

CITY OF COLFAX, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2011

(This page intentionally left blank.)

CITY OF COLFAX, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2011

Table of Contents

INDEPENDENT AUDITOR’S REPORT 1
MANAGEMENT’S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Statement of Net Assets 13
Statement of Activities 14

FUND FINANCIAL STATEMENTS:

Governmental Funds:

Balance Sheet – Governmental Funds 15
Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Assets 16
Statement of Revenues, Expenditures, and Changes in Fund Balances
– Governmental Funds 17
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Government-
wide Statement of Activities 18
Statement of Revenues, Expenditures and Changes in Fund Balances
– Budget and Actual (Budgetary Basis) – General Fund 19

Proprietary Funds:

Statement of Net Assets – Proprietary Funds 20
Statement of Revenues, Expenses and Changes in Net Assets –
Proprietary Funds 21
Statement of Cash Flows – Proprietary Funds 22
Notes to the Basic Financial Statements 23

COMBINING STATEMENTS AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

Non-Major Governmental Funds:

Combining Balance Sheet – Nonmajor Governmental Funds 43
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Governmental Funds 45

(This page intentionally left blank.)

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Colfax, California

We have audited the accompanying financial statements of the governmental 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, 2011, 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, each major fund, and the aggregate remaining fund information of the City of Colfax, California, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, 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.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note K to the financial statements, the City has suffered recurring losses from operations in its Sewer Enterprise Fund, legal settlements and reduced General Fund revenues, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note K. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The management's discussion and analysis on pages 3 through 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Colfax, California

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2012 in 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 conjunction with this report in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Colfax's basic financial statements. The combining and individual Nonmajor fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of City of Colfax, California. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Richardson & Company

January 26, 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, 2011. 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 \$10,980,696 (net assets). These net assets are allocated as follows:
 - Invested in Capital assets, net of related debt - \$11,253,028
 - Restricted net assets of \$949,121. This amount is for Special revenue funds, Capital project funds and Debt service fund.
 - Negative unrestricted fund balance at the end of the year was (\$1,221,453) as compared to (\$687,113) for the previous year. This change in balance of (\$534,340) is largely attributable to :
 - Liability for an arbitration decision against the City in the amount of (\$152,683) recorded in governmental activities – the decision is pending approval by the City.
 - Increase in the liability for Post closure landfill costs in the amount of (\$394,527). The total liability for closure costs is \$622,970 based on estimates for postclosure care for the remaining 27 years of State and Federal Requirements to provide maintenance and monitoring functions on a landfill for 30 years after closure.
- The Sewer Enterprise fund continued to be impacted by escalating costs associated with the construction and operation of the water treatment plant, in addition to expenses associated with requirements of a cease and desist order. During the year ended June 30, 2011, the Sewer Fund incurred substantial legal expenses related to the defense of an ongoing lawsuit.

The Sewer Enterprise fund incurred a negative cash balance of \$622,791 as of June 30, 2011 as a result of the increased expense described above and the timing of expense reimbursements on grant funding. This negative cash balance resulted in borrowing from other funds – primarily Special Revenue and Solid Waste funds due to the General Fund not having reserves to loan. Refer to Note K of the financial statements for information on new project funding and deferment of loan

payments which will improve cash flow. The City will also continue to increase sewer rates with a 3.5% inflator for each year.

- Total revenues from all sources were \$5,738,297, and total expenditures from all sources were \$4,364,681.
- The General Fund unreserved net assets is \$65,398. The General Fund reported revenue in excess of expenditures and other financing uses of \$46,323.

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 and garbage 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 (like the Recreation Fund and Depot Restoration Fund) 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 and Garbage 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 \$10,980,696 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, 2011 and 2010 are summarized (Table 1), as follows:

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

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$ 1,351	\$ 1,770	\$ 1,051	\$ 852	\$ 2,402	\$ 2,622
Capital assets	<u>3,756</u>	<u>2,877</u>	<u>15,479</u>	<u>13,665</u>	<u>19,235</u>	<u>16,542</u>
Total Assets	5,107	4,647	16,530	14,517	21,637	19,164
Liabilities:						
Long-term debt outstanding	734	27	8,619	8,368	9,353	8,395
Other liabilities	<u>295</u>	<u>348</u>	<u>1,008</u>	<u>814</u>	<u>1,303</u>	<u>1,162</u>
Total Liabilities	1,029	375	9,627	9,182	10,656	9,557
Net Assets:						
Invested in capital assets, net of debt	3,206	2,877	8,047	6,224	11,253	9,101
Restricted	894	1,173	55	20	949	1,193
Unrestricted	<u>(22)</u>	<u>222</u>	<u>(1,199)</u>	<u>(909)</u>	<u>(1,221)</u>	<u>(687)</u>
Total Net Assets	<u>\$ 4,078</u>	<u>\$ 4,272</u>	<u>\$ 6,903</u>	<u>\$ 5,335</u>	<u>\$ 10,981</u>	<u>\$ 9,607</u>

The City is concerned with the negative balance in Unrestricted funds for Business-type activities – primarily attributed to the Sewer Enterprise fund as reported in the Financial Highlights and throughout the basic financial statements and accompanying footnotes.

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.

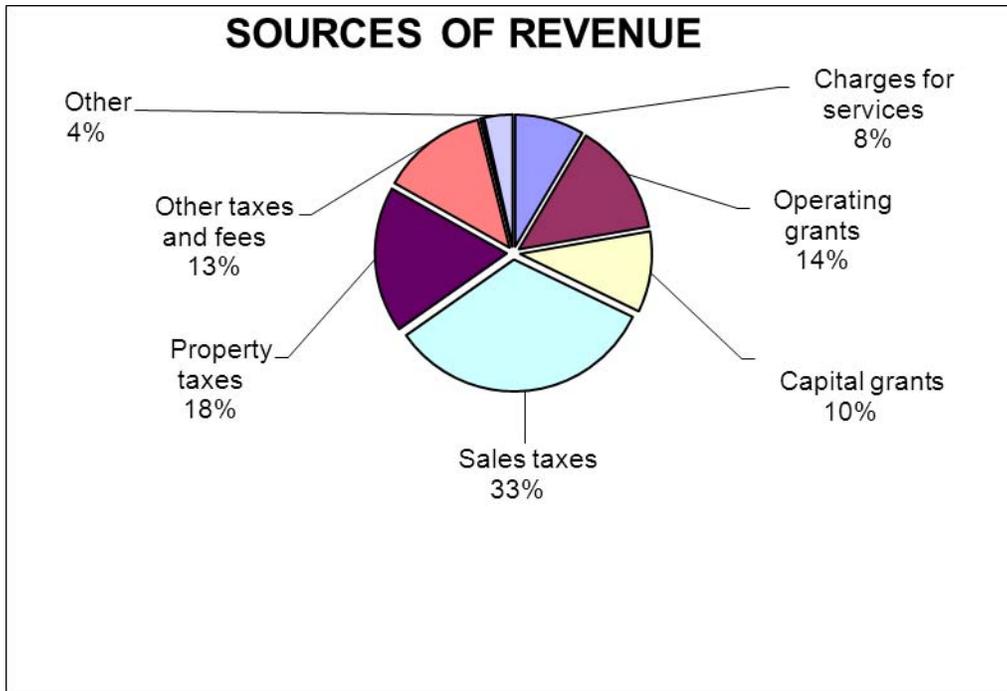
Governmental Activities

The City's governmental activities net assets increased by \$1,373,000. The key elements of this increase are as follows:

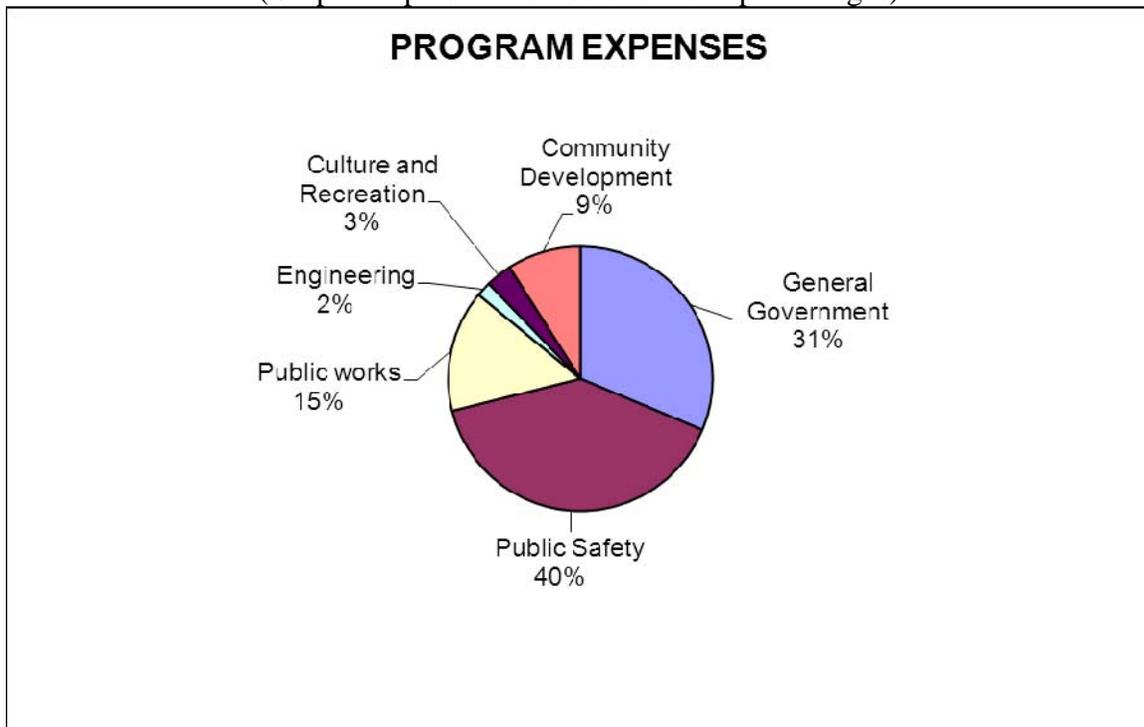
Table 2
City of Colfax, Change in Net Assets
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 138	\$ 174	\$ 1,981	\$ 1,944	\$ 2,119	\$ 2,118
Operating grants and contributions	224	181	-	-	224	181
Capital grants and contributions	161	63	2,126	1,496	2,287	1,559
General revenues:						
Sales taxes	538	553			538	553
Property taxes	291	289	7	9	298	298
Other taxes and fees	211	222			211	222
Earnings on investments	6	9	(2)	(1)	4	8
Other	57	67			57	67
Total revenues	1,626	1,558	4,112	3,448	5,738	5,006
Expenses:						
General government	570	424			570	424
Public Safety	724	693			724	693
Public works	271	341			271	341
Engineering	33	40			33	40
Culture and recreation	58	44			58	44
Community development	164	191			164	191
Sewer	-	-	1,669	2,567	1,669	2,567
Garbage	-	-	876	467	876	467
Total expenses	1,820	1,733	2,545	3,034	4,365	4,767
Change in net assets before transfers	(194)	(175)	1,567	414	1,373	239
Transfers	-	-	-	-	-	-
Change in net assets	(194)	(175)	1,567	414	1,373	239
Net assets, July 1	4,272	4,447	5,335	4,921	9,607	9,368
Net assets, June 30	<u>\$ 4,078</u>	<u>\$ 4,272</u>	<u>\$ 6,902</u>	<u>\$ 5,335</u>	<u>\$ 10,980</u>	<u>\$ 9,607</u>

Fiscal Year 2010-2011
Governmental Activities – Sources of Revenue
 (Graphic representation of Table 2 in percentages)



Fiscal Year 2010-2011
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 \$1,567,317. Detailed revenues and expenditures are reported in Table 2 on page 8.

- The City was entitled to capital grants reimbursements for the Sewer Collection System/Lift stations repairs and improvements project. The total grants collected and accrued were \$2,126,100
- The liability for Post closure landfill costs was increased in the amount of \$394,527, 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, 2011, net capital assets of the governmental activities totaled \$3,756,168 and the net capital assets of the business-type activities totaled \$15,479,356. Depreciation on capital assets is recognized in the Governmental-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	
	2011	2010	2011	2010	2011	2010
Land	\$ 560	\$ 10	\$ 135	\$ 135	\$ 695	\$ 145
Construction in progress	244	244	3,776	1,649	4,020	1,893
Building and Improvement:	3,367	2,944	14,114	14,054	17,481	16,998
Vehicles	444	444	3	3	447	447
Furnitures and Fixtures	7	7	-	-	7	7
Machinery and equipment	471	439	411	411	882	850
Accumulated depreciation	(1,337)	(1,211)	(2,960)	(2,587)	(4,297)	(3,798)
Total Assets	\$ 3,756	\$ 2,877	\$15,479	\$13,665	\$19,235	\$16,542

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

- Repairs and improvements to the Sewer Collection Systems and Lift Stations in the amount of (\$2,127,110).

Long-Term Debt

At year-end, the City of Colfax had total long-term debts outstanding of \$9,353,295, as compared to a total of \$8,394,970 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	
	2011	2010	2011	2010	2011	2010
Note Payable	\$ 550	\$ -	\$ -	\$ -	\$ 550	\$ -
Compensated absences	31	27	12	16	43	43
Landfill Closure			623	252	623	252
General obligation bond	-	-	40	44	40	44
Sewer revenue bond	-	-	35	39	35	39
Notes payable	-	-	7,357	7,357	7,357	7,357
Legal Settlements	153		552	660	705	660
Total Long-term Debt	\$ 734	\$ 27	\$ 8,619	\$ 8,368	\$ 9,353	\$ 8,395

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, note payable for the purchase of property and legal settlements as described in Notes E and H of the financial statements. Additionally, the City issued general obligation bonds and sewer revenue bonds to finance the sewer facility back in 1978. New debt for 2011 includes legal settlements (\$152,683) and a note payable for property purchase (\$550,000) in the Governmental funds and an increase in Post Closure liability (\$394,527) in the Sewer Enterprise fund as described in Note E of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In considering the City Budget for fiscal year 2011-2012, the City Council and management were cautious as to the growth of revenues and expenditures. The general fund operating budget for 2011/12 indicates expenditures exceeding revenues by approximately \$20,000. Cash flow shortages primarily created by the Sewer Enterprise Fund have forced the City to further limit spending, postpone payables, and delay capital projects. Some of the actions being taken to compensate for the shortages are:

- Maintain reduced staff levels

- The City negotiated a franchise agreement for Garbage collections (effective July 01, 2011) that will 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. This funding arrangement includes 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.

BASIC FINANCIAL STATEMENTS

CITY OF COLFAX

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 545,602	\$ 111,438	\$ 657,040
Accounts receivable net of allowance for doubtful accounts	10,913	258,519	269,432
Due from other government agencies	262,416	889,897	1,152,313
Interest receivable	743	(310)	433
Notes receivable	56,869		56,869
Prepaid expenses	1,095	864	1,959
Internal balances	472,791	(472,791)	
Total current assets	<u>1,350,429</u>	<u>787,617</u>	<u>2,138,046</u>
Restricted Assets:			
Cash in escrow		262,966	262,966
Noncurrent assets:			
Capital assets net of accumulated depreciation			
Non-depreciable	803,950	3,911,113	4,715,063
Depreciable	<u>2,952,218</u>	<u>11,568,243</u>	<u>14,520,461</u>
	<u>3,756,168</u>	<u>15,479,356</u>	<u>19,235,524</u>
Total assets	<u>5,106,597</u>	<u>16,529,939</u>	<u>21,636,536</u>
LIABILITIES			
Current liabilities:			
Accounts payable	258,013	429,523	687,536
Retention payable		262,966	262,966
Accrued expenses	10,067	315,446	325,513
Unearned revenue	26,530		26,530
Current portion of long-term liabilities	<u>173,080</u>	<u>380,067</u>	<u>553,147</u>
Total current liabilities	<u>467,690</u>	<u>1,388,002</u>	<u>1,855,692</u>
Long-term liabilities:			
Postclosure landfill costs		622,970	622,970
Bonds payable		36,000	36,000
Notes payable	545,281	7,357,496	7,902,777
Legal settlements		216,512	216,512
Compensated absences	15,679	6,210	21,889
Total long-term liabilities	<u>560,960</u>	<u>8,239,188</u>	<u>8,800,148</u>
Total liabilities	<u>1,028,650</u>	<u>9,627,190</u>	<u>10,655,840</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,206,168	8,046,860	11,253,028
Restricted net assets	894,120	55,001	949,121
Unrestricted net assets	<u>(22,341)</u>	<u>(1,199,112)</u>	<u>(1,221,453)</u>
Total net assets	<u>\$ 4,077,947</u>	<u>\$ 6,902,749</u>	<u>\$ 10,980,696</u>

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

CITY OF COLFAX

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

	Program Revenues				Governmental Activities	Business-type Activities	Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions			
Governmental Activities							
General government	\$ 569,977	\$ 110,289			\$ (459,688)		\$ (459,688)
Public safety	723,396	25,015	\$ 107,670		(590,711)		(590,711)
Public works	270,878			\$ 160,597	(110,281)		(110,281)
Community development	164,020		116,875		(47,145)		(47,145)
Engineering services	33,389	(2,693)			(36,082)		(36,082)
Culture and recreation	58,186	5,435			(52,751)		(52,751)
Total governmental activities	<u>1,819,846</u>	<u>138,046</u>	<u>224,545</u>	<u>160,597</u>	<u>(1,296,658)</u>		<u>(1,296,658)</u>
Business-type activities:							
Sewer	1,483,774	1,570,729		2,126,100		\$ 2,213,055	2,213,055
Garbage	876,271	410,259				(466,012)	(466,012)
Interest on long-term debt	184,790					(184,790)	(184,790)
Total business-type activities	<u>2,544,835</u>	<u>1,980,988</u>		<u>2,126,100</u>		<u>1,562,253</u>	<u>1,562,253</u>
Total government	<u>\$ 4,364,681</u>	<u>\$ 2,119,034</u>	<u>\$ 224,545</u>	<u>\$ 2,286,697</u>	<u>(1,296,658)</u>	<u>1,562,253</u>	<u>265,595</u>
			General revenues				
			Taxes:				
			Sales and use taxes		537,890		537,890
			Property taxes		291,219	6,836	298,055
			Transient occupancy tax		16,892		16,892
			Franchises		13,568		13,568
			Gas taxes		48,818		48,818
			Motor vehicle in-lieu		132,121		132,121
			Investment income		5,521	(1,772)	3,749
			Rental income		40,896		40,896
			Miscellaneous		16,032		16,032
			Total general revenues and transfers		<u>1,102,957</u>	<u>5,064</u>	<u>1,108,021</u>
			Changes in net assets		<u>(193,701)</u>	<u>1,567,317</u>	<u>1,373,616</u>
			Net assets - beginning		<u>4,271,648</u>	<u>5,335,432</u>	<u>9,607,080</u>
			Net assets - ending		<u>\$ 4,077,947</u>	<u>\$ 6,902,749</u>	<u>\$ 10,980,696</u>

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

CITY OF COLFAX
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011

	Major Funds			Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 121,603	\$ 82,666	\$ 341,333	\$ 545,602
Accounts receivable, net of allowance for doubtful accounts	10,913			10,913
Due from other governmental agencies	133,611	81,182	47,623	262,416
Interest receivable	(69)	171	641	743
Notes receivable			56,869	56,869
Prepaid expenses			1,095	1,095
Due from other funds	56,791		416,000	472,791
	\$ 322,849	\$ 164,019	\$ 863,561	\$ 1,350,429
LIABILITIES				
Accounts payable	\$ 145,011	\$ 73,306	\$ 39,696	\$ 258,013
Accrued expenses	7,718		2,349	10,067
Deferred revenue	59,968	75,452	42,816	178,236
Total liabilities	212,697	148,758	84,861	446,316
FUND BALANCES				
Nonspendable	44,754		57,964	102,718
Restricted		126,512	732,464	858,976
Unassigned	65,398	(111,251)	(11,728)	(57,581)
Total fund balances	110,152	15,261	778,700	904,113
Total liabilities and fund balances	\$ 322,849	\$ 164,019	\$ 863,561	\$ 1,350,429

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, 2011

Total Governmental Fund Balances	\$ 904,113
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.	3,756,168
Certain receivables are not available to pay current period expenditures and therefore are deferred in the governmental funds	151,706
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	<u>(734,040)</u>
Net Assets of Governmental Activities	<u><u>\$ 4,077,947</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, 2011

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Taxes	\$ 873,631		\$ 48,818	\$ 922,449
Licenses, fees and permits	39,002		1,242	40,244
Intergovernmental revenues	151,499	\$ 95,395	184,565	431,459
Charges for services	88,072			88,072
Fines, forfeitures and penalties	10,972			10,972
Use of money and property	42,354	1,012	3,051	46,417
Other revenue	9,084	2,260	818	12,162
Total revenues	<u>1,214,614</u>	<u>98,667</u>	<u>238,494</u>	<u>1,551,775</u>
EXPENDITURES:				
General government	405,265		231	405,496
Public safety	566,675		100,710	667,385
Public works	96,258		150,175	246,433
Community development		6,009	87,695	93,704
Engineering services	33,389			33,389
Cultural and recreation	26,829			26,829
Capital outlay	550,000	486,239	32,825	1,069,064
Total expenditures	<u>1,678,416</u>	<u>492,248</u>	<u>371,636</u>	<u>2,542,300</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(463,802)</u>	<u>(393,581)</u>	<u>(133,142)</u>	<u>(990,525)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term debt	550,000			550,000
Transfers in	1,306	6,009	59,250	66,565
Transfers out	(41,181)		(25,384)	(66,565)
Total other financing sources (uses)	<u>510,125</u>	<u>6,009</u>	<u>33,866</u>	<u>550,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	46,323	(387,572)	(99,276)	(440,525)
Fund balances - beginning of year	<u>63,829</u>	<u>402,833</u>	<u>877,976</u>	<u>1,344,638</u>
Fund balances - end of year	<u>\$ 110,152</u>	<u>\$ 15,261</u>	<u>\$ 778,700</u>	<u>\$ 904,113</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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (440,525)
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	1,069,064
Depreciation expense	(160,478)
In the statement of activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds, proceeds from sales increase financial resources.	
	(29,010)
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. This is the amount by which proceeds exceed repayments.	
	(550,000)
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	151,706
Deferred revenue recognized last year	(77,337)
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	(4,438)
Settlement accrued	<u>(152,683)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (193,701)</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, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 803,900	\$ 803,900	\$ 873,631	\$ 69,731
Licenses, fees and permits	37,000	37,000	39,002	2,002
Intergovernmental	141,000	141,000	151,499	10,499
Charges for services	15,100	15,100	88,072	72,972
Fines and forfeitures	15,000	15,000	10,972	(4,028)
Use of money and property	39,156	39,156	42,354	3,198
Other revenue	35,608	35,608	9,084	(26,524)
Total revenues	<u>1,086,764</u>	<u>1,086,764</u>	<u>1,214,614</u>	<u>127,850</u>
Expenditures:				
Current:				
General government and administration	306,232	306,232	405,265	(99,033)
Public safety	556,925	556,925	566,675	(9,750)
Public works	109,328	109,328	96,258	13,070
Engineering services	35,100	35,100	33,389	1,711
Culture and recreation	26,792	26,792	26,829	(37)
Capital outlay	13,000	13,000	550,000	(537,000)
Total expenditures	<u>1,047,377</u>	<u>1,047,377</u>	<u>1,678,416</u>	<u>(631,039)</u>
Excess (deficiency) of revenues over expenditures	39,387	39,387	(463,802)	(503,189)
Other financing sources (uses):				
Proceeds from long-term debt			550,000	550,000
Transfers in	14,001	14,001	1,306	(12,695)
Transfers out		(96,000)	(41,181)	54,819
Total other financing uses	<u>14,001</u>	<u>(81,999)</u>	<u>510,125</u>	<u>592,124</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	53,388	(42,612)	46,323	88,935
Fund balances - beginning of year	<u>63,829</u>	<u>63,829</u>	<u>63,829</u>	
Fund balances - end of year	<u>\$ 117,217</u>	<u>\$ 21,217</u>	<u>\$ 110,152</u>	<u>\$ 88,935</u>

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

CITY OF COLFAX

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011

	Major Enterprise Funds		Total
	Sewer	Solid Waste	
ASSETS:			
Current Assets:			
Cash and cash equivalents		\$ 111,438	\$ 111,438
Accounts receivable net of allowance for doubtful accounts of \$2,103 (sewer), \$5,649 (solid waste)	\$ 200,757	57,762	258,519
Due from other governmental agencies	889,897		889,897
Interest receivable	(509)	199	(310)
Prepaid expenses	864		864
Due from other funds		150,000	150,000
Total current assets	1,091,009	319,399	1,410,408
Restricted Assets:			
Cash in escrow	262,966		262,966
Noncurrent Assets:			
Capital assets:			
Nondepreciable	3,911,113		3,911,113
Depreciable	11,567,374	869	11,568,243
Total capital assets, net of accumulated depreciation	15,478,487	869	15,479,356
Total assets	16,832,462	320,268	17,152,730
LIABILITIES:			
Current Liabilities:			
Accounts payable	390,831	38,692	429,523
Retention payable	262,966		262,966
Accrued expenses	315,019	427	315,446
Current portion of long-term liabilities	378,617	1,450	380,067
Due to other funds	622,791		622,791
Total current liabilities	1,970,224	40,569	2,010,793
Long-term Liabilities:			
Postclosure landfill cost		622,970	622,970
Bonds payable, long-term portion	36,000		36,000
Notes payable, long-term portion	7,357,496		7,357,496
Legal settlements	216,512		216,512
Compensated absences	4,760	1,450	6,210
Total long-term liabilities	7,614,768	624,420	8,239,188
Total liabilities	9,584,992	664,989	10,249,981
NET ASSETS:			
Invested in capital assets, net of related debt	8,045,991	869	8,046,860
Restricted for:			
Landfill		55,001	55,001
Unrestricted	(798,521)	(400,591)	(1,199,112)
Total net assets	\$ 7,247,470	\$ (344,721)	\$ 6,902,749

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

CITY OF COLFAX

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS

For the year ended June 30, 2011

	Major Enterprise Funds		Total
	Sewer	Solid Waste	
Operating revenues:			
Service charges	\$ 1,537,171	\$ 400,778	\$ 1,937,949
Miscellaneous	33,558	9,481	43,039
Total operating revenues	<u>1,570,729</u>	<u>410,259</u>	<u>1,980,988</u>
Operating expenses:			
Personnel services	189,377	27,729	217,106
Operation and maintenance	920,745	848,226	1,768,971
Depreciation	373,652	316	373,968
Total operating expenses	<u>1,483,774</u>	<u>876,271</u>	<u>2,360,045</u>
Income from operations	<u>86,955</u>	<u>(466,012)</u>	<u>(379,057)</u>
Non-operating revenues (expenses):			
Interest income	(2,666)	894	(1,772)
Tax assessment	6,836		6,836
Interest expense	(184,790)		(184,790)
Total nonoperating revenues	<u>(180,620)</u>	<u>894</u>	<u>(179,726)</u>
Capital contributions:			
State grant revenue	<u>2,126,100</u>		<u>2,126,100</u>
Change in net assets	2,032,435	(465,118)	1,567,317
Net assets, beginning of year	<u>5,215,035</u>	<u>120,397</u>	<u>5,335,432</u>
Net assets, end of year	<u>\$ 7,247,470</u>	<u>\$ (344,721)</u>	<u>\$ 6,902,749</u>

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

CITY OF COLFAX

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Major Enterprise Funds		
	Sewer	Solid Waste	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 1,619,413	\$ 437,423	\$ 2,056,836
Cash paid to suppliers	(1,057,054)	(459,037)	\$ (1,516,091)
Cash paid to employees and related benefits	(218,664)	(27,618)	\$ (246,282)
Cash paid for landfill closure costs		(23,487)	\$ (23,487)
Cash provided by operating activities	<u>343,695</u>	<u>(72,719)</u>	<u>270,976</u>
Cash Flows from Noncapital Financing Activities:			
Tax assessments received	6,836		6,836
Advances from other funds	71,995	42,569	114,564
Advances to other funds	(227,171)	(300)	(227,471)
Cash provided by noncapital financing activities	<u>(148,340)</u>	<u>42,269</u>	<u>(106,071)</u>
Cash Flows from Capital and Related Financing Activities			
Capital expenditures	(2,188,071)		(2,188,071)
Debt principal paid	(8,000)		(8,000)
Intergovernmental revenues received	2,115,890		2,115,890
Settlements paid	(108,256)		(108,256)
Interest paid	(4,152)		(4,152)
Cash used for capital and related financing activities	<u>(192,589)</u>	<u></u>	<u>(192,589)</u>
Cash Flows from Investing Activities			
Interest received	(2,766)	909	(1,857)
Decrease in cash and cash equivalents		(29,541)	(29,541)
Cash and cash equivalents, beginning of year		<u>140,979</u>	<u>140,979</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 111,438</u>	<u>\$ 111,438</u>
Reconciliation of operating income from operations to cash provided by operating activities:			
Operating income	\$ 86,955	\$ (466,012)	\$ (379,057)
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation	373,652	316	373,968
(Increase) decrease in assets:			
Accounts receivable	48,684	27,164	75,848
Prepaid expenses	423		423
(Decrease) increase in liabilities:			
Accounts payable	(136,732)	(5,338)	(142,070)
Accrued expenses	(25,279)	(317)	(25,596)
Accrued compensated absences	(4,008)	428	(3,580)
Postclosure landfill cost		371,040	371,040
Cash provided by operating activities	<u>\$ 343,695</u>	<u>\$ (72,719)</u>	<u>\$ 270,976</u>

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

(This page intentionally left blank.)

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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, 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, 2011

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 deferred 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, 2011

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 principle 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 and internal service 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, 2011

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 \$2,103 and \$5,649 has been provided for Sewer and Solid Waste, 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, 2011

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, 2011

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, 2011

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
General Fund	\$ 1,047,377	\$ 1,678,416	\$ (631,039)
Nonmajor Capital Project Funds:			
Fire Capital Fund	8,000	32,825	(24,825)

Deficit Fund Equity: The following funds have fund deficits at June 30, 2011:

Fund	Deficit
Nonmajor Special Revenue Funds:	
Support Law Enforcement Program	\$ (11,728)
Major Enterprise Funds:	
Solid Waste	(344,725)

The deficits of these Funds are anticipated to be eliminated with additional intergovernmental revenues or user fees.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

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, 2011 are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 545,602	\$ 111,438	\$ 657,040
Cash in escrow		262,966	262,966
	<u>\$ 545,602</u>	<u>\$ 374,404</u>	<u>\$ 920,006</u>

As of June 30, 2011, the City's cash and investments consisted of the following:

Cash on hand	\$ 300
Deposits in financial institutions	535,845
Investments	
California Local Agency Investment Fund	<u>383,861</u>
Total cash and investments	<u>\$ 920,006</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.

	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
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

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE B – CASH AND INVESTMENTS (Continued)

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 237 days.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's only investment is in LAIF, which is not rated.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Governmental Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2011, the carrying amount of the City's deposits was \$535,845, and the bank balance was \$479,476. 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 \$66,489,270,508 managed by the State Treasurer. Of that amount, 5.01% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE C – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2011 were as follows:

Due to Other Funds	Due from Other Funds				Total
	General Fund	Nonmajor Governmental		Solid Waste Fund	
		Mitigation Fund	Fire Capital		
Sewer Fund	\$ 56,791	\$ 380,000	\$ 36,000	\$ 150,000	\$ 622,791
	<u>\$ 56,791</u>	<u>\$ 380,000</u>	<u>\$ 36,000</u>	<u>\$ 150,000</u>	<u>\$ 622,791</u>

These interfund borrowings are to eliminate a negative cash balance in the Sewer Fund due to expenses incurred for capital assets related to the wastewater treatment plant funded by grant proceeds for which reimbursement has not yet been received from the State.

Transfers during the year ended June 30, 2011 were as follows:

Transfers out	Transfers in					Total
	General Fund	Capital Projects	Nonmajor Governmental			
			CDBG	Nuisance	TEA Funding	
General Fund			\$ 37,503	\$ 3,678		\$ 41,181
Nonmajor Governmental Funds:						
Gas Tax					\$ 18,069	18,069
Bricks		\$ 228				228
CDBG	\$ 1,306	5,606				6,912
Grant Funds		175				175
	<u>\$ 1,306</u>	<u>\$ 6,009</u>	<u>\$ 37,503</u>	<u>\$ 3,678</u>	<u>\$ 18,069</u>	<u>\$ 66,565</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, 2011

NOTE D – CAPITAL ASSETS

Governmental capital assets activity for the year ended June 30, 2011 was as follows:

	Balance at July 1, 2010	Additions	Retirements	Transfers	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 9,960	\$ 550,000			\$ 559,960
Construction in progress	244,248	207,186		\$ (207,444)	243,990
Total capital assets, not being depreciated	<u>254,208</u>	<u>757,186</u>		<u>(207,444)</u>	<u>803,950</u>
Capital assets, being depreciated:					
Buildings and improvements	2,943,440	279,053	\$ (63,173)	207,444	3,366,764
Vehicles	444,259				444,259
Machinery and equipment	438,573	32,825			471,398
Furniture and fixtures	6,764				6,764
Total capital assets, being depreciated	<u>3,833,036</u>	<u>311,878</u>	<u>(63,173)</u>	<u>207,444</u>	<u>4,289,185</u>
Less accumulated depreciation for:					
Buildings and improvements	(550,415)	(90,686)	34,163		(606,938)
Vehicles	(297,819)	(29,274)			(327,093)
Machinery and equipment	(357,270)	(39,946)			(397,216)
Furniture and fixtures	(5,148)	(572)			(5,720)
Total accumulated depreciation	<u>(1,210,652)</u>	<u>(160,478)</u>	<u>34,163</u>		<u>(1,336,967)</u>
Capital assets being depreciated, net	<u>2,622,384</u>	<u>151,400</u>	<u>(29,010)</u>	<u>207,444</u>	<u>2,952,218</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 2,876,592</u>	<u>\$ 908,586</u>	<u>\$ (29,010)</u>	<u>\$ -</u>	<u>\$ 3,756,168</u>

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

General governmental	\$ 7,360
Public safety	56,011
Public works	24,445
Culture and recreation	2,346
Community development	<u>70,316</u>
Total governmental activities depreciation expense	<u>\$ 160,478</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – CAPITAL ASSETS (Continued)

Business-type capital assets activities for the year ended June 30, 2011 was as follows:

	Balance at June 30, 2010	Additions	Retirements	Transfers	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 134,700				\$ 134,700
Construction in progress	1,649,303	\$ 2,127,110			3,776,413
Total capital assets, not being depreciated	1,784,003	2,127,110			3,911,113
Capital assets, being depreciated:					
Buildings and improvements	14,053,309	60,961			14,114,270
Vehicles	3,400				3,400
Machinery and equipment	411,146				411,146
Total capital assets, being depreciated	14,467,855	60,961			14,528,816
Less accumulated depreciation for:					
Buildings and improvements	(2,397,684)	(332,288)			(2,729,972)
Vehicles	(2,190)	(440)			(2,630)
Machinery and equipment	(186,731)	(41,240)			(227,971)
Total accumulated depreciation	(2,586,605)	(373,968)			(2,960,573)
Capital assets being depreciated, net	11,881,250	(313,007)			11,568,243
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 13,665,253	\$ 1,814,103	\$ -	\$ -	\$ 15,479,356

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

Sewer	\$ 373,652
Solid waste	316
Total business-type activities depreciation expense	<u>\$ 373,968</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE E – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Payments	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Note payable		\$ 550,000		\$ 550,000	\$ 4,719
Legal Settlement 2011		152,683		152,683	152,683
Total notes and settlement payable		702,683		702,683	157,402
Compensated absences	\$ 26,919	4,438		31,357	15,678
Governmental activities long-term liabilities	<u>\$ 26,919</u>	<u>\$ 707,121</u>	<u>\$ -</u>	<u>\$ 734,040</u>	<u>\$ 173,080</u>
Business-Type Activities:					
General obligation bonds	\$ 44,000		\$ (4,000)	\$ 40,000	\$ 4,000
Sewer revenue bonds	39,000		(4,000)	35,000	35,000
State loan	7,357,496			7,357,496	
Legal settlement 2010	433,024		(108,256)	324,768	108,256
Legal settlement 2009	226,601			226,601	226,601
Total bonds, loan settlements payable	8,100,121		(116,256)	7,983,865	373,857
Postclosure landfill costs	251,930	\$ 394,527	(23,487)	622,970	
Compensated absences	16,000		(3,580)	12,420	6,210
Business-type activities long-term liabilities	<u>\$ 8,368,051</u>	<u>\$ 394,527</u>	<u>\$ (143,323)</u>	<u>\$ 8,619,255</u>	<u>\$ 380,067</u>

Long-term debt of the City's governmental activities consists of the following as of June 30, 2011:

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, 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 until the property is paid in full. \$ 550,000

On October 18, 2011, a decision was reached in arbitration between the City and the Stationery Engineers, Local 39 Health & Welfare Trust Fund (Trust Fund). The arbitrator awarded the Trust Fund \$152,683 for unpaid fringe benefit contributions, interest, liquidated damages, fees and costs. The decision is pending approval by the City. 152,683
\$ 702,683

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE E – LONG-TERM LIABILITIES (Continued)

Long-term debt of the City's business-type activities consists of the following as of June 30, 2011:

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.	\$ 40,000
On June 1, 1978, the City issued 85 \$1,000 USDA Rural Development sewer bonds. The interest rate applicable on these bonds is 5%. The final maturity of these bonds is June 1, 2018; however, these bonds are being retired with the proceeds from the new State loan discussed below.	35,000
On November 29, 2007, the City entered into a loan agreement with State Water Resources Control Board for the Wastewater Treatment Plant Improvement Project. The funds were disbursed beginning April 2008. The loan amount is \$7,485,865, at an interest rate of 2.4%. Effective September 19, 2011, the City restructured this loan with the State in which \$12,825,600 of proceeds were received, which includes the \$36,000 to refund the City's 1978 USDA Sewer Revenue Bond, \$7,725,000 to restructure the original loan and \$5,064,600 to pay for the Pond Lining project, at an interest rate of 1%. The repayment period has been deferred until completion of the Pond Lining project, which is expected to be in 2014 or later.	7,357,496
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%.	324,768
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.	<u>226,601</u>
	<u>\$ 7,983,865</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE E – LONG-TERM LIABILITIES (Continued)

Principal payments on debt are due as follows:

June 30	General Obligation Bonds	Sewer Revenue Bonds	Legal Settlement 2010	Legal Settlement 2009	Total
2012	\$ 4,000	\$ 35,000	\$ 108,256	\$ 226,601	\$ 373,857
2013	5,000		108,256		113,256
2014	5,000		108,256		113,256
2015	6,000				6,000
2016	6,000				6,000
2017-2021	14,000				14,000
Totals	<u>\$ 40,000</u>	<u>\$ 35,000</u>	<u>\$ 324,768</u>	<u>\$ 226,601</u>	<u>\$ 626,369</u>

Interest payments on debt are due as follows:

June 30	General Obligation Bonds	Sewer Revenue Bonds	State Loan	Legal Settlement 2010	Total
2012	\$ 2,000	\$ 1,750	\$ 77,250	\$ 32,477	\$ 113,477
2013	1,800		77,250	21,651	100,701
2014	1,550		77,250	10,826	89,626
2015	1,300		77,250		78,550
2016	1,000		77,250		78,250
2017-2021	1,050		386,250		387,300
2022-2026			386,250		386,250
2027-2031			386,250		386,250
2032-2036			386,250		386,250
Totals	<u>\$ 8,700</u>	<u>\$ 1,750</u>	<u>\$ 1,931,250</u>	<u>\$ 64,954</u>	<u>\$ 2,006,654</u>

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 Solid Waste Fund, an Enterprise 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, 2011, the remaining closure and postclosure maintenance costs to be recognized over the next 27 years is \$622,970.

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE F – FUND BALANCE

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Street projects	\$ 292,294	
Economic redevelopment	183,009	
Recycling	20,632	
Fire Department	29,150	
Community projects	93,563	
Caboose restoration	2,660	
Mitigation projects	272,812	
Landfill		\$ 55,001
	<u>\$ 894,120</u>	<u>\$ 55,001</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	\$ 44,754		\$ 56,869	\$ 101,623
Prepaid expenses			1,095	1,095
Total Nonspendable	<u>44,754</u>		<u>57,964</u>	<u>102,718</u>
Restricted for:				
Street projects		\$ 123,852	111,511	235,363
Economic redevelopment			183,009	183,009
Recycling			19,537	19,537
Fire Department			29,150	29,150
Community projects			5,194	5,194
Caboose restoration		2,660		2,660
Mitigation projects			384,063	384,063
Total Restricted		<u>126,512</u>	<u>732,464</u>	<u>858,976</u>
Unassigned	<u>65,398</u>	<u>(111,251)</u>	<u>(11,728)</u>	<u>(57,581)</u>
Total Unassigned	<u>65,398</u>	<u>(111,251)</u>	<u>(11,728)</u>	<u>(57,581)</u>
Total fund balances	<u>\$ 110,152</u>	<u>\$ 15,261</u>	<u>\$ 778,700</u>	<u>\$ 904,113</u>

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

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, 2011 was 7.209% 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, 2011, 2010 and 2009 were \$20,307, \$30,486, and \$43,780, 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, 2011

NOTE H – INSURANCE (Continued)

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

<u>Amount</u>	<u>Coverage provider</u>	<u>Payment Source</u>
<i>LIABILITY CLAIMS:</i>		
- \$ 25,000	Self-insured	Banking layer
\$ 25,001 - \$ 500,000	Small Cities Organized Risk Effort	Shared risk pool
\$ 500,001 - \$ 25,000,000	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, 2011, 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 January 28, 2010, the Central Valley Water Board adopted Cease and Desist Order No. R5-2010-0001, which extends the compliance schedule for certain waste discharge requirements and adds a new compliance schedule for complying with final effluent limits for copper. The new Cease and Desist Order No. R5-2010-0001 requires the City to submit annual reports on May 1 of each year, to be in full compliance with certain discharge requirements as of October 1, 2012, and to be in full compliance with effluent limitations for copper as of January 1, 2014. If the City fails to comply with the provision of Order R5-2010-0001, the Central Valley Water Board may apply to the Attorney General for judicial enforcement or issue a complaint for Administrative Civil Liability.

On March 23, 2011, a tentative Administrative Civil Liability was authorized by the California Regional Water Quality Control Board Central Valley Region for violations during the period January 1, 2008 through July 31, 2010. In accordance with California Water Code 13385, the Water Board must assess minimum liabilities against the City for violations of the effluent limits found in the Water Discharge Requirement Order No. R5-2007-0130 and Cease and Desist Order No. R5-2010-0001. The total amount of the mandatory minimum penalties assessed for the cited effluent violations is \$150,000. As the City is

CITY OF COLFAX, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE I – COMMITMENTS AND CONTINGENCIES (Continued)

classified as a “small community with financial hardship” the Water Code allows the penalties to be applied to a compliance project which is designed to prevent future violations. The City proposed that its penalties be applied to three different compliance projects. Prosecution staff concurred and circulated a draft of the Administrative Civil Liability for public comment. Two environmental groups objected to the compliance project and the advisory team determined that the matter would need to be heard by the Water Quality Control Board at its hearing on scheduled for November 30 through December 2, 2011. The prosecution team is proposing an order that would allow the City to apply \$138,000 of the mandatory minimum penalties toward the three compliance projects with the remaining \$12,000 to be paid to the State Water Resources Control Board’s Cleanup and Abatement Account. Also, the prosecution team is proposing that the Water Board adopt a new Cease and Desist Order to address continued rehabilitation of the sewer collection system, compliance with the requirement to hold all wastewater and precipitation generated during a 100-year annual storm event, installation of a liner in Pond three, temporary action to allow de-watering of Pond three, and an updated interim copper effluent limit and an interim daily average flow limit.

The City has obtained the funding needed to line reservoir pond number three. The City estimates total costs for the project to be \$6,638,000, and anticipates funding from a combination of 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, 2011:

Project Name	Total Project Costs	Unexpended Amount
Dinky Avenue Railroad Crossing Closure	\$ 102,935	\$ 51,590

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, 2011

NOTE K – GOING CONCERN

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. 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 estimates the total costs for the project to be \$6,638,000. The City has obtained funding to line reservoir pond number three, which includes 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.

The City continues to experience cash flow shortages within the Sewer Enterprise Fund and the General Fund continues to operate with minimal reserves, which is reflected by an unassigned fund balance in the General Fund of \$65,398. In addition, the budget adopted for fiscal year 2011/12 projects a negative fund balance for the General Fund of \$19,608. This deficit does not include the \$152,683 settlement owed by the City, as described in Note E, which will have a significant impact on the City's General Fund. The Sewer Enterprise Fund, as of June 30, 2011, required an interfund loan primarily from the Special Revenue Funds and Solid Waste Fund of \$622,791 to cover negative cash balance due to expenditures being incurred for which reimbursement from the State has not yet been received. 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.

(This page intentionally left blank.)

COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS

CITY OF COLFAX

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2011

	Special Revenue				
	Bricks	Support Law Enforcement Program	CDBG	Transportation & Road Fund	Transportation Impact
ASSETS:					
Cash and cash equivalents	\$ 5,190	\$ 13,446	\$ 183,396	\$ 15,279	\$ 61,136
Accounts receivable					
Due from other governmental agencies		11,316	31,500		
Interest receivable	4	3	172	23	49
Notes receivable			56,869		
Prepaid expenses					
Due from other funds					
Total assets	<u>\$ 5,194</u>	<u>\$ 24,765</u>	<u>\$ 271,937</u>	<u>\$ 15,302</u>	<u>\$ 61,185</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable		\$ 25,177	\$ 559	\$ 1,649	
Accrued expenses				2,349	
Deferred revenue		11,316	31,500		
Total liabilities		<u>36,493</u>	<u>32,059</u>	<u>3,998</u>	
Fund balance:					
Nonspendable			56,869		
Restricted	\$ 5,194		183,009	11,304	\$ 61,185
Unassigned		(11,728)			
Total fund balance	<u>5,194</u>	<u>(11,728)</u>	<u>239,878</u>	<u>11,304</u>	<u>61,185</u>
Total liabilities and fund balance	<u>\$ 5,194</u>	<u>\$ 24,765</u>	<u>\$ 271,937</u>	<u>\$ 15,302</u>	<u>\$ 61,185</u>

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

Gas Tax	Mitigation Funds	Beverage Recycling	Oil Grant	Fire Capital	Total Nonmajor Governmental Funds
\$ 39,082	\$ 3,757	\$ 18,819	\$ 702	\$ 526	\$ 341,333
39	306	15	1	4,807 29	47,623 641
			1,095		56,869 1,095
	380,000			36,000	416,000
<u>\$ 39,121</u>	<u>\$ 384,063</u>	<u>\$ 18,834</u>	<u>\$ 1,798</u>	<u>\$ 41,362</u>	<u>\$ 863,561</u>
\$ 99				\$ 12,212	\$ 39,696 2,349 42,816
<u>99</u>				<u>12,212</u>	<u>84,861</u>
39,022	\$ 384,063	\$ 18,834	\$ 1,095 703	29,150	57,964 732,464 (11,728)
<u>39,022</u>	<u>384,063</u>	<u>18,834</u>	<u>1,798</u>	<u>29,150</u>	<u>778,700</u>
<u>\$ 39,121</u>	<u>\$ 384,063</u>	<u>\$ 18,834</u>	<u>\$ 1,798</u>	<u>\$ 41,362</u>	<u>\$ 863,561</u>

CITY OF COLFAX

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

June 30, 2011

	Bricks	Support Law Enforcement Program	CDBG	Nuisance	Transportation & Road Fund	TEA Funding
REVENUES:						
Tax revenues						
Licenses, fees and permits					\$ 1,242	
Intergovernmental revenues		\$ 88,711	\$ 3,500		85,145	
Use of money and property	\$ 18	66	866		168	
Other revenue					818	
Total revenues	18	88,777	4,366		87,373	
EXPENDITURES:						
General government						
Public safety		100,710				
Public works					128,742	
Community development	16		79,877	\$ 3,816		
Capital outlay						
Total expenditures	16	100,710	79,877	3,816	128,742	
Excess (deficiency) of revenues over (under) expenditures	2	(11,933)	(75,511)	(3,816)	(41,369)	
OTHER FINANCING SOURCES (USES):						
Transfers in			37,503	3,678		\$ 18,069
Transfers out	(228)		(6,912)			
Total other financing sources (uses)	(228)		30,591	3,678		18,069
Net change in fund balance	(226)	(11,933)	(44,920)	(138)	(41,369)	18,069
Fund balances - beginning of year	5,420	205	284,798	138	52,673	(18,069)
Fund balances - end of year	\$ 5,194	\$ (11,728)	\$ 239,878	\$ -	\$ 11,304	\$ -

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

Special Revenue							Total
Transportation Impact	Gas Tax	Mitigation Funds	Beverage Recycling	Oil Grant	Grant Funds	Fire Capital	Nonmajor Governmental Funds
	\$ 48,818						\$ 48,818
				\$ 5,000		\$ 2,209	1,242
\$ 215	114	\$ 1,352	\$ 66	4	\$ 1	181	184,565
							818
<u>215</u>	<u>48,932</u>	<u>1,352</u>	<u>66</u>	<u>5,004</u>	<u>1</u>	<u>2,390</u>	<u>238,494</u>
						231	231
	21,433						100,710
				3,986			150,175
						32,825	87,695
	<u>21,433</u>			<u>3,986</u>	<u>231</u>	<u>32,825</u>	<u>32,825</u>
							<u>371,636</u>
<u>215</u>	<u>27,499</u>	<u>1,352</u>	<u>66</u>	<u>1,018</u>	<u>(230)</u>	<u>(30,435)</u>	<u>(133,142)</u>
							59,250
	<u>(18,069)</u>				<u>(175)</u>		<u>(25,384)</u>
	<u>(18,069)</u>				<u>(175)</u>		<u>33,866</u>
215	9,430	1,352	66	1,018	(405)	(30,435)	(99,276)
<u>60,970</u>	<u>29,592</u>	<u>382,711</u>	<u>18,768</u>	<u>780</u>	<u>405</u>	<u>59,585</u>	<u>877,976</u>
<u>\$ 61,185</u>	<u>\$ 39,022</u>	<u>\$ 384,063</u>	<u>\$ 18,834</u>	<u>\$ 1,798</u>	<u>\$ -</u>	<u>\$ 29,150</u>	<u>\$ 778,700</u>