insurance provider, SCORE, paid the entire \$450,000; however, the City is responsible for reimbursing \$226,601 to SCORE. 111,318

\$ 9,456,608

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE E – LONG-TERM LIABILITIES (Continued)

Principal payments on debt are due as follows:

June 30	General Obligation Bonds	State Loan - Restructured	Legal Settlement 2009	Total
2016	\$ 6,000	\$ 345,721	\$ 27,830	\$ 379,551
2017	7,000	349,178	22,264	378,442
2018	7,000	352,670	27,829	387,499
2019		356,197	33,395	389,592
2020		359,759		359,759
2021-2025		1,853,481		1,853,481
2026-2030		1,948,028		1,948,028
2031-2035		2,047,397		2,047,397
2036-2040		1,712,859		1,712,859
Totals	<u>\$ 20,000</u>	<u>\$ 9,325,290</u>	<u>\$ 111,318</u>	<u>\$ 9,456,608</u>

Interest payments on debt are due as follows:

June 30	General Obligation Bonds	State Loan - Restructured	Total
2016	\$ 1,000	\$ 93,253	\$ 94,253
2017	700	89,796	90,496
2018	350	86,304	86,654
2019		82,777	82,777
2020		79,215	79,215
2021-2025		341,388	341,388
2026-2030		246,841	246,841
2031-2035		147,472	147,472
2036-2040		43,035	43,035
Totals	<u>\$ 2,050</u>	<u>\$ 1,210,081</u>	<u>\$ 1,212,131</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE F – NET POSITION/FUND BALANCE

The following are the purposes for which net positions are restricted:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Street projects	\$ 45,908	
Landfill	271,479	
Economic development	257,658	
Recycling	35,970	
Fire Department	66,675	
Community projects	5,246	
Debt service reserve		\$ 438,974
Replacement of short-lived assets		55,708
Capital improvements		41,080
Mitigation projects	<u>237,909</u>	
	<u>\$ 920,845</u>	<u>\$ 535,762</u>

The following are the components of the Governmental Funds fund balances:

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balances:				
Nonspendable:				
Long-term receivables			\$ 49,652	\$ 49,652
Prepaid expenses				
Total Nonspendable			<u>49,652</u>	<u>49,652</u>
Restricted for:				
Street projects		\$ 24,751	21,157	45,908
Landfill closure	\$ 808,040			808,040
Economic redevelopment			208,006	208,006
Recycling			35,970	35,970
Fire Department			66,675	66,675
Community projects			5,246	5,246
Mitigation projects			237,909	237,909
Total Restricted	<u>808,040</u>	<u>24,751</u>	<u>574,963</u>	<u>1,407,754</u>
Unassigned	<u>696,110</u>			<u>696,110</u>
Total Unassigned	<u>696,110</u>			<u>696,110</u>
Total fund balances	<u>\$ 1,504,150</u>	<u>\$ 24,751</u>	<u>\$ 624,615</u>	<u>\$ 2,153,516</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE G – PENSION PLANS

Plan Descriptions: All qualified permanent and probationary employees are eligible to participate in the City’s cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). The Board has the following cost-sharing Plans:

- Miscellaneous Plan
- PEPRM Miscellaneous Plan (inactive)

Benefit provisions under the Plans are established by State statute and Board 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 at www.calpers.ca.gov.

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 (52 for PEPRM Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is 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, 2015, are summarized as follows:

Hire date	<u>Miscellaneous Plan (Prior to January 1, 2013)</u>
Benefit formula (at full retirement)	2.0% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 63
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%
Required employee contribution rates - union	5.000%
Required employee contribution rates - non-union	7.000%
Required employer contribution rates	8.435%

The Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants.

Contributions: Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE G – PENSION PLANS (Continued)

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

	<u>Miscellaneous Plan</u>
Contributions - employer	\$ 30,501
Contributions - employee (paid by employer)	2,218

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:
As of June 30, 2015, the City reported a net pension liability for its proportionate share of the net pension liability of the Plans as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous Plan	\$ 57,010
Total Net Pension Liability	<u>\$ 57,010</u>

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

	<u>Miscellaneous Plan</u>
Proportion - June 30, 2013	0.00238%
Proportion - June 30, 2014	0.00231%
Change - Increase (Decrease)	(0.00007)%

For the year ended June 30, 2015, the City recognized pension expense of \$50,236 for all Plans combined. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 32,719	
Net differences between projected and actual earnings on plan investments		\$ (19,158)
Adjustment due to differences in proportions		(14,273)
Total	<u>\$ 32,719</u>	<u>\$ (33,431)</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE G – PENSION PLANS (Continued)

The \$32,719 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended	
<u>June 30</u>	
2016	\$ (9,888)
2017	(9,888)
2018	(8,867)
2019	<u>(4,788)</u>
	<u>\$ (33,431)</u>

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

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data for all Funds

(1) Depending on entry age and service

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions include 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE G – PENSION PLANS (Continued)

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

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their 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 for each of the Plans. 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 Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	100.0%		

- (a) An expected inflation of 2.5% used for this period.
- (b) An expected inflation of 3.0% used for this period.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE G – PENSION PLANS (Continued)

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

	<u>Miscellaneous Plan</u>
1% Decrease	6.50%
Net Pension Liability	\$ 101,574
Current Discount Rate	7.50%
Net Pension Liability	\$ 57,010
1% Increase	8.50%
Net Pension Liability	\$ 20,026

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

Payable to the Pension Plan: At June 30, 2015, the City had no payables for the outstanding amount of contributions to the pension plan.

NOTE H – INSURANCE

The City is a member of the Small Cities Organized Risk Effort (SCORE) with other northern California cities. SCORE is a joint powers authority organized in accordance with Article 1, Chapter 5, Division 7, Title I of the California Government Fund Programs. The purpose is to create a common pool of funds to be used to meet obligations of the parties to provide workers’ compensation benefits for their employees and to provide liability insurance. SCORE provides claims processing administrative services, risk management services and actuarial studies. A member from each city governs SCORE. The City of Colfax council members do not have significant oversight responsibility, since they evenly share all factors of responsibility with the other cities. The City does not retain the risk of loss. However, ultimate liability for payment of claims and insurance premiums resides with member cities. SCORE is empowered to make supplemental assessments as needed to eliminate deficit positions of member cities. If SCORE becomes insolvent, the City is responsible only to the extent of any deficiency in its equity balance. SCORE establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims settlement expenses) that have been reported but not settled, plus estimates of claims that have been incurred but not reported. Because actual claims costs depend on various factors, the claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claims costs. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE H – INSURANCE (Continued)

The City’s insurance coverage and the respective coverage providers are as follows:

<u>Amount</u>	<u>Coverage provider</u>	<u>Payment Source</u>
<i>LIABILITY CLAIMS:</i>		
- \$ 25,000	Self-insured	Banking layer
\$ 25,001 - \$ 500,000	Small Cities Organized Risk Effort	Shared risk pool
\$ 500,001 - \$ 39,500,000	California Joint Powers Risk Management Authority	Shared risk pool
<i>WORKERS' COMPENSATION:</i>		
- \$ 50,000	Self-insured	Banking layer
\$ 50,001 - \$ 250,000	Small Cities Organized Risk Effort	Shared risk pool
\$ 250,001 - \$ 4,750,000	Local Agency Workers' Compensation Excess Joint Powers Authority	Shared risk pool
\$ 4,750,001 - Statutory Limit	California State Association of Counties Excess Workers' Compensation	Shared risk pool

The City also carries commercial insurance for additional liability and property insurance coverage. There have been no significant reductions in insurance coverage from coverage in the prior fiscal year. Also, settlements have not exceeded the insurance coverage for the past three fiscal years. The audited financial statements of SCORE are available at SCORE’s office.

NOTE I – COMMITMENTS AND CONTINGENCIES

The City participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors. The audits by the grantors for the year ended June 30, 2015, have not yet been conducted. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the City’s legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the City.

In May 2015, the City entered into an agreement with the County of Placer for fire protection services through the County’s contract with the California Department of Forestry and Fire Protection (Cal Fire) from July 1, 2015 through June 30, 2018. The services provided by Cal Fire include training for the City’s volunteer firefighters, contracted Cal Fire/Placer County Fire Battalion Chief, and fire protection planning services. For services provided, the City is required to pay the County of Placer \$30,340 per year or \$91,440 over the course of the three year contract.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2015

NOTE J – SUBSEQUENT EVENTS

On July 8, 2015, the City entered into a contract with Central Valley Engineering and Asphalt, Inc. for \$211,907. The contract was related to the construction of the Union Pacific Rail Road Pedestrian Crossing and Bike Path Improvement Project. The project was completed in October 2015.

On August 18, 2015, the City entered into a Joint Exercise of Powers Agreement with the County of Placer establishing the Sierra Valley Energy Authority (the Authority). The Authority was established to provide assistance to the City and the County with the development, financing and implementation of public and private sector energy and resource development and conservation programs.

NOTE K – CHANGES IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These Statements required the City to recognize in its accrual basis financial statements the net pension liability, deferred outflows of resources and deferred inflows of resources for the City’s pension plans. These Statements also required contributions made after the June 30, 2014 measurement date used in the actuarial valuations for the pension plans to be reported as deferred outflows of resources.

Due to the implementation of these Statements, the balances previously reported as of July, 1, 2014 changed as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Changes due to new Standards - Increase (Decrease):		
Deferred Outflows of Resources	<u>\$ 20,328</u>	<u>\$ 17,363</u>
Total Liabilities	<u>\$ 42,013</u>	<u>\$ 35,883</u>
Net Position	<u>\$ (21,685)</u>	<u>\$ (18,520)</u>

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COLFAX

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2015

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2015</u>
Proportion of the net pension liability	0.00092%
Proportionate share of the net pension liability	\$ 57,010
Covered - employee payroll	\$ 353,250
Proportionate share of the net pension liability as a percentage of covered payroll	16.14%
Plan fiduciary net position	\$ 10,639,461,174
Plan fiduciary net position as a percentage of the total pension liability	83.03%

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).

Changes in assumptions: None.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 33,409
Contributions in relation to the actuarially determined contributions	<u>(33,409)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 353,250
Contributions as a percentage of covered - employee payroll	9.46%

Notes to Schedule:

Valuation date: June 30, 2013

Methods and assumptions used to determine contribution rates:

Single Employers Example	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50 to 63 years

Omitted years: The year ended June 30, 2015 was the first year of implementation GASB Statement No. 68, therefore only one year is shown.

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COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS

CITY OF COLFAX

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue				
	Bricks	Supplemental Law Enforcement	CDBG	Transportation & Road Fund	Gas Tax
ASSETS:					
Cash and cash equivalents	\$ 5,243	\$ 25,754	\$ 207,874	\$ 15,965	\$ 22,672
Due from other governmental agencies					
Interest receivable	3		132	(16)	47
Notes receivable			49,652		
Total assets	\$ 5,246	\$ 25,754	\$ 257,658	\$ 15,949	\$ 22,719
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable		\$ 25,754		\$ 15,780	\$ 1,562
Accrued expenses				169	
Total liabilities		25,754		15,949	1,562
Fund balance:					
Nonspendable			\$ 49,652		
Restricted	\$ 5,246		208,006		21,157
Total fund balance	5,246		257,658		21,157
Total liabilities and fund balance	\$ 5,246	\$ 25,754	\$ 257,658	\$ 15,949	\$ 22,719

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

Special Revenue				Total
Mitigation Funds	Beverage Recycling	Oil Grant	Fire Capital	Nonmajor Governmental Funds
\$ 237,788	\$ 33,031	\$ 3,554	\$ 61,146	\$ 613,027
121	20	3	5,490 39	5,490 349
				49,652
<u>\$ 237,909</u>	<u>\$ 33,051</u>	<u>\$ 3,557</u>	<u>\$ 66,675</u>	<u>\$ 668,518</u>
		\$ 608 30		\$ 43,704 199
		638		43,903
				49,652
\$ 237,909	\$ 33,051	2,919	\$ 66,675	574,963
<u>237,909</u>	<u>33,051</u>	<u>2,919</u>	<u>66,675</u>	<u>624,615</u>
<u>\$ 237,909</u>	<u>\$ 33,051</u>	<u>\$ 3,557</u>	<u>\$ 66,675</u>	<u>\$ 668,518</u>

CITY OF COLFAX

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

	Special Revenue				
	Bricks	Supplemental Law Enforcement	CDBG	Transportation & Road Fund	Gas Tax
REVENUES:					
Tax revenues					\$ 56,100
Licenses, fees and permits				\$ 732	
Intergovernmental revenues		\$ 106,230		106,307	
Use of money and property	\$ 12		\$ 2,087	(80)	145
Other revenue					
Total revenues	<u>12</u>	<u>106,230</u>	<u>2,087</u>	<u>106,959</u>	<u>56,245</u>
EXPENDITURES:					
General government					
Public safety		106,230			
Public works				143,505	20,059
Community development					
Capital outlay					
Total expenditures		<u>106,230</u>		<u>143,505</u>	<u>20,059</u>
Excess (deficiency) of revenues over (under) expenditures	<u>12</u>		<u>2,087</u>	<u>(36,546)</u>	<u>36,186</u>
OTHER FINANCING SOURCES (USES):					
Transfers in				36,546	
Transfers out			(6,077)		(58,238)
Total other financing sources (uses)			<u>(6,077)</u>	<u>36,546</u>	<u>(58,238)</u>
Net change in fund balance	12		(3,990)		(22,052)
Fund balances - beginning of year	<u>5,234</u>		<u>261,648</u>		<u>43,209</u>
Fund balances - end of year	<u>\$ 5,246</u>	<u>\$ -</u>	<u>\$ 257,658</u>	<u>\$ -</u>	<u>\$ 21,157</u>

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

Special Revenue				Total
Mitigation Funds	Beverage Recycling	Oil Grant	Fire Capital	Nonmajor Governmental Funds
				\$ 56,100
\$ 70,755				71,487
	\$ 5,000	\$ 5,000	\$ 43,519	266,056
412	77	6	115	2,774
<u>71,167</u>	<u>5,077</u>	<u>5,006</u>	<u>43,634</u>	<u>396,417</u>
			4,133	110,363
		5,437		163,564
				5,437
		<u>5,437</u>	<u>4,133</u>	<u>279,364</u>
<u>71,167</u>	<u>5,077</u>	<u>(431)</u>	<u>39,501</u>	<u>117,053</u>
				36,546
				(64,315)
				(27,769)
71,167	5,077	(431)	39,501	89,284
166,742	27,974	3,350	27,174	535,331
<u>\$ 237,909</u>	<u>\$ 33,051</u>	<u>\$ 2,919</u>	<u>\$ 66,675</u>	<u>\$ 624,615</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

City Council
City of Colfax, California
Colfax, California

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Colfax, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 6, 2016.

Internal Control Over Financial Reporting

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

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

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

To the City Council
City of Colfax, California

Compliance and Other Matters

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

Purpose of this Report

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

Richardson & Company, LLP

January 6, 2016