

CITY OF COLFAX, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2012

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CITY OF COLFAX, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Colfax, California's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, California, as of June 30, 2012, 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 conformity with accounting principles generally accepted in the United States of America.

As discussed in Note K to the financial statements, the City has a negative fund balance in the General Fund and other financial difficulties as a result of certain factors over the past several years. However, the City has been putting into place a plan to resolve these issues.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012 on our consideration of the City of Colfax, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 3 through 11 be presented

To the City Council
City of Colfax, California

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Colfax's financial statements as a whole. The combining and individual nonmajor fund statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Richardson & Company

December 18, 2012

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, 2012. We encourage the readers to consider the information presented here in conjunction with the accompanying basic financial statements and the additional information presented.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities by \$12,090,236 (net assets). These net assets are allocated as follows:
 - Invested in Capital assets, net of related debt - \$11,405,259
 - Restricted net assets of \$913,318. This amount is for Special revenue funds, Capital project funds and Debt service fund.
 - Negative unrestricted net assets at the end of the year was (\$228,341) as compared to (\$1,221,453) for the previous year. This increase is primarily due to Grant Income in the Sewer Fund (\$901,932).
- Total revenues from all sources were \$4,505,151 and total expenditures from all sources were \$3,395,611.
- The General Fund reported revenue in excess of expenditures and other financing uses by \$51,489, but the General Fund unreserved net assets decreased \$350,098 primarily due to the restatement of Garbage funds noted below.
 - The City entered into a franchise agreement for garbage services effective July 2011. Prior to the agreement, the City was expending approximately \$100,000 annually in excess of service charges being collected. Due to the nature of the agreement, the activity is no longer a business activity – and the negative fund balance of (\$344,721) as of June 30, 2011 has been combined into the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets on page 13 and the 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 Assets 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 assets and changes in them. You can think of the City's net assets – 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 assets 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 Assets 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 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-type) – 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 Assets 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 Assets 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 assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Colfax, net assets exceeded liabilities by \$12,090,236 at the close of the current fiscal year.

By far the largest portion of the City's net assets 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 assets for the year ending June 30, 2012 and 2011 are summarized (Table 1), as follows:

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

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 1,507	\$ 1,351	\$ 572	\$ 1,051	\$ 2,079	\$ 2,402
Capital assets	3,950	3,756	15,783	15,479	19,733	19,235
Total Assets	5,457	5,107	16,355	16,530	21,812	21,637
Liabilities:						
Long-term liabilities	1,255	734	8,152	8,619	9,407	9,353
Other liabilities	109	295	206	1,008	315	1,303
Total Liabilities	1,364	1,029	8,358	9,627	9,722	10,656
Net Assets:						
Invested in capital assets, net of debt	3,420	3,206	7,985	8,047	11,405	11,253
Restricted	913	894	-	55	913	949
Unrestricted	(240)	(22)	12	(1,199)	(228)	(1,221)
Total Net Assets	\$ 4,093	\$ 4,078	\$ 7,997	\$ 6,903	\$ 12,090	\$ 10,981

The amount reported for net assets 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.

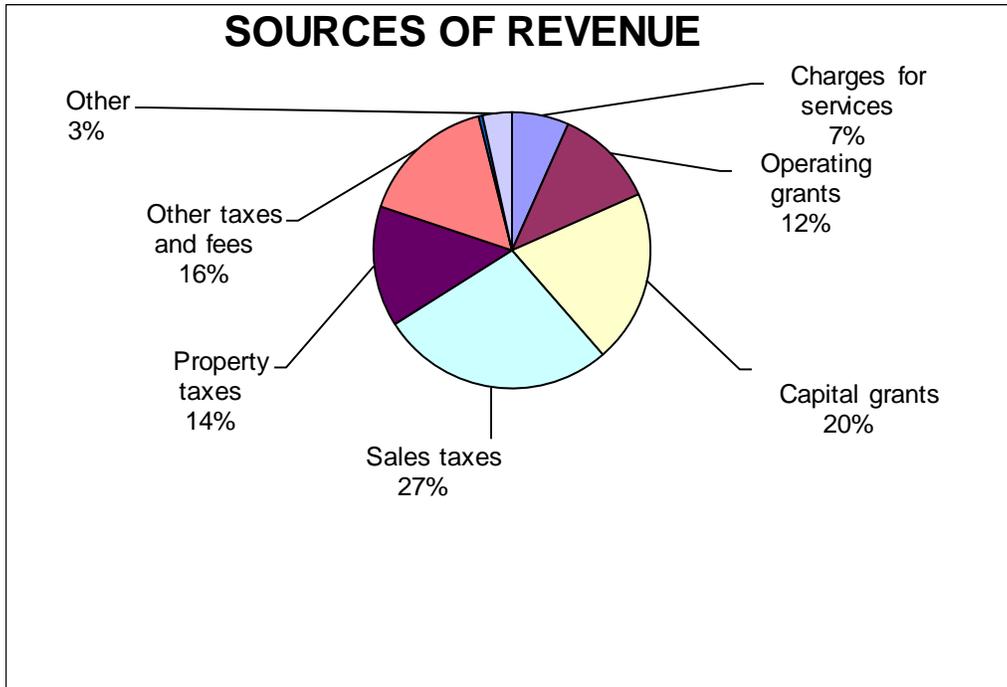
Governmental Activities

The City's governmental activities net assets increased by \$361,000 (before transfers). As noted in Table 2, on page 8, the primary contributor is an increase in grant income which was funding for Streets and Roads projects completed in previous fiscal year and for projects to be completed in the next fiscal year.

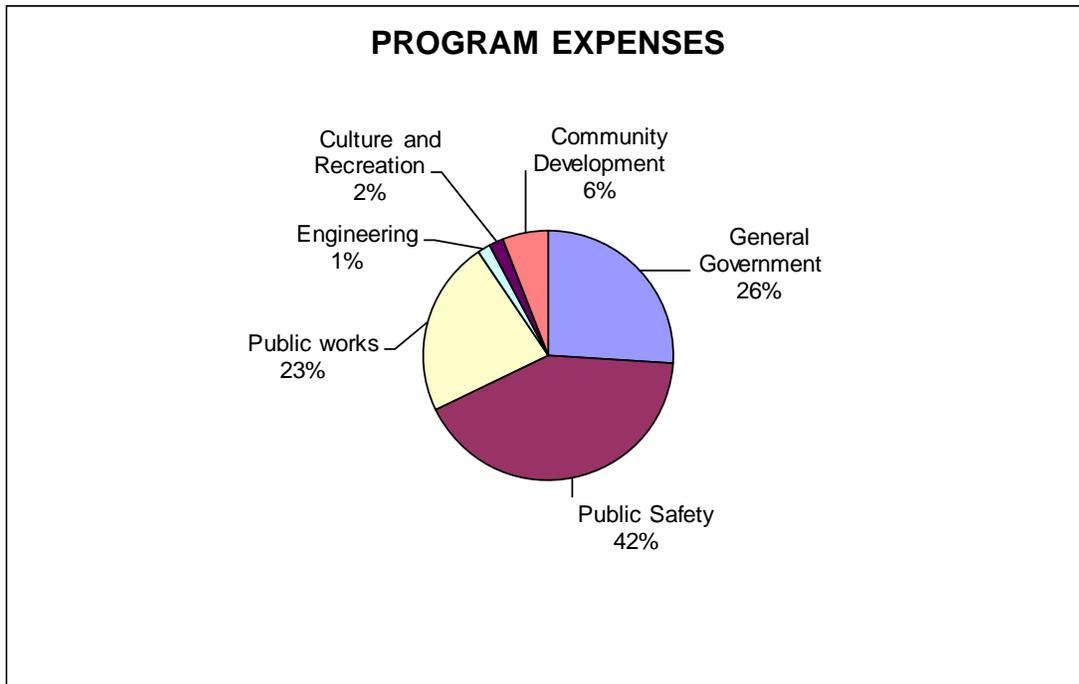
Table 2
City of Colfax, Change in Net Assets
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 132	\$ 138	\$ 1,606	\$ 1,981	\$ 1,738	\$ 2,119
Operating grants and contributions	232	224	-	-	232	224
Capital grants and contributions	402	161	902	2,126	1,304	2,287
General revenues:						
Sales taxes	544	538			544	538
Property taxes	280	291	7	7	287	298
Other taxes and fees	317	211			317	211
Earnings on investments	9	6	6	(2)	15	4
Other	68	57			68	57
Total revenues	1,984	1,626	2,521	4,112	4,505	5,738
Expenses:						
General government	422	570			422	570
Public Safety	679	724			679	724
Public works	369	271			369	271
Engineering	27	33			27	33
Culture and recreation	30	58			30	58
Community development	96	164			96	164
Sewer	-	-	1,772	1,669	1,772	1,669
Garbage	-	-	-	876	-	876
Total expenses	1,623	1,820	1,772	2,545	3,395	4,365
Change in net assets before transfers	361	(194)	749	1,567	1,110	1,373
Transfers	(1)	-	1	-	-	-
Change in net assets	360	(194)	750	1,567	1,110	1,373
Net assets, July 1	4,078	4,272	6,902	5,335	10,980	9,607
Transfer of solid waste net assets	(345)	-	345	-	-	-
Net assets, June 30	<u>\$ 4,093</u>	<u>\$ 4,078</u>	<u>\$ 7,997</u>	<u>\$ 6,902</u>	<u>\$ 12,090</u>	<u>\$ 10,980</u>

Fiscal Year 2011-2012
Governmental Activities – Sources of Revenue
(Graphic representation of Table 2 in percentages)



Fiscal Year 2011-2012
Governmental Activities – Program Expenses
(Graphic representation of Table 2 in percentages)



Business-Type Activities

Business-type activities increased the City of Colfax's net assets by \$749,954. Detailed revenues and expenditures are reported in Table 2 on page 8. Some of the major contributors to this change are:

- The City was entitled to capital grants reimbursements for the Sewer Collection System/Lift stations repairs and improvements project (ARRA) and the Pond 3 Liner/I&I Mitigation/SCADA project. The total grants collected and accrued were \$901,932.
- The liability for interest on long term debt was increased in the amount of \$136,210 which reduced net assets.

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, 2012, net capital assets of the governmental activities totaled \$3,950,125 and the net capital assets of the business-type activities totaled \$15,782,532. 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	
	2012	2011	2012	2011	2012	2011
Land	\$ 560	\$ 560	\$ 135	\$ 135	\$ 695	\$ 695
Construction in progress	20	244	758	3,776	778	4,020
Building and Improvements	3,939	3,367	17,879	14,114	21,818	17,481
Vehicles	444	444	3	3	447	447
Furnitures and Fixtures	7	7	-	-	7	7
Machinery and equipment	471	471	432	411	903	882
Accumulated depreciation	(1,491)	(1,337)	(3,424)	(2,960)	(4,915)	(4,297)
Total Assets	\$ 3,950	\$ 3,756	\$ 15,783	\$ 15,479	\$ 19,733	\$ 19,235

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

- Completion of road and pool projects in Governmental activities – transfer from Construction in Progress to Buildings and Improvements.

- Addition of a building - \$199,300 in Governmental activities.
- Repairs and improvements to the Sewer Collection Systems/ Lift Stations (ARRA) and new project for Pond 3 Liner/I&I Mitigation/SCADA in the amount of \$745,996.
- The ARRA project was completed and transferred from Construction in Progress to Buildings and Improvements. There was an increase in depreciation expense accordingly.

Long-Term Debt

At year-end, the City of Colfax had total long-term debts outstanding of \$9,407,048, as compared to a total of \$9,353,295 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	
	2012	2011	2012	2011	2012	2011
Note Payable	\$ 530	\$ 550	\$ -	\$ -	\$ 530	\$ 550
Compensated absences	22	31	13	12	35	43
Landfill Closure	578	623	-	-	578	623
General obligation bond	-	-	36	40	36	40
Sewer revenue bond	-	-	-	35	-	35
State Loans	-	-	7,761	7,357	7,761	7,357
Legal Settlements	125	153	342	552	467	705
Total Long-term Debt	\$ 1,255	\$ 1,357	\$ 8,152	\$ 7,996	\$ 9,407	\$ 9,353

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 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. Additional information on City debt is included in Note E of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In considering the City Budget for fiscal year 2012-2013, the City Council and management were cautious as to the growth of revenues and expenditures due to the continued negative state of the economy. The general fund operating budget for 2012-2013 indicates revenues exceeding expenditures by approximately \$74,000, yet the fund will continue to maintain a negative balance due to the negative restatement of garbage funds to the general fund in 2011-2012. It is anticipated that the negative balance can be eliminated by the end of fiscal year 2014-2015.

Some of the ongoing actions to improve fund balance are:

- Maintain reduced staff levels
- The City negotiated a franchise agreement for Garbage collections (effective July 01, 2011) that will, over time, eliminate the deficit in Garbage fund operations.
- In accordance with Resolution 33-2008, City will continue to increase sewer rates with a 3.5% inflator for each fiscal year.
- The City has obtained funding from USDA, EPA and the State of California Water Resources Control Board to complete the lining of reservoir pond number three, perform I&I mitigation and implement a new SCADA system. This funding arrangement included restructuring the existing loan with the State for the wastewater treatment plant. The new loan totals \$12,825,600 with an interest rate of 1% and no administrative charge. The State will forgive \$3,319,000 of the loan if the City complies with the Project Finance agreement. Repayment of the new loan will be interest only until completion of the project which is expected to be in 2014.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

CITY OF COLFAX

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,194,478	\$ 20,045	\$ 1,214,523
Accounts receivable, net of allowance for doubtful accounts	38,472	184,416	222,888
Due from other government agencies	217,221	366,846	584,067
Interest receivable	853	(39)	814
Notes receivable	55,296		55,296
Prepaid expenses	1,095	864	1,959
Total current assets	<u>1,507,415</u>	<u>572,132</u>	<u>2,079,547</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation			
Non-depreciable	580,027	891,962	1,471,989
Depreciable	<u>3,370,098</u>	<u>14,890,570</u>	<u>18,260,668</u>
	<u>3,950,125</u>	<u>15,782,532</u>	<u>19,732,657</u>
Total assets	<u>5,457,540</u>	<u>16,354,664</u>	<u>21,812,204</u>
LIABILITIES			
Current liabilities:			
Accounts payable	98,070	138,416	236,486
Accrued expenses	10,547	67,387	77,934
Unearned revenue	500		500
Current portion of long-term liabilities	<u>60,933</u>	<u>244,779</u>	<u>305,712</u>
Total current liabilities	<u>170,050</u>	<u>450,582</u>	<u>620,632</u>
Long-term liabilities:			
Postclosure landfill costs	578,348		578,348
Bonds payable		31,000	31,000
Notes payable	530,398	7,761,000	8,291,398
Legal settlements	75,000	108,256	183,256
Compensated absences	<u>10,932</u>	<u>6,402</u>	<u>17,334</u>
Total long-term liabilities	<u>1,194,678</u>	<u>7,906,658</u>	<u>9,101,336</u>
Total liabilities	<u>1,364,728</u>	<u>8,357,240</u>	<u>9,721,968</u>
Invested in capital assets, net of related debt	3,419,727	7,985,532	11,405,259
Restricted net assets	913,318		913,318
Unrestricted net assets	<u>(240,233)</u>	<u>11,892</u>	<u>(228,341)</u>
Total net assets	<u>\$ 4,092,812</u>	<u>\$ 7,997,424</u>	<u>\$ 12,090,236</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	Major Funds			Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 439,327	\$ 180,754	\$ 574,397	\$ 1,194,478
Accounts receivable, net of allowance for doubtful accounts	31,642		6,830	38,472
Due from other governmental agencies	152,138	65,083		217,221
Interest receivable	159	135	559	853
Notes receivable			55,296	55,296
Prepaid expenses			1,095	1,095
Total assets	<u>\$ 623,266</u>	<u>\$ 245,972</u>	<u>\$ 638,177</u>	<u>\$ 1,507,415</u>
LIABILITIES				
Accounts payable	\$ 91,142	\$ 1,229	\$ 5,699	\$ 98,070
Accrued expenses	6,881		3,666	10,547
Deferred revenue	84,993			84,993
Total liabilities	<u>183,016</u>	<u>1,229</u>	<u>9,365</u>	<u>193,610</u>
FUND BALANCES				
Nonspendable			56,391	56,391
Restricted	724,950	244,856	572,421	1,542,227
Unassigned	(284,700)	(113)		(284,813)
Total fund balances	<u>440,250</u>	<u>244,743</u>	<u>628,812</u>	<u>1,313,805</u>
Total liabilities and fund balances	<u>\$ 623,266</u>	<u>\$ 245,972</u>	<u>\$ 638,177</u>	<u>\$ 1,507,415</u>

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 ASSETS

June 30, 2012

Total Governmental Fund Balances	\$ 1,313,805
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	3,950,125
Certain receivables are not available to pay current period expenditures and therefore are deferred in the governmental funds	84,493
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>(1,255,611)</u>
Net Assets of Governmental Activities	<u><u>\$ 4,092,812</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, 2012

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Taxes	\$ 901,652		\$ 68,893	\$ 970,545
Licenses, fees and permits	45,793		1,177	46,970
Intergovernmental revenues	135,563	\$ 254,487	241,660	631,710
Charges for services	114,826			114,826
Fines, forfeitures and penalties	10,344			10,344
Use of money and property	48,818	558	3,478	52,854
Other revenue	24,625		19	24,644
Total revenues	<u>1,281,621</u>	<u>255,045</u>	<u>315,227</u>	<u>1,851,893</u>
EXPENDITURES:				
General government	495,680			495,680
Public safety	536,256		102,887	639,143
Public works	174,441		163,830	338,271
Community development			26,187	26,187
Engineering services	27,027			27,027
Cultural and recreation	25,130			25,130
Debt Service:				
Principal	19,602			19,602
Capital outlay		148,541		148,541
Total expenditures	<u>1,278,136</u>	<u>148,541</u>	<u>292,904</u>	<u>1,719,581</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,485</u>	<u>106,504</u>	<u>22,323</u>	<u>132,312</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	50,513	134,530	75,589	260,632
Transfers out	(2,149)	(11,552)	(247,800)	(261,501)
Total other financing sources (uses)	<u>48,364</u>	<u>122,978</u>	<u>(172,211)</u>	<u>(869)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	51,849	229,482	(149,888)	131,443
Fund balances, beginning of year, as previously reported	110,152	15,261	778,700	904,113
Restatement	278,249			278,249
Fund balances, beginning of year, as restated	<u>388,401</u>	<u>15,261</u>	<u>778,700</u>	<u>1,182,362</u>
Fund balances - end of year	<u>\$ 440,250</u>	<u>\$ 244,743</u>	<u>\$ 628,812</u>	<u>\$ 1,313,805</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, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 131,443
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 assets, 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	148,541
Contributed capital	199,300
Depreciation expense	(153,884)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These are the amount by which repayments exceed proceeds.	
Gard Family Living Trust note payments	19,602
Postclosure landfill costs	44,622
Settlement costs incurred	(22,317)
Settlement payments	50,000
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	84,493
Deferred revenue recognized last year	(151,706)
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>9,492</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 359,586</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 -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note A)	Final Budget Positive/ (Negative)
Revenues:				
Taxes	\$ 829,000	\$ 829,000	\$ 901,652	\$ 72,652
Licenses, fees and permits	37,000	37,000	45,793	8,793
Intergovernmental	141,500	141,500	135,563	(5,937)
Charges for services	111,600	111,600	114,826	3,226
Fines and forfeitures	15,000	15,000	10,344	(4,656)
Use of money and property	41,806	41,806	48,818	7,012
Other revenue	45,096	45,096	24,625	(20,471)
Total revenues	<u>1,221,002</u>	<u>1,221,002</u>	<u>1,281,621</u>	<u>60,619</u>
Expenditures:				
Current:				
General government and administration	410,056	410,056	495,680	(85,624)
Public safety	554,719	554,719	536,256	18,463
Public works	111,859	111,859	174,441	(62,582)
Engineering services	35,100	35,100	27,027	8,073
Culture and recreation	49,558	49,558	25,130	24,428
Debt Service:				
Principal			19,602	(19,602)
Capital outlay	6,900	6,900		6,900
Total expenditures	<u>1,168,192</u>	<u>1,168,192</u>	<u>1,278,136</u>	<u>(109,944)</u>
Excess (deficiency) of revenues over expenditures	52,810	52,810	3,485	(49,325)
Other financing sources (uses):				
Transfers in	8,000	8,000	50,513	42,513
Transfers out			(2,149)	(2,149)
Total other financing uses	<u>8,000</u>	<u>8,000</u>	<u>48,364</u>	<u>40,364</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	60,810	60,810	51,849	(8,961)
Fund balances, beginning of year, as previously reported	110,152	110,152	110,152	
Restatement	278,249	278,249	278,249	
Fund balances, beginning of year, as restated	<u>388,401</u>	<u>388,401</u>	<u>388,401</u>	<u>-</u>
Fund balances - end of year	<u>\$ 449,211</u>	<u>\$ 449,211</u>	<u>\$ 440,250</u>	<u>\$ (8,961)</u>

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

CITY OF COLFAX

STATEMENT OF NET ASSETS
 PROPRIETARY FUND - SEWER FUND

For the Year Ended June 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 20,045
Accounts receivable net of allowance for doubtful accounts of \$2,103	184,416
Due from other governmental agencies	366,846
Interest receivable	(39)
Prepaid expenses	864
Total current assets	<u>572,132</u>

Noncurrent Assets:

Capital assets:

Nondepreciable	891,962
Depreciable	14,890,570
Total capital assets, net of accumulated depreciation	<u>15,782,532</u>

Total assets	<u>16,354,664</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	138,416
Accrued expenses	67,387
Current portion of long-term liabilities	244,779
Total current liabilities	<u>450,582</u>

Long-term Liabilities:

Bonds payable, long-term portion	31,000
Notes payable, long-term portion	7,761,000
Legal settlements	108,256
Compensated absences	6,402
Total long-term liabilities	<u>7,906,658</u>
Total liabilities	<u>8,357,240</u>

NET ASSETS:

Invested in capital assets, net of related debt	7,985,532
Unrestricted	11,892
Total net assets	<u>\$ 7,997,424</u>

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

CITY OF COLFAX

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

For the Year Ended June 30, 2012

Operating revenues:	
Service charges	\$ 1,558,775
Miscellaneous	47,344
Total operating revenues	<u>1,606,119</u>
Operating expenses:	
Personnel services	236,130
Operation and maintenance	936,342
Depreciation	463,404
Total operating expenses	<u>1,635,876</u>
Loss from operations	<u>(29,757)</u>
Non-operating revenues (expenses):	
Interest income	5,707
Tax assessment	7,413
Interest expense	(136,210)
Total nonoperating revenues	<u>(123,090)</u>
Capital contributions:	
State grant revenue	<u>901,932</u>
Income before transfers	749,085
Transfers in	869
Change in net assets	<u>749,954</u>
Net assets, beginning of year	<u>7,247,470</u>
Net assets, end of year	<u><u>\$ 7,997,424</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, 2012

Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,622,460
Cash paid to suppliers	(1,188,757)
Cash paid to employees and related benefits	(225,730)
Cash provided by operating activities	<u>207,973</u>
Cash Flows from Noncapital Financing Activities:	
Tax assessments received	7,413
Advances to other funds	(622,791)
Cash provided by noncapital financing activities	<u>(615,378)</u>
Cash Flows from Capital and Related Financing Activities	
Capital expenditures	(766,580)
Debt proceeds received	7,761,000
Debt principal paid	(7,396,496)
Intergovernmental revenues received	1,424,983
Settlements paid	(209,737)
Interest paid	(390,957)
Cash used for capital and related financing activities	<u>422,213</u>
Cash Flows from Investing Activities	
Interest received	<u>5,237</u>
Decrease in cash and cash equivalents	20,045
Cash and cash equivalents, beginning of year	<u> </u>
Cash and cash equivalents, end of year	<u><u>\$ 20,045</u></u>
Reconciliation of operating income from operations to cash provided by operating activities:	
Operating loss	\$ (29,757)
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation	463,404
(Increase) decrease in assets:	
Accounts receivable	16,341
(Decrease) increase in liabilities:	
Accounts payable	(252,415)
Accrued expenses	7,115
Accrued compensated absences	3,285
Cash provided by operating activities	<u><u>\$ 207,973</u></u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

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 assets 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, 2012

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 60 days of the end of the current fiscal period. 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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

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 funds and internal service funds 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: Property, 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 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 assets. 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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

An allowance for doubtful accounts of \$5,649 and \$2,103 has been provided for General and Sewer Funds, respectively, 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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 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 with one year of service. The maximum accrual for all employees for vacation is one and a half times the employees' annual vacation leave credits. Annually, all employees may "sell back" a portion of their unused vacation. 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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. 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 Assets: The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. 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 Assets – 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 Assets – This category represents net assets of the City not restricted for any project or other purpose.

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.

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

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fund	Appropriations	Total Expenditures	Excess Expenditures
Capital Projects Fund		\$ 148,541	\$ 148,541
Nonmajor Governmental Funds:			
CDBG Fund	\$ 1,000	22,829	21,829

Deficit Fund Equity: The City has no funds with fund deficits at June 30, 2012.

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, 2012 are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 1,194,478	\$ 20,045	\$ 1,214,523

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE B – CASH AND INVESTMENTS (Continued)

As of June 30, 2012, the City’s cash and investments consisted of the following:

Cash on hand	\$ 300
Deposits in financial institutions	173,467
Investments	
California Local Agency Investment Fund	<u>1,040,756</u>
Total cash and investments	<u>\$ 1,214,523</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.

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 270 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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE B – CASH AND INVESTMENTS (Continued)

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, 2012, the carrying amount of the City’s deposits was \$173,467, and the bank balance was \$213,878. The City had no bank balances above the federally insured limit of \$250,000.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$60,588,263,603 managed by the State Treasurer. Of that amount, 3.47% 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.

NOTE C – INTERFUND TRANSACTIONS

Transfers during the year ended June 30, 2012 were as follows:

Transfers out	Transfers in							Total
	General Fund	Capital Projects Fund	Sewer Fund	Support Law Enforcement Program	Nonmajor Governmental CDBG	Transportation and Road Fund	Mitigation Funds	
General Fund		\$ 163	\$ 869	\$ 1,117				\$ 2,149
Capital Projects Fund							\$ 11,552	11,552
Nonmajor Governmental Funds:								
CDBG	\$ 14,950							14,950
Transportation Impact Gas Tax	35,563	5,306			\$ 20,440			61,309
Mitigation Funds		129,061				\$ 42,480		42,480
	<u>\$ 50,513</u>	<u>\$ 134,530</u>	<u>\$ 869</u>	<u>\$ 1,117</u>	<u>\$ 20,440</u>	<u>\$ 42,480</u>	<u>\$ 11,552</u>	<u>\$ 261,501</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.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE D – CAPITAL ASSETS

Governmental capital assets activity for the year ended June 30, 2012 was as follows:

	Balance at June 30, 2011	Additions	Retirements	Transfers	Balance at June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 559,960				\$ 559,960
Construction in progress	243,990	\$ 148,541		\$ (372,464)	20,067
Total capital assets, not being depreciated	<u>803,950</u>	<u>148,541</u>	<u>-</u>	<u>(372,464)</u>	<u>580,027</u>
Capital assets, being depreciated:					
Buildings and improvements	3,366,764	199,300		372,464	3,938,528
Vehicles	444,259				444,259
Machinery and equipment	471,398				471,398
Furniture and fixtures	6,764				6,764
Total capital assets, being depreciated	<u>4,289,185</u>	<u>199,300</u>	<u>-</u>	<u>372,464</u>	<u>4,860,949</u>
Less accumulated depreciation for:					
Buildings and improvements	(606,938)	(101,582)			(708,520)
Vehicles	(327,093)	(29,274)			(356,367)
Machinery and equipment	(397,216)	(22,456)			(419,672)
Furniture and fixtures	(5,720)	(572)			(6,292)
Total accumulated depreciation	<u>(1,336,967)</u>	<u>(153,884)</u>	<u>-</u>	<u>-</u>	<u>(1,490,851)</u>
Capital assets being depreciated, net	<u>2,952,218</u>	<u>45,416</u>	<u>-</u>	<u>372,464</u>	<u>3,370,098</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 3,756,168</u>	<u>\$ 193,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,950,125</u>

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

General governmental	\$ 7,675
Public safety	40,280
Public works	30,387
Culture and recreation	5,227
Community development	<u>70,315</u>
Total governmental activities depreciation expense	<u>\$ 153,884</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE D – CAPITAL ASSETS (Continued)

Business-type capital assets activities for the year ended June 30, 2012 was as follows:

	Balance at June 30, 2011	Additions	Retirements	Transfers	Balance at June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 134,700				\$ 134,700
Construction in progress	3,776,413	\$ 745,998		\$ (3,765,149)	757,262
Total capital assets, not being depreciated	3,911,113	745,998	-	(3,765,149)	891,962
Capital assets, being depreciated:					
Buildings and improvements	14,114,270			3,765,149	17,879,419
Vehicles	3,400				3,400
Machinery and equipment	411,146	20,582			431,728
Total capital assets, being depreciated	14,528,816	20,582	-	3,765,149	18,314,547
Less accumulated depreciation for:					
Buildings and improvements	(2,729,972)	(429,091)			(3,159,063)
Vehicles	(2,630)	(440)			(3,070)
Machinery and equipment	(227,971)	(33,873)			(261,844)
Total accumulated depreciation	(2,960,573)	(463,404)	-	-	(3,423,977)
Capital assets being depreciated, net	11,568,243	(442,822)	-	3,765,149	14,890,570
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 15,479,356	\$ 303,176	\$ -	\$ -	\$ 15,782,532

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

Sewer	\$ 463,404
Total business-type activities depreciation expense	\$ 463,404

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE E – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Payments	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
Note payable	\$ 550,000		\$ (19,602)	\$ 530,398	
Legal Settlement 2011	152,683	\$ 22,317	(50,000)	125,000	\$ 50,000
Total notes and settlement payable	702,683	22,317	(69,602)	655,398	50,000
Postclosure landfill costs	622,970		(44,622)	578,348	
Compensated absences	31,357		(9,492)	21,865	10,933
Governmental activities long-term liabilities	<u>\$ 1,357,010</u>	<u>\$ 22,317</u>	<u>\$ (123,716)</u>	<u>\$ 1,255,611</u>	<u>\$ 60,933</u>
Business-Type Activities:					
General obligation bonds	\$ 40,000		\$ (4,000)	\$ 36,000	\$ 5,000
Sewer revenue bonds	35,000		(35,000)	-	
State loan	7,357,496		(7,357,496)	-	
State loan - restructured		\$ 7,761,000		7,761,000	
Legal settlement 2010	324,768		(108,256)	216,512	108,256
Legal settlement 2009	226,601		(101,481)	125,120	125,120
Total bonds, loan settlements payable	7,983,865	7,761,000	(7,606,233)	8,138,632	238,376
Compensated absences	12,420	385		12,805	6,403
Business-type activities long-term liabilities	<u>\$ 7,996,285</u>	<u>\$ 7,761,385</u>	<u>\$ (7,606,233)</u>	<u>\$ 8,151,437</u>	<u>\$ 244,779</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE E – LONG-TERM LIABILITIES (Continued)

Long-term debt of the City’s governmental activities consists of the following as of June 30, 2012:

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. \$ 530,398

On June 11, 2012, the City agreed to settle on the arbitrator's decision to award the Stationery Engineers, Local 39 Health & Welfare Trust Fund (Trust Fund) \$175,000 for unpaid fringe benefit contributions, interest, liquidated damages, fees and costs. 125,000
\$ 655,398

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, 2012, the remaining closure and postclosure maintenance costs to be recognized over the next 25 years is \$578,348.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE E – LONG-TERM LIABILITIES (Continued)

Long-term debt of the City's business-type activities consists of the following as of June 30, 2012:

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. \$ 36,000

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 \$35,000 to refund the City's 1978 USDA Sewer Revenue Bond and \$7,725,000 to restructure the original loan. The remaining undisbursed amount of \$5,064,600 is to pay for the Pond Lining project and is expected to be disbursed in 2013 and 2014, as needed. Terms of the loan call for the repayment period to be deferred until completion of the Pond Lining project, which is expected to be in 2014 or later. Additionally, upon completion of the project the State will forgive \$3,319,000 of the loan principal. 7,761,000

On February 15, 2011, the United States District Court ordered the City to pay the Environmental Law Foundation \$433,024 in legal fees and interest. The payments are to be made in four equal installments, including interest at a rate of 10%. 216,512

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. 125,120

\$ 8,138,632

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE E – LONG-TERM LIABILITIES (Continued)

Principal payments on debt are due as follows:

June 30	Legal Settlement 2011	General Obligation Bonds	State Loan - Restructured	Legal Settlement 2010	Legal Settlement 2009	Total
2013	\$ 50,000	\$ 5,000		\$ 108,256	\$ 125,120	\$ 288,376
2014	75,000	5,000	\$ 276,713	108,256		464,969
2015		6,000	279,481			285,481
2016		6,000	282,275			288,275
2017		7,000	285,098			292,098
2018-2022		7,000	1,468,830			1,475,830
2023-2027			1,543,754			1,543,754
2028-2032			1,622,501			1,622,501
2033-2037			1,705,265			1,705,265
2038-2042			297,083			297,083
Totals	<u>\$ 125,000</u>	<u>\$ 36,000</u>	<u>\$ 7,761,000</u>	<u>\$ 216,512</u>	<u>\$ 125,120</u>	<u>\$ 8,263,632</u>

Interest payments on debt are due as follows:

June 30	General Obligation Bonds	State Loan - Restructured	Legal Settlement 2010	Total
2013	\$ 1,800		\$ 21,651	\$ 23,451
2014	1,550	78,153	10,826	90,529
2015	1,300	75,386		76,686
2016	1,000	72,591		73,591
2017	700	69,768		70,468
2018-2022	350	305,501		305,851
2023-2027		230,576		230,576
2028-2032		151,829		151,829
2033-2037		69,065		69,065
2038-2042		3,515		3,515
Totals	<u>\$ 6,700</u>	<u>\$ 1,056,384</u>	<u>\$ 32,477</u>	<u>\$ 1,095,561</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE F – NET ASSETS/FUND BALANCE

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

	<u>Governmental Activities</u>
Street projects	\$ 214,886
Economic redevelopment	169,263
Recycling	27,349
Fire Department	27,047
Community projects	60,505
Caboose restoration	1
Mitigation projects	267,665
Landfill	<u>146,602</u>
	<u>\$ 913,318</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			\$ 55,296	\$ 55,296
Prepaid expenses			1,095	1,095
Total Nonspendable	<u>-</u>	<u>-</u>	<u>56,391</u>	<u>56,391</u>
Restricted for:				
Street projects		\$ 244,855	45,483	290,338
Landfill	\$ 724,950			724,950
Economic redevelopment			200,763	200,763
Recycling			26,254	26,254
Fire Department			27,047	27,047
Community projects			5,209	5,209
Caboose restoration		1		1
Mitigation projects			267,665	267,665
Total Restricted	<u>724,950</u>	<u>244,856</u>	<u>572,421</u>	<u>1,542,227</u>
Unassigned	(284,700)	(113)		(284,813)
Total Unassigned	<u>(284,700)</u>	<u>(113)</u>	<u>-</u>	<u>(284,813)</u>
Total fund balances	<u>\$ 440,250</u>	<u>\$ 244,743</u>	<u>\$ 628,812</u>	<u>\$ 1,313,805</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

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, 2012 was 8.197% 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, 2012, 2011 and 2010 were \$26,181, \$20,307, and \$30,486, 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, 2012

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 - \$ 40,000,000	California Joint Powers Risk Management Authority	Shared risk pool
 <i>WORKERS' COMPENSATION:</i>		
- \$ 25,000	Self-insured	Banking layer
\$ 25,001 - \$ 150,000	Small Cities Organized Risk Effort	Shared risk pool
\$ 150,001 - \$ 4,850,000	Local Agency Workers' Compensation Excess Joint Powers Authority	Shared risk pool
\$ 4,850,001 - 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, 2012, 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.

On October 25, 2007, the Central Valley Water Board adopted Cease and Desist Order No. R5-2007-0130 and Cease and Desist Order R5-2007-0131. These orders prescribe waste discharge requirements and time schedules for the City at its Wastewater Treatment Plant. On January 28, 2010 Cease and Desist Order No. R5-2007-0131 was rescinded and replaced by Cease and Desist Order R5-2010-0001. On December 8, 2011, the Central Valley Water Board rescinded and replaced Cease and Desist Order R5-2010-0001 by Cease and Desist Order R5-2011-0097 except for enforcement purposes, and pursuant to CWV Sections 13301 and 13267, the City, its agents, successors, and assignees shall, in accordance with certain tasks and time schedule, implement certain actions to ensure compliance with Waste Discharge Order R5-2007-0130, or subsequent order.

Cease and Desist Order No. R5-2011-0097 sets a compliance schedule with specific dates for submitting reports and completing certain tasks associated with rehabilitating the sewage collection system, provide temporary operational flexibility to allow the City to drain the storage reservoir so that it may be lined and therefore prevent wastewater seepage, to re-evaluate whether the storage reservoir has the capacity to hold all wastewater inflows, precipitation, and infiltration and inflow generated during a 100-year annual

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE I – COMMITMENTS AND CONTINGENCIES (Continued)

precipitation event. This order also allows the City to conduct a stress test and continue an updated interim effluent limit for copper.

If the City fails to comply with the provisions of this Order, the Central Valley Water Board may refer this matter to the Attorney General for judicial enforcement, may issue a complaint for administrative civil liability, or may take other enforcement actions. 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.

The City has obtained the required funding for inflows and infiltration evaluation, lining of Pond 3, and implementation of a Supervisory Control and Data Acquisition System from Federal and State loans and grants.

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.

The City had the following construction project commitments at June 30, 2012:

<u>Project Name</u>	<u>Total Project Costs</u>	<u>Unexpended Amount</u>
Pond #3 Reservoir Lining Project	\$ 2,395,000	\$ 2,395,000

NOTE J – PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009/10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Colfax was \$44,754.

The borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012/13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009/10).

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE K – FINANCIAL CONDITION

For the last several years, the City has struggled with escalating costs associated with the construction and operation of a new wastewater treatment plant, including legal settlements and related legal costs, as well as losses in its solid waste services. The City was required to construct and initiate operation of a new wastewater treatment plant to comply with a Central Valley Water Board Order, for which the City has borrowed \$7,357,496 from the State of California Water Resources Control Board. In order to comply with another Order, the City has begun work to line wastewater pond number three. The City has obtained funding to line reservoir pond number three, which included restructuring the existing loan with the State for the wastewater treatment plant. The new loan totals \$12,825,600, with an interest rate of 1% and no administrative charge. If the City complies with the Project Finance agreement, the State will forgive \$3,319,000 of the loan. Repayment of principal on the loan is not required until completion of the project, but interest payments will be required.

While the City's cash flow shortages have improved, and no funds had negative cash at June 30, 2012, the City continues to operate with minimal reserves, which is reflected by a deficit unassigned fund balance in the General Fund of \$284,700, due to the close-out of the negative fund balance of the Solid Waste fund at June 30, 2011 of \$344,721. However, the City is collecting a franchise fee from the solid waste contractor so there will no longer be losses related to solid waste services. Repayment of the loan for the wastewater facilities has been deferred until completion of the pond three liner, which will improve cash flow, and the rate increases that went into effect in 2008 will be used to repay this debt. The City is projecting to have positive fund balances in all funds by June 30, 2015.

NOTE L – SUBSEQUENT EVENTS

On September 19, 2012, the City secured a loan from the Placer County Treasurer in the amount of \$3,000,000 to provide temporary financing for the improvements to the City's wastewater treatment facilities until loan and grant proceeds are received. The note matures on April 21, 2013 and bears an interest rate of 0.4%. The principal and interest balances are due on the date of maturity and the City may prepay the balance in payments of at least \$500,000. The note is secured by the City's loans, grants and property tax revenues.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE M – RESTATEMENT

During fiscal year ended June 30, 2012, the City consolidated the Solid Waste Fund into the General Fund, as the City has turned this service over to a third party provider. As a result, beginning fund balances have been adjusted as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets, beginning of year, as previously recorded	\$ 4,077,947	\$ 6,902,749
Transfer of Solid Waste deficit fund balance	<u>(344,721)</u>	<u>344,721</u>
Net assets, beginning of year, as restated	<u>\$ 3,733,226</u>	<u>\$ 7,247,470</u>
	<u>General Fund</u>	<u>Solid Waste Fund</u>
Fund balance, beginning of year, as previously recorded	\$ 110,152	\$ (344,721)
Transfer of Solid Waste deficit fund balance	(344,721)	344,721
Removal of long-term liabilities	<u>622,970</u>	<u> </u>
Balance, beginning of year, as restated	<u>\$ 388,401</u>	<u>\$ -</u>

COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS

CITY OF COLFAX

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	Special Revenue				
	Bricks	CDBG	Transportation & Road Fund	Gas Tax	Mitigation Funds
ASSETS:					
Cash and cash equivalents	\$ 5,205	\$ 202,994	\$ 4,735	\$ 40,130	\$ 267,332
Accounts receivable				6,830	
Interest receivable	4	158	(29)	56	333
Notes receivable		55,296			
Prepaid expenses					
Total assets	\$ 5,209	\$ 258,448	\$ 4,706	\$ 47,016	\$ 267,665
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable		\$ 2,389	\$ 1,186	\$ 1,533	
Accrued expenses			3,520		
Total liabilities	-	2,389	4,706	1,533	-
Fund balance:					
Nonspendable		55,296			
Restricted	\$ 5,209	200,763		45,483	\$ 267,665
Total fund balance	5,209	256,059	-	45,483	267,665
Total liabilities and fund balance	\$ 5,209	\$ 258,448	\$ 4,706	\$ 47,016	\$ 267,665

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

Special Revenue			Total Nonmajor Governmental Funds
Beverage Recycling	Oil Grant	Fire Capital	
\$ 23,873	\$ 3,101	\$ 27,027	\$ 574,397
			6,830
16	1	20	559
	1,095		55,296
			1,095
<u>\$ 23,889</u>	<u>\$ 4,197</u>	<u>\$ 27,047</u>	<u>\$ 638,177</u>

	\$ 591		\$ 5,699
	146		3,666
-	737	-	9,365

	1,095		56,391
\$ 23,889	2,365	\$ 27,047	572,421
<u>23,889</u>	<u>3,460</u>	<u>27,047</u>	<u>628,812</u>

<u>\$ 23,889</u>	<u>\$ 4,197</u>	<u>\$ 27,047</u>	<u>\$ 638,177</u>
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CITY OF COLFAX

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

June 30, 2012

	Special Revenue			
	Bricks	Support Law Enforcement Program	CDBG	Transportation & Road Fund
REVENUES:				
Tax revenues				
Licenses, fees and permits				\$ 1,177
Intergovernmental revenues		\$ 111,316	\$ 31,500	88,844
Use of money and property	\$ 15	5	2,020	(95)
Other revenue				
Total revenues	<u>15</u>	<u>111,321</u>	<u>33,520</u>	<u>89,926</u>
EXPENDITURES:				
Public safety		100,710		
Public works				143,710
Community development			22,829	
Total expenditures	<u>-</u>	<u>100,710</u>	<u>22,829</u>	<u>143,710</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15</u>	<u>10,611</u>	<u>10,691</u>	<u>(53,784)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in		1,117	20,440	42,480
Transfers out			(14,950)	
Total other financing sources (uses)	<u>-</u>	<u>1,117</u>	<u>5,490</u>	<u>42,480</u>
Net change in fund balance	15	11,728	16,181	(11,304)
Fund balances - beginning of year	5,194	(11,728)	239,878	11,304
Fund balances - end of year	<u>\$ 5,209</u>	<u>\$ -</u>	<u>\$ 256,059</u>	<u>\$ -</u>

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

Special Revenue						Total
Transportation Impact	Gas Tax	Mitigation Funds	Beverage Recycling	Oil Grant	Fire Capital	Nonmajor Governmental Funds
	\$ 68,893					\$ 68,893
			\$ 5,000	\$ 5,000		1,177
\$ 124	168	\$ 1,111	55	1	\$ 74	241,660
				19		3,478
124	69,061	1,111	5,055	5,020	74	19
						315,227
					2,177	102,887
	20,120					163,830
				3,358		26,187
-	20,120	-	-	3,358	2,177	292,904
124	48,941	1,111	5,055	1,662	(2,103)	22,323
		11,552				75,589
(61,309)	(42,480)	(129,061)				(247,800)
(61,309)	(42,480)	(117,509)	-	-	-	(172,211)
(61,185)	6,461	(116,398)	5,055	1,662	(2,103)	(149,888)
61,185	39,022	384,063	18,834	1,798	29,150	778,700
\$ -	\$ 45,483	\$ 267,665	\$ 23,889	\$ 3,460	\$ 27,047	\$ 628,812