

CITY OF COLFAX, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2014

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CITY OF COLFAX, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Colfax, as of June 30, 2014, 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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Colfax'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, 2015 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, 2015

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, 2014. 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 by \$17,362,378 (Net Position). These assets are allocated as follows:
 - Net Investment in capital assets - \$14,874,795.
 - Total capital outlay for the fiscal year was \$180,072.
 - Restricted net position - \$1,286,889. This amount is for both governmental and business type activities.
 - Restricted net position for Business-type Activities increased \$476,026 for the fiscal year 2013-2014. During the fiscal year, the City recorded a restricted reserve fund in the Sewer Enterprise fund equal to one year's debt service on the Loan Agreement with the State Water Resources Control Board. The reserve fund amount of \$438,974 will be maintained for the full term of the Finance agreement. In addition, the City established a reserve fund for the replacement of short-lived assets in the amount of \$37,052 as required by the letter of conditions in the USDA grant related to the same project as the loan agreement.
 - In Government Activities, restricted net position decreased \$198,420 primarily due to the reduction of capital project funds.
- Unrestricted net position - \$1,218,694. This is a significant increase as compared to \$718,034 for the previous year.
 - Governmental Activities had an increase of \$516,322 in unrestricted net position. The majority of the increase is due to the total revenues exceeding total expenses by \$587,949, not including depreciation.
 - In Business-type Activities, unrestricted net position is slightly less (2%) than the previous year. Current year earnings and unrestricted net position were utilized to fund the reserve (noted in Restricted net position above). The loan restructured in Fiscal year ended June 30, 2012 waived payments until one year after completion of project – but required establishment of the reserve fund. Payments are scheduled to begin in fiscal year 2014-2015.

- Total revenue from all sources was \$3,812,764 of which \$171,725 was from capital grants and contributions. Total operating expenditures from all sources were \$3,353,004.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Government-Wide Statement of Net Position on page 13 and the Government-Wide Statement of Activities on page 14 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 15. 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 13. 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 15. 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 16 and 18).
- **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 \$17,362,378 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, 2014 and 2013 are summarized (Table 1), as follows:

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

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 1,995	\$ 1,769	\$ 1,007	\$ 1,316	\$ 3,002	\$ 3,085
Non-current and Capital assets	<u>4,270</u>	<u>4,163</u>	<u>21,029</u>	<u>20,998</u>	<u>25,299</u>	<u>25,161</u>
Total Assets	6,265	5,932	22,036	22,314	28,301	28,246
Liabilities:						
Long-term liabilities	816	1,096	9,451	9,956	10,267	11,052
Other liabilities	<u>155</u>	<u>162</u>	<u>516</u>	<u>328</u>	<u>671</u>	<u>490</u>
Total Liabilities	971	1,258	9,967	10,284	10,938	11,542
Net Position:						
Net Investment in capital assets	4,018	3,716	10,857	11,279	14,875	14,995
Restricted	793	991	476	-	1,269	991
Unrestricted	<u>483</u>	<u>(33)</u>	<u>736</u>	<u>751</u>	<u>1,219</u>	<u>718</u>
Total Net Position	<u>\$ 5,294</u>	<u>\$ 4,674</u>	<u>\$ 12,069</u>	<u>\$ 12,030</u>	<u>\$ 17,363</u>	<u>\$ 16,704</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 were reduced in fiscal year 2013-2014 as compared to the previous year primarily due to the reduction in capital grants – which also resulted in a reduction of capital outlay. The City’s governmental activities net position increased by \$421,532 (before transfers). As noted in Table 2 below, the primary contributor was an increase in sales tax revenues.

The Restatement in Governmental Activities is due to the recognition of donated land values that had not previously been reflected in the financial statements.

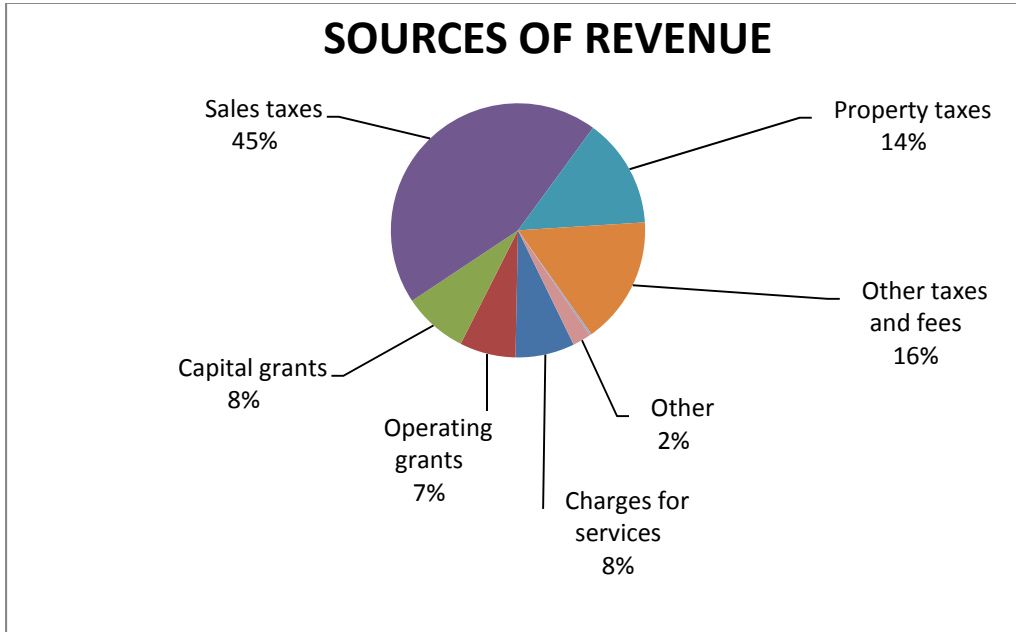
Business-Type Activities

Business-type activities increased the City of Colfax’s net position by \$38,228. Detailed revenues and expenditures are reported in Table 2 below. The significant decrease in total revenues is due to the reduction in capital grants.

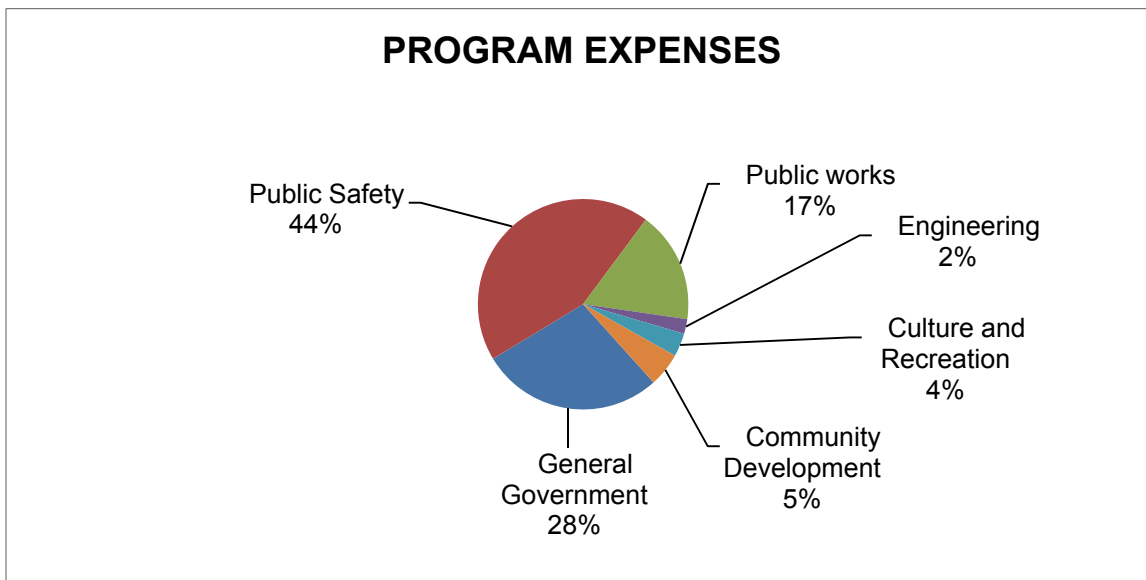
Table 2
City of Colfax, Change in Net Position
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 158	\$ 230	\$ 1,705	\$ 1,657	\$ 1,863	\$ 1,887
Operating grants and contributions	149	141	-	-	149	141
Capital grants and contributions	172	421	-	3,964	172	4,385
General revenues:						
Sales taxes	929	735			929	735
Property taxes	292	283	6	7	298	290
Other taxes and fees	339	289			339	289
Earnings on investments	5	8	9	15	14	23
Other	49	53			49	53
Total revenues	<u>2,093</u>	<u>2,160</u>	<u>1,720</u>	<u>5,643</u>	<u>3,813</u>	<u>7,803</u>
Expenses:						
General government	468	411			468	411
Public Safety	732	688			732	688
Public works	286	275			286	275
Engineering	38	13			38	13
Culture and recreation	60	47			60	47
Community development	87	145			87	145
Sewer	-	-	1,681	1,610	1,681	1,610
Garbage	-	-	-	-	-	-
Total expenses	<u>1,671</u>	<u>1,579</u>	<u>1,681</u>	<u>1,610</u>	<u>3,352</u>	<u>3,189</u>
Change in net position	422	581	39	4,033	461	4,614
Net position, July 1						
-as previously reported	4,872	4,093	12,030	7,997	16,902	12,090
Restatement		198			-	198
Net position, July 1 -as restated	<u>4,872</u>	<u>4,291</u>	<u>12,030</u>	<u>7,997</u>	<u>16,902</u>	<u>12,288</u>
Net position, June 30	<u>\$ 5,294</u>	<u>\$ 4,872</u>	<u>\$ 12,069</u>	<u>\$ 12,030</u>	<u>\$ 17,363</u>	<u>\$ 16,902</u>

Fiscal Year 2013-2014
Governmental Activities – Sources of Revenue
 (Graphic representation of Table 2 in percentages)



Fiscal Year 2013-2014
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, 2014, net capital assets of the governmental activities totaled \$4,270,193 and the net capital assets of the business-type activities totaled \$20,553,264. 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	
	2014	2013 (Restated)	2014	2013	2014	2013 (Restated)
Land	\$ 758	\$ 758	\$ 135	\$ 135	\$ 893	\$ 893
Construction in progress	121	46	-	6,401	121	6,447
Building and Improvements	4,291	4,291	24,343	17,879	28,634	22,170
Vehicles	420	444	3	3	423	447
Furnitures and Fixtures	7	7	-	-	7	7
Machinery and equipment	382	471	509	467	891	938
Accumulated depreciation	(1,709)	(1,656)	(4,437)	(3,887)	(6,146)	(5,543)
Total Assets	\$ 4,270	\$ 4,361	\$ 20,553	\$ 20,998	\$ 24,823	\$ 25,359

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

- Restatement of donated land values which were not previously reflected on City financial statements.
- Construction costs incurred for Grass Valley Street Road Rehabilitation and Railroad Pedestrian crossing improvements.
- Retirement of obsolete computer and miscellaneous equipment.
- Completed Construction costs for the Pond 3 Liner installation, I&I system improvements and SCADA program upgrades which started in Fiscal year 2011-2012.

Long-Term Debt

At year-end, the City of Colfax had total long-term debts outstanding of \$10,645,909, as compared to a total of \$11,053,162 last year (See Table 4 and Note E to the financial statements).

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

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Note Payable	\$ 252	\$ 448	\$ -	\$ -	\$ 252	\$ 448
Compensated absences	23	18	11	10	34	28
Landfill Closure	552	556	-	-	552	556
General obligation bond	-	-	26	31	26	31
County Loan	-	-	-	1,000	-	1,000
State Loans	-	-	9,670	8,688	9,670	8,688
Legal Settlements	-	75	112	227	112	302
Total Long-term Debt	\$ 827	\$ 1,097	\$ 9,819	\$ 9,956	\$ 10,646	\$ 11,053

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 and legal settlements. 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)
- Payoff of two legal settlements - one in Governmental Activities and one in Business Activities.
- Repayment of County loan with proceeds from the State loan
- Final activity (increase) 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 2014-2015, 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 2013-2014. 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 2014-2015, 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 aggressively 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.

BASIC FINANCIAL STATEMENTS

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CITY OF COLFAX

GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,704,861	\$ 782,000	\$ 2,486,861
Accounts receivable, net of allowance for doubtful accounts	41,670	198,779	240,449
Due from other government agencies	195,680	3,602	199,282
Interest receivable	844	621	1,465
Notes receivable	51,665	20,953	72,618
Prepaid expenses		864	864
Total current assets	<u>1,994,720</u>	<u>1,006,819</u>	<u>3,001,539</u>
Noncurrent assets:			
Restricted cash		476,026	476,026
Capital assets, net of accumulated depreciation			
Non-depreciable	879,403	134,700	1,014,103
Depreciable	3,390,790	20,418,564	23,809,354
	<u>4,270,193</u>	<u>21,029,290</u>	<u>25,299,483</u>
Total assets	<u>6,264,913</u>	<u>22,036,109</u>	<u>28,301,022</u>
LIABILITIES			
Current liabilities:			
Accounts payable	115,691	78,523	194,214
Accrued expenses	12,326	70,267	82,593
Unearned revenue	15,928		15,928
Current portion of long-term liabilities	11,602	367,655	379,257
Total current liabilities	<u>155,547</u>	<u>516,445</u>	<u>671,992</u>
Long-term liabilities:			
Postclosure landfill costs	551,632		551,632
Bonds payable		20,000	20,000
Notes payable	252,395	9,425,477	9,677,872
Compensated absences	11,602	5,546	17,148
Total long-term liabilities	<u>815,629</u>	<u>9,451,023</u>	<u>10,266,652</u>
Total liabilities	<u>971,176</u>	<u>9,967,468</u>	<u>10,938,644</u>
NET POSITION			
Net investment in capital assets	4,017,798	10,856,997	14,874,795
Restricted net position	792,863	476,026	1,268,889
Unrestricted net position	483,076	735,618	1,218,694
Total net position	<u>\$ 5,293,737</u>	<u>\$ 12,068,641</u>	<u>\$ 17,362,378</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, 2014

	Program Revenues				Governmental Activities	Business-type Activities	Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions			
Governmental Activities							
General government	\$ 467,893	\$ 111,077			\$ (356,816)		\$ (356,816)
Public safety	732,066	43,973	\$ 120,714		(567,379)		(567,379)
Public works	286,728		23,361	\$ 98,843	(164,524)		(164,524)
Community development	86,526		5,000	72,882	(8,644)		(8,644)
Engineering services	38,189				(38,189)		(38,189)
Culture and recreation	60,202	2,890			(57,312)		(57,312)
Total governmental activities	<u>1,671,604</u>	<u>157,940</u>	<u>149,075</u>	<u>171,725</u>	<u>(1,192,864)</u>		<u>(1,192,864)</u>
Business-type activities:							
Sewer	1,579,012	1,705,137				\$ 126,125	126,125
Interest on long-term debt	102,388					(102,388)	(102,388)
Total business-type activities	<u>1,681,400</u>	<u>1,705,137</u>				<u>23,737</u>	<u>23,737</u>
Total government	<u>\$3,353,004</u>	<u>\$1,863,077</u>	<u>\$ 149,075</u>	<u>\$ 171,725</u>	<u>(1,192,864)</u>	<u>23,737</u>	<u>(1,169,127)</u>
General revenues							
Taxes:							
					928,729		928,729
					292,311	5,750	298,061
					18,282		18,282
					135,584		135,584
					68,398		68,398
					116,957		116,957
					5,266	8,741	14,007
					46,646		46,646
					2,223		2,223
Total general revenues					<u>1,614,396</u>	<u>14,491</u>	<u>1,628,887</u>
Changes in net position					421,532	38,228	459,760
Net position, beginning of year, as previously reported					4,673,836	12,030,413	16,704,249
Restatement					198,369		198,369
Net position, beginning of year					<u>4,872,205</u>	<u>12,030,413</u>	<u>16,902,618</u>
Net position, end of year					<u>\$ 5,293,737</u>	<u>\$ 12,068,641</u>	<u>\$17,362,378</u>

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

CITY OF COLFAX
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2014

	Major Funds			Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 1,020,891	\$ 186,316	\$ 497,654	\$ 1,704,861
Accounts receivable, net of allowance for doubtful accounts	41,670			41,670
Due from other governmental agencies	138,424	44,587	12,669	195,680
Interest receivable	493	95	256	844
Notes receivable			51,665	51,665
Due from other funds	5,524			5,524
	TOTAL ASSETS	\$ 230,998	\$ 562,244	\$ 2,000,244
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 94,652	\$ 3,544	\$ 17,495	\$ 115,691
Accrued expenses	8,432		3,894	12,326
Unearned revenue	15,928			15,928
Due to other funds			5,524	5,524
Total liabilities	119,012	3,544	26,913	149,469
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue		44,587		44,587
TOTAL DEFERRED INFLOWS OF RESOURCES		44,587		44,587
Fund balances:				
Nonspendable			51,665	51,665
Committed	131,812			131,812
Restricted	801,710	182,867	483,666	1,468,243
Unassigned	154,468			154,468
TOTAL FUND BALANCES	1,087,990	182,867	535,331	1,806,188
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 1,207,002	\$ 230,998	\$ 562,244	\$ 2,000,244

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, 2014

Total Governmental Fund Balances	\$ 1,806,188
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	4,270,193
Certain receivables are not available to pay current period expenditures and therefore are deferred in the governmental funds	44,587
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.	<u>(827,231)</u>
Net Position of Governmental Activities	<u><u>\$ 5,293,737</u></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, 2014

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
REVENUES:				
Taxes	\$ 1,309,343		\$ 68,398	\$ 1,377,741
Licenses, fees and permits	68,893		918	69,811
Intergovernmental revenues	158,731	\$ 248,295	203,843	610,869
Charges for services	149,757			149,757
Fines, forfeitures and penalties	7,154			7,154
Use of money and property	48,893	451	2,587	51,931
Other revenue	1,286			1,286
Total revenues	<u>1,744,057</u>	<u>248,746</u>	<u>275,746</u>	<u>2,268,549</u>
EXPENDITURES:				
General government	523,128		4,336	527,464
Public safety	583,366		110,625	693,991
Public works	88,232		168,827	257,059
Community development		1,928	14,624	16,552
Engineering services	38,189			38,189
Cultural and recreation	46,080			46,080
Debt Service:				
Principal	194,948			194,948
Capital outlay		75,337		75,337
Total expenditures	<u>1,473,943</u>	<u>77,265</u>	<u>298,412</u>	<u>1,849,620</u>
Excess (deficiency) of revenues over (under) expenditures	<u>270,114</u>	<u>171,481</u>	<u>(22,666)</u>	<u>418,929</u>
OTHER FINANCING SOURCES (USES):				
Transfers in		1,484	62,967	64,451
Transfers out	(10,625)		(53,826)	(64,451)
Total other financing sources (uses)	<u>(10,625)</u>	<u>1,484</u>	<u>9,141</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses	259,489	172,965	(13,525)	418,929
Fund balance - beginning of year	<u>828,501</u>	<u>9,902</u>	<u>548,856</u>	<u>1,387,259</u>
Fund balance - end of year	<u>\$ 1,087,990</u>	<u>\$ 182,867</u>	<u>\$ 535,331</u>	<u>\$ 1,806,188</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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 418,929

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	75,337
Depreciation expense	(166,417)

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.

(238)

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	194,948
Postclosure landfill costs	4,472
Settlement payments	75,000

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	44,587
Deferred revenue recognized last year	(220,000)

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	<u>(5,086)</u>
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Change in Net Position of Governmental Activities \$ 421,532

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, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 946,000	\$ 946,000	\$ 1,309,343	\$ 363,343
Licenses, fees and permits	38,250	38,250	68,893	30,643
Intergovernmental	150,000	150,000	158,731	8,731
Charges for services	137,600	137,600	149,757	12,157
Fines and forfeitures	10,000	10,000	7,154	(2,846)
Use of money and property	44,975	44,975	48,893	3,918
Other revenue	5,000	5,000	1,286	(3,714)
Total revenues	<u>1,331,825</u>	<u>1,331,825</u>	<u>1,744,057</u>	<u>412,232</u>
Expenditures:				
Current:				
General government and administration	487,083	487,083	523,128	(36,045)
Public safety	572,013	572,013	583,366	(11,353)
Public works	90,589	90,589	88,232	2,357
Engineering services	15,000	15,000	38,189	(23,189)
Culture and recreation	36,935	36,935	46,080	(9,145)
Debt Service:				
Principal	20,000	20,000	194,948	(174,948)
Capital outlay	13,000	13,000		13,000
Total expenditures	<u>1,234,620</u>	<u>1,234,620</u>	<u>1,473,943</u>	<u>(239,323)</u>
Excess (deficiency) of revenues over expenditures	97,205	97,205	270,114	172,909
Other financing sources (uses):				
Transfers in				
Transfers out			(10,625)	(10,625)
Total other financing uses			<u>(10,625)</u>	<u>(10,625)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	97,205	97,205	259,489	162,284
Fund balances - beginning of year	<u>828,501</u>	<u>828,501</u>	<u>828,501</u>	
Fund balances - end of year	<u>\$ 925,706</u>	<u>\$ 925,706</u>	<u>\$ 1,087,990</u>	<u>\$ 162,284</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, 2014

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 782,000
Accounts receivable, net of allowance for doubtful accounts of \$19,131	198,779
Notes receivable	20,953
Due from other governmental agencies	3,602
Interest receivable	621
Prepaid expenses	864
Total current assets	<u>1,006,819</u>

Noncurrent Assets:

Restricted cash	476,026
Capital assets:	
Nondepreciable	134,700
Depreciable	<u>20,418,564</u>
Total capital assets, net of accumulated depreciation	<u>20,553,264</u>

Total assets	<u>22,036,109</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	78,523
Accrued expenses	70,267
Current portion of long-term liabilities	<u>367,655</u>
Total current liabilities	<u>516,445</u>

Long-term Liabilities:

Bonds payable, long-term portion	20,000
Notes payable, long-term portion	9,425,477
Compensated absences	<u>5,546</u>
Total long-term liabilities	<u>9,451,023</u>
Total liabilities	<u>9,967,468</u>

NET POSITION:

Invested in capital assets, net of related debt	10,856,997
Restricted	476,026
Unrestricted	<u>735,618</u>
Total net position	<u>\$ 12,068,641</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, 2014

Operating revenues:	
Service charges	\$ 1,647,790
Permits	13,917
Miscellaneous	43,430
Total operating revenues	<u>1,705,137</u>
Operating expenses:	
Personnel services	347,324
Operation and maintenance	681,905
Depreciation	549,783
Total operating expenses	<u>1,579,012</u>
Income from operations	<u>126,125</u>
Non-operating revenues (expenses):	
Interest income	8,741
Tax assessment	5,750
Interest expense	(102,388)
Total nonoperating revenues	<u>(87,897)</u>
Change in net position	38,228
Net position, beginning of year	<u>12,030,413</u>
Net position, end of year	<u><u>\$ 12,068,641</u></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, 2014

Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,776,548
Cash paid to suppliers	(669,753)
Cash paid to employees and related benefits	(346,630)
Cash provided by operating activities	<u>760,165</u>
Cash Flows from Noncapital Financing Activities:	
Tax assessments received	<u>5,750</u>
Cash provided by noncapital financing activities	<u>5,750</u>
Cash Flows from Capital and Related Financing Activities:	
Capital expenditures	(211,918)
Debt proceeds received	982,088
Debt principal paid	(1,005,000)
Intergovernmental revenues received	55,125
Settlements paid	(115,707)
Interest paid	(185,860)
Cash used for capital and related financing activities	<u>(481,272)</u>
Cash Flows from Investing Activities:	
Interest received	9,466
Notes issued	(20,953)
Cash used for investing activities	<u>(11,487)</u>
Increase in cash and cash equivalents	273,156
Cash and cash equivalents, beginning of year	<u>984,870</u>
Cash and cash equivalents, end of year	<u>\$ 1,258,026</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and investments	\$ 782,000
Restricted cash and investments	<u>476,026</u>
Cash and cash equivalents	<u>\$ 1,258,026</u>
Reconciliation of operating income from operations to cash provided by operating activities:	
Operating income	\$ 126,125
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation	549,783
(Increase) decrease in assets:	
Accounts receivable	71,411
(Decrease) increase in liabilities:	
Accounts payable	12,152
Accrued expenses	(6)
Accrued compensated absences	<u>700</u>
Cash provided by operating activities	<u>\$ 760,165</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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, 2014

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, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An allowance for doubtful accounts of \$869 and \$19,131 has been provided for General and Sewer Funds, respectively, 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, 2014

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.

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

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 pre-paid 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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
General Fund	\$ 1,234,857	\$ 1,484,568	\$ 249,711
Nonmajor Governmental Funds:			
Supplemental Law Enforcement Fund	100,025	110,625	10,600
Transportation Fund	91,351	147,472	56,121
Mitigation Fund		4,336	4,336
Oil Grant Fund	5,340	5,582	242

Deficit Fund Equity: The City has no funds with fund deficits at June 30, 2014.

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 will require the City to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the PERS plan. This Statement requires the use of the entry age normal method to be used with each period’s service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for the City’s June 30, 2015 financial statements. The City is currently evaluating the effect of this new pronouncement.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

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, 2014 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	\$ 1,704,861	\$ 782,000	\$ 2,486,861
Restricted cash		476,026	476,026
	<u>\$ 1,704,861</u>	<u>\$ 1,258,026</u>	<u>\$ 2,962,887</u>

As of June 30, 2014, the City's cash and investments consisted of the following:

Cash on hand	\$ 300
Deposits in financial institutions	488,617
Investments	
California Local Agency Investment Fund	<u>2,473,970</u>
Total cash and investments	<u>\$ 2,962,887</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, 2014

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 232 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, 2014, the carrying amount of the City's deposits was \$488,617 and the balance in financial institutions was \$502,290. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance, \$252,290 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the City and other governmental agencies, but not in the name of the City.

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 \$64,870,214,443 managed by the State Treasurer. Of that amount, 1.86% 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, 2014

NOTE C – INTERFUND TRANSACTIONS

Transfers during the year ended June 30, 2014 were as follows:

Transfers out	Transfers in				Total
	Capital Projects Fund	Supplemental Law Enforcement	CDBG	Nonmajor Governmental Transportation and Road Fund	
General Fund		\$ 10,625			\$ 10,625
Nonmajor Governmental Funds:					
Gas Tax				\$ 47,799	47,799
Mitigation Funds	\$ 1,484		\$ 4,543		6,027
	<u>\$ 1,484</u>	<u>\$ 10,625</u>	<u>\$ 4,543</u>	<u>\$ 47,799</u>	<u>\$ 64,451</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, 2014 was as follows:

	(Restated) Balance at June 30, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
Capital assets, not being depreciated:					
Land	\$ 758,329				\$ 758,329
Construction in progress	45,737	\$ 75,337			121,074
Total capital assets, not being depreciated	<u>804,066</u>	<u>75,337</u>	<u>-</u>	<u>-</u>	<u>879,403</u>
Capital assets, being depreciated:					
Buildings and improvements	4,290,749				4,290,749
Vehicles	444,259		\$ (24,734)		419,525
Machinery and equipment	471,398		(89,100)		382,298
Furniture and fixtures	6,764				6,764
Total capital assets, being depreciated	<u>5,213,170</u>	<u>-</u>	<u>(113,834)</u>	<u>-</u>	<u>5,099,336</u>
Less accumulated depreciation for:					
Buildings and improvements	(822,714)	(118,342)			(941,056)
Vehicles	(385,541)	(28,874)	24,734		(389,681)
Machinery and equipment	(440,816)	(19,091)	88,862		(371,045)
Furniture and fixtures	(6,654)	(110)			(6,764)
Total accumulated depreciation	<u>(1,655,725)</u>	<u>(166,417)</u>	<u>113,596</u>	<u>-</u>	<u>(1,708,546)</u>
Capital assets being depreciated, net	<u>3,557,445</u>	<u>(166,417)</u>	<u>(238)</u>	<u>-</u>	<u>3,390,790</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 4,361,511</u>	<u>\$ (91,080)</u>	<u>\$ (238)</u>	<u>\$ -</u>	<u>\$ 4,270,193</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

NOTE D – CAPITAL ASSETS (Continued)

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

General governmental	\$ 14,815
Public safety	38,075
Public works	29,669
Culture and recreation	13,884
Community development	<u>69,974</u>
Total governmental activities depreciation expense	<u><u>\$ 166,417</u></u>

Business-type capital assets activities for the year ended June 30, 2014 was as follows:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2014</u>
Capital assets, not being depreciated:					
Land	\$ 134,700				\$ 134,700
Construction in progress	6,401,065	\$ 62,111		\$(6,463,176)	
Total capital assets, not being depreciated	<u>6,535,765</u>	<u>62,111</u>	<u>-</u>	<u>(6,463,176)</u>	<u>134,700</u>
Capital assets, being depreciated:					
Buildings and improvements	17,879,419			6,463,176	24,342,595
Vehicles	3,400				3,400
Machinery and equipment	466,753	42,624			509,377
Total capital assets, being depreciated	<u>18,349,572</u>	<u>42,624</u>	<u>-</u>	<u>6,463,176</u>	<u>24,855,372</u>
Less accumulated depreciation for:					
Buildings and improvements	(3,585,938)	(509,882)			(4,095,820)
Vehicles	(3,400)				(3,400)
Machinery and equipment	(297,687)	(39,901)			(337,588)
Total accumulated depreciation	<u>(3,887,025)</u>	<u>(549,783)</u>	<u>-</u>	<u>-</u>	<u>(4,436,808)</u>
Capital assets being depreciated, net	<u>14,462,547</u>	<u>(507,159)</u>	<u>-</u>	<u>6,463,176</u>	<u>20,418,564</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u><u>\$ 20,998,312</u></u>	<u><u>\$ (445,048)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 20,553,264</u></u>

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

Sewer	<u>\$ 549,783</u>
Total business-type activities depreciation expense	<u><u>\$ 549,783</u></u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

NOTE E – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Due Within One Year
Governmental Activities:					
Note payable	\$ 447,343		\$ (194,948)	\$ 252,395	
Legal Settlement 2011	75,000		(75,000)		
Total notes and settlement payable	522,343		(269,948)	252,395	
Postclosure landfill costs	556,104		(4,472)	551,632	
Compensated absences	18,118	\$ 5,086		23,204	\$ 11,602
Governmental activities long-term liabilities	<u>\$ 1,096,565</u>	<u>\$ 5,086</u>	<u>\$ (274,420)</u>	<u>\$ 827,231</u>	<u>\$ 11,602</u>
Business-Type Activities:					
General obligation bonds	\$ 31,000		\$ (5,000)	\$ 26,000	\$ 6,000
Placer County loan	1,000,000		(1,000,000)		
State loan - restructured	8,688,179	\$ 982,088		9,670,267	344,976
Legal settlement 2010	108,256		(108,256)		
Legal settlement 2009	118,769		(7,451)	111,318	11,132
Total bonds, loan settlements payable	9,946,204	982,088	(1,120,707)	9,807,585	362,108
Compensated absences	10,393	700		11,093	5,547
Business-type activities long-term liabilities	<u>\$ 9,956,597</u>	<u>\$ 982,788</u>	<u>\$ (1,120,707)</u>	<u>\$ 9,818,678</u>	<u>\$ 367,655</u>

Long-term debt of the City's governmental activities consists of the following as of June 30, 2014:

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.

\$ 252,395

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

NOTE E – LONG-TERM LIABILITIES (Continued)

Post closure 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, 2014, the remaining closure and postclosure maintenance costs to be recognized over the next 24 years is \$551,632.

Long-term debt of the City's business-type activities consists of the following as of June 30, 2014:

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. \$ 26,000

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 year. Terms of the loan call for the repayment period to be deferred until one year after completion of the Pond Lining project, which was in October 2013. Commencing on October 1, 2014, annual principal and interest payments of \$438,974 will be due. The note matures in 2038. 9,670,267

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

\$ 9,807,585

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

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
2015	\$ 6,000	\$ 344,976	\$ 11,132	\$ 362,108
2016	6,000	345,721	16,698	368,419
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
2020-2024		1,835,130		1,835,130
2025-2029		1,928,740		1,928,740
2030-2034		2,027,125		2,027,125
2035-2039		2,130,530		2,130,530
Totals	<u>\$ 26,000</u>	<u>\$ 9,670,267</u>	<u>\$ 111,318</u>	<u>\$ 9,807,585</u>

Interest payments on debt are due as follows:

June 30	General Obligation Bonds	State Loan - Restructured	Total
2015	\$ 1,300	\$ 93,998	\$ 95,298
2016	1,000	93,253	94,253
2017	700	89,796	90,496
2018	350	86,304	86,654
2019		82,777	82,777
2020-2024		359,739	359,739
2025-2029		366,129	366,129
2030-2034		167,744	167,744
2035-2039		64,340	64,340
Totals	<u>\$ 3,350</u>	<u>\$ 1,404,080</u>	<u>\$ 1,407,430</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

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	\$ 50,663	
Landfill	250,078	
Economic development	261,648	
Recycling	31,324	
Fire Department	27,174	
Community projects	5,234	
Debt service reserve		\$ 438,974
Replacement of short-lived assets		37,052
Mitigation projects	<u>166,742</u>	
	<u>\$ 792,863</u>	<u>\$ 476,026</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			\$ 51,665	\$ 51,665
Prepaid expenses				-
Total Nonspendable	<u>-</u>	<u>-</u>	<u>51,665</u>	<u>51,665</u>
Committed for:				
Highway 80 Revitalization	\$ 131,812			131,812
Total committed	<u>131,812</u>	<u>-</u>	<u>-</u>	<u>131,812</u>
Restricted for:				
Street projects		\$ 182,867	43,209	226,076
Landfill	801,710			801,710
Economic redevelopment			209,983	209,983
Recycling			31,324	31,324
Fire Department			27,174	27,174
Community projects			5,234	5,234
Caboose restoration				-
Mitigation projects			166,742	166,742
Total Restricted	<u>801,710</u>	<u>182,867</u>	<u>483,666</u>	<u>1,468,243</u>
Unassigned	154,468			154,468
Total Unassigned	<u>154,468</u>	<u>-</u>	<u>-</u>	<u>154,468</u>
Total fund balances	<u>\$ 1,087,990</u>	<u>\$ 182,867</u>	<u>\$ 535,331</u>	<u>\$ 1,806,188</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan Description: Effective April 2008, the City began contributing to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. All permanent and part-time employees working at least 1,000 hours per year are enrolled in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor multiplied by their highest average monthly salary over 12 consecutive months of employment. Benefit provisions and all other requirements are established by State statute. The establishment and amendment of specific benefit provisions of the Plan is authorized by resolution of the City Council. PERS requires plans with less than 100 active participants to participate in risk pools. The City participated in the Miscellaneous 2% at 60 Risk Pool. Copies of the PERS annual financial report may be obtained from their Executive Office at 400 P Street, Sacramento, CA 95814.

Contributions: Participants in the Plan are required to contribute 5% of their annual covered salary for union members and 7% for non-union members. The City is required to contribute to PERS at an actuarially determined rate. The rate for the year ended June 30, 2014 was 8.435% of the annual covered payroll. The contribution requirement of plan members and the City are established and may be amended by PERS. The City's contributions for the years ended June 30, 2014, 2013 and 2012 were \$37,690, \$33,846, and \$26,181, respectively, which was equal to the required contributions.

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, 2014

NOTE H – INSURANCE (Continued)

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

Amount	Coverage provider	Payment Source
<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, 2014, 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.

Since October 25, 2007, the Central Valley Water Board adopted and rescinded a number of cease and desist orders that prescribe waste discharge requirements and time schedules for the City at its Wastewater Treatment Plant. On October 13, 2014, the Central Valley Water Board adopted Order R5-2014-0118, which rescinds Cease and Desist Order R5-2011-0097 issued on December 8, 2011. Waste Discharge Requirements Order R5-2013-0045 issued on May 30, 2013, and Cease and Desist Order R5-2013-0046 issued on May 30, 2013 are still in effect.

Cease and Desist Order R5-2013-0046 and Water Discharge Requirements Order R5-2013-0045 set final effluent limitations for arsenic, which must be complied with by May 30, 2016. Failure to comply with this Order or with the Waste Discharge Requirements may result in the assessment of Administrative Civil Liability of up to \$10,000 per violation, per day, depending on the violation, pursuant to the California Water Code, including sections 13268, 13350, and 13385. The Central Valley Water Board reserves its right to take enforcement actions authorized by law.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2014

NOTE I – COMMITMENTS AND CONTINGENCIES (Continued)

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.

NOTE J – RESTATEMENT

During fiscal year ended June 30, 2014, the City recorded donated land it received in previous years at its estimated fair value. As a result, the effect on the beginning net position for government-wide financial statements is as follows:

	<u>Governmental</u>
Net position, beginning of year, as previously recorded	\$ 4,673,836
Restatement	<u>198,369</u>
Net position, beginning of year, as restated	<u><u>\$ 4,872,205</u></u>

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COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS

CITY OF COLFAX

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	Special Revenue				
	Bricks	Supplemental Law Enforcement	CDBG	Transportation & Road Fund	Gas Tax
ASSETS:					
Cash and cash equivalents	\$ 5,231		\$ 209,874	\$ 18,545	\$ 38,009
Due from other governmental agencies		\$ 5,524			7,145
Interest receivable	3		109	(12)	35
Notes receivable			51,665		
Total assets	\$ 5,234	\$ 5,524	\$ 261,648	\$ 18,533	\$ 45,189
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable				\$ 14,962	\$ 1,980
Accrued expenses				3,571	
Due to other funds		\$ 5,524			
Total liabilities		5,524	-	18,533	1,980
Fund balance:					
Nonspendable			\$ 51,665		
Restricted	\$ 5,234		209,983		43,209
Total fund balance	5,234		261,648		43,209
Total liabilities and fund balance	\$ 5,234	\$ 5,524	\$ 261,648	\$ 18,533	\$ 45,189

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

Special Revenue				Total Nonmajor Governmental Funds
Mitigation Funds	Beverage Recycling	Oil Grant	Fire Capital	
\$ 166,652	\$ 27,966	\$ 4,217	\$ 27,160	\$ 497,654
				-
90	16	1	14	12,669
				256
				51,665
<u>\$ 166,742</u>	<u>\$ 27,982</u>	<u>\$ 4,218</u>	<u>\$ 27,174</u>	<u>\$ 562,244</u>
		\$ 553		\$ 17,495
	\$ 8	315		3,894
				5,524
-	8	868		26,913
				51,665
\$ 166,742	27,974	3,350	\$ 27,174	483,666
166,742	27,974	3,350	27,174	535,331
<u>\$ 166,742</u>	<u>\$ 27,982</u>	<u>\$ 4,218</u>	<u>\$ 27,174</u>	<u>\$ 562,244</u>

CITY OF COLFAX

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

For the Year Ended June 30, 2014

	Special Revenue				
	Bricks	Supplemental Law Enforcement	CDBG	Transportation & Road Fund	Gas Tax
REVENUES:					
Tax revenues					\$ 68,398
Licenses, fees and permits				\$ 918	
Intergovernmental revenues		\$ 100,000		98,843	
Use of money and property	\$ 12		\$ 2,021	(88)	129
Other revenue					
Total revenues	12	100,000	2,021	99,673	68,527
EXPENDITURES:					
General government					
Public safety		110,625			
Public works				147,472	21,355
Community development			8,043		
Capital outlay					
Total expenditures		110,625	8,043	147,472	21,355
Excess (deficiency) of revenues over (under) expenditures	12	(10,625)	(6,022)	(47,799)	47,172
OTHER FINANCING SOURCES (USES):					
Transfers in		10,625	4,543	47,799	
Transfers out					(47,799)
Total other financing sources (uses)		10,625	4,543	47,799	(47,799)
Net change in fund balance	12		(1,479)		(627)
Fund balances - beginning of year	5,222		263,127		43,836
Fund balances - end of year	\$ 5,234	\$ -	\$ 261,648	\$ -	\$ 43,209

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
				\$ 68,398
		\$ 5,000		918
\$ 390	\$ 64		\$ 59	203,843
				2,587
<u>390</u>	<u>64</u>	<u>5,000</u>	<u>59</u>	<u>275,746</u>
4,336				4,336
				110,625
	999	5,582		168,827
				14,624
<u>4,336</u>	<u>999</u>	<u>5,582</u>		<u>-</u>
<u>(3,946)</u>	<u>(935)</u>	<u>(582)</u>	<u>59</u>	<u>(22,666)</u>
				62,967
<u>(6,027)</u>				<u>(53,826)</u>
<u>(6,027)</u>				<u>9,141</u>
(9,973)	(935)	(582)	59	(13,525)
<u>176,715</u>	<u>28,909</u>	<u>3,932</u>	<u>27,115</u>	<u>548,856</u>
<u>\$ 166,742</u>	<u>\$ 27,974</u>	<u>\$ 3,350</u>	<u>\$ 27,174</u>	<u>\$ 535,331</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, 2014, 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, 2015.

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, 2015