

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**CITY OF GRAND JUNCTION/MESA COUNTY, COLORADO
JOINT SEWER SYSTEM**

DECEMBER 31, 2010 AND 2009

**FINANCIAL STATEMENTS AND REPORT OF
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JOINT SEWER SYSTEM**

DECEMBER 31, 2010 AND 2009

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

June 27, 2011

City of Grand Junction/Mesa County, Colorado Joint Sewer System
Grand Junction, CO

We have audited the accompanying basic financial statements of the City of Grand Junction/Mesa County, Colorado Joint Sewer System as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Joint Sewer System's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Junction/Mesa County, Colorado Joint Sewer System as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (immediately following this report) is not a required part of the basic financial statements but is 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.

City of Grand Junction/Mesa County, Colorado Joint Sewer System
June 27, 2011

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The supplemental summary of revenues, expenditures and changes in fund net assets – budget (non-gaap budgetary basis) and actual, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This 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.

Chadwick, Steinhilber, Davis + Co., P.C.

MANAGEMENT DISCUSSION & ANALYSIS

Our discussion and analysis of the City of Grand Junction/Mesa County Joint Sewer System's (Joint Sewer System's) financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2010. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The Joint Sewer System remains in strong financial condition.
- The assets of the Joint Sewer System exceeded its liabilities at the close of 2010 by \$65 million (net assets). Of this amount \$14.1 million or 22% is unrestricted and may be used to meet the ongoing obligations to customers and creditors. During 2010 these net assets increased by \$600 thousand due to continued investment in capital assets (including infrastructure).
- In 2010 the Joint Sewer System continued to research the benefits of utilizing excess methane gas at the plant in order to significantly reduce future electrical costs and environmental impacts.
- Sewer rates, \$14.98, did not increase in 2010.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This discussion and analysis are intended to serve as an introduction to the Joint Sewer System's basic financial statements. The MD&A represents management's examination and analysis of the Joint Sewer System's financial condition and performance. The financial statements report information about the Joint Sewer System using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; a statement of cash flows; and notes to the financial statements.

The statement of net assets presents information on all of the Joint Sewer System's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Joint Sewer System is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net assets presents information showing how the Joint Sewer System's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods (e.g., billed but uncollected sewer charges and earned but unused paid time off).

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Joint Sewer System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Supplementary information comparing the budget to actual expenses is presented as a summary following the notes to financial statements.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Joint Sewer System, net assets increased by \$600 thousand during fiscal year 2010.

By far the largest portion of the Joint Sewer System's net assets (81.1%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The Joint Sewer System uses these capital assets to provide direct wastewater services to citizens in the Joint Sewer System boundary as well as indirect services to many additional citizens in the Grand Junction area; consequently, these assets are not available for future spending. Although the Joint Sewer System's investment in its capital assets is reported net of related debt, 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.

STATEMENT OF NET ASSETS

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 14,752,998	\$ 16,705,328
Capital assets	63,243,064	62,036,275
Total assets	<u>77,996,062</u>	<u>78,741,603</u>
Long-term debt outstanding	11,486,345	12,790,435
Other liabilities	1,922,899	1,955,867
Total liabilities	<u>13,409,244</u>	<u>14,746,302</u>
Net assets:		
Invested in capital assets, net of debt	50,452,629	47,986,707
Unrestricted	14,134,189	16,008,594
Total net assets	<u>\$ 64,586,818</u>	<u>\$ 63,995,301</u>

Changes in Net Assets

The Joint Sewer System's total revenues of \$9.6 million (including capital contributions) exceeded program expenses of \$9 million for an increase in net assets of \$600 thousand.

Sewer service charges continue to be the largest source of revenue for the Joint Sewer System and represent 83% of total revenues.

CHANGES IN NET ASSETS

	<u>2010</u>	<u>2009</u>
Revenues:		
Charges for sales and services	\$ 7,945,850	\$ 7,862,343
Investment income	243,220	292,342
Intergovernmental revenues	63,610	-
Loss on disposition of capital assets	<u>(170,539)</u>	<u>(16,235)</u>
Total revenues	<u>8,082,141</u>	<u>8,138,450</u>
Expenses:		
Personnel services	2,841,582	3,070,271
Costs of sales and services	3,420,451	2,685,897
Depreciation and amortization	2,183,492	2,028,699
Debt service	<u>515,616</u>	<u>352,909</u>
Total expenses	<u>8,961,141</u>	<u>8,137,776</u>
Capital Contributions	<u>1,470,517</u>	<u>2,199,660</u>
Increase in net assets	591,517	2,200,334
Net assets, beginning	<u>63,995,301</u>	<u>61,794,967</u>
Net assets, ending	<u>\$ 64,586,818</u>	<u>\$ 63,995,301</u>

BUDGETARY HIGHLIGHTS

During the fiscal year, the Joint Sewer System budget was reduced from an original budget total of \$16.1 million to a final budget of \$13 million excluding contingency funds of \$3.1 million. The expense budget adjustments were classified as contingencies to achieve original budget appropriations. All recommended amendments for budget changes came through the Budget and Accounting Division and City Manager to City Council and Mesa County Commissioners via Ordinance as required. Ordinance enactment requires a public hearing and the opportunity for public discussion. The City does allow small intra-departmental budget changes that modify line items within departments within the same fund. For the Joint Sewer System, the original budget for revenues was \$9.5 million while the final budgeted amount was \$9.2 million, reflecting a decrease in the projection for charges for service and sewer tap fees and investment income.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the Joint Sewer System had invested in a broad range of capital assets, including building improvements, equipment and other infrastructure.

The table below provides a summary of total capital assets at December 31, 2010 and 2009.

**CAPITAL ASSETS AT YEAR-END
(net of depreciation)**

	<u>2010</u>	<u>2009</u>
Land	\$ 129,791	\$ 129,791
Buildings and improvements	485,477	520,214
Vehicles, machinery & equipment	680,277	295,606
Construction in process	1,574,922	127,306
Infrastructure	<u>60,372,597</u>	<u>60,963,358</u>
Total	<u>\$63,243,064</u>	<u>\$62,036,275</u>

Major capital additions during 2010 include:

	<u>2010</u>
Sewer Line Replacement & Extensions	\$ 1,092,840
SRF Loan South Side Interceptor	794,013
Plan Equipment	401,906
Persigo UV Project	369,491
Easter Hill Sewer Improvement District	107,552
Aeration Blower	95,384

The Joint Sewer System remains committed to the upkeep and maintenance of its largest assets. More detailed information about the Joint Sewer System's capital assets is presented in Note 3 to the financial statements.

Debt Administration

The Joint Sewer System had total bonded debt outstanding of \$12,790,435. See Note 4 to the financial statements on page 16 which provides a summary of the Joint Sewer System's long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Joint Sewer System is in a strong financial position. Reserves are at levels required in the City/County Budget Policy. During 2011, the sewer rate will not increase from the 2010 \$14.98 per single family equivalent unit. Plant investment fees will increase from \$3,100 to \$3,400 per single family equivalent unit. The plant investment fees rate increase will fund necessary growth related plant and collection system expansion projects. The 2011 Budget reflects the Joint Sewer System's ongoing commitment to our community and environment.

The Joint Sewer System's fund balance is within the minimum working capital recommended in the City/County budget policy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and investors and creditors with a general overview of the City/County Joint Sewer System finances and to show the accountability for the funds and assets it receives. If you have questions about this report, or should you need additional financial information, contact the City's Financial Operations Division at City of Grand Junction, 250 N. 5th Street, Grand Junction, CO 81501.

City of Grand Junction/Mesa County, Colorado
 Joint Sewer System
STATEMENTS OF NET ASSETS
 December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and investments	\$ 12,893,850	\$ 14,779,916
Accounts receivable, net of allowance for uncollectibles of \$5,711 and \$96	932,005	837,170
Special assessments receivable	174,971	187,818
Deferred charges - current	7,256	6,103
Total current assets	14,008,082	15,811,007
Noncurrent assets:		
Special assessments receivable	605,690	823,707
Notes receivable	76,747	-
Deferred charges	62,479	70,614
Capital assets		
Land	129,791	129,791
Buildings, improvements, plant and system	92,475,092	91,149,538
Equipment	1,390,403	974,009
Construction in Process	1,574,922	127,306
Less accumulated depreciation	(32,327,144)	(30,344,369)
Capital assets (net of accumulated depreciation)	63,243,064	62,036,275
Total noncurrent assets	63,987,980	62,930,596
Total assets	77,996,062	78,741,603
LIABILITIES		
Current liabilities:		
Accounts payable	151,224	267,870
Retainages payable	55,810	9,665
Accrued liabilities	44,157	44,139
Accrued interest payable	158,207	155,021
Current portion loan premium amortization	34,090	34,133
Current maturities of long-term debt	1,270,000	1,225,000
Compensated absences payable	15,183	15,691
Total current liabilities	1,728,671	1,751,519
Noncurrent liabilities:		
Compensated absences payable	194,228	204,348
Long-term debt including premium	11,486,345	12,790,435
Total noncurrent liabilities	11,680,573	12,994,783
Total liabilities	13,409,244	14,746,302
NET ASSETS		
Invested in capital assets, net of related debt	50,452,629	47,986,707
Unrestricted	14,134,189	16,008,594
Total net assets	\$ 64,586,818	\$ 63,995,301

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

City of Grand Junction/Mesa County, Colorado
Joint Sewer System
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the years ended December 31, 2010 and 2009

	2010	2009
Operating revenues:		
Charges for sales and services	\$ 7,945,850	\$ 7,862,343
	7,945,850	7,862,343
Operating expenses:		
Personnel services	2,841,582	3,070,271
Costs of sales and services	3,420,451	2,685,897
Depreciation and amortization	2,183,492	2,028,699
Total operating expenses	8,445,525	7,784,867
Operating income (loss)	(499,675)	77,476
Nonoperating revenues (expenses):		
Investment income	243,220	292,342
Intergovernmental revenues	63,610	-
Loss on disposition of capital assets	(170,539)	(16,235)
Interest expense	(508,634)	(352,909)
Amortization of bond issue costs	(6,982)	-
Total nonoperating revenues (expenses)	(379,325)	(76,802)
Income (loss) before contributions and transfers	(879,000)	674
Capital contributions	1,470,517	2,199,660
Change in net assets	591,517	2,200,334
Total net assets - beginning	63,995,301	61,794,967
Total net assets - ending	\$ 64,586,818	\$ 63,995,301

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

City of Grand Junction/Mesa County, Colorado
Joint Sewer System
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers and users	\$ 7,851,015	\$ 7,873,602
Cash paid to suppliers	(3,426,728)	(2,831,642)
Cash paid to employees	(2,852,192)	(3,181,244)
Net cash provided by operating activities	1,572,095	1,860,716
Cash flows from capital and related financing activities:		
Contributed capital - tap fees	849,312	869,949
Contributed capital - special assessments	289,456	284,530
Principal payments - bonds	(1,225,000)	(775,000)
Interest paid	(539,581)	(397,525)
Bond proceeds received	-	5,200,000
Bond issuance costs paid	-	(76,717)
Intergovernmental receipts	63,610	-
Purchase of capital assets	(3,139,178)	(2,398,329)
Net cash provided (used) in capital and related financing activities	(3,701,381)	2,706,908
Cash flows from investing activities:		
Investment income received	243,220	292,342
Net cash provided by investing activities	243,220	292,342
Net increase (decrease) in cash and cash equivalents	(1,886,066)	4,859,966
Cash and cash equivalents, January 1	14,779,916	9,919,950
Cash and cash equivalents, December 31	\$ 12,893,850	\$ 14,779,916
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (499,675)	\$ 77,476
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	2,183,492	2,028,699
(Increase) decrease in accounts receivable	(94,835)	11,259
Increase (decrease) in accounts payable	(116,646)	145,391
Increase (decrease) in retainages payable	46,145	(148,807)
Increase (decrease) in accrued wages and compensated absences payable	(10,610)	(110,973)
(Increase) decrease in accounts payable/retainages due to the purchase of capital assets on account	64,224	(142,329)
Total adjustments	2,071,770	1,783,240
Net cash provided by operating activities	\$ 1,572,095	\$ 1,860,716
Noncash Investing, Capital and Financing Activities		
Purchase of capital assets on account	\$ 108,969	\$ 173,193
Special assessment deferred revenue in contributed capital	(230,864)	(141,410)
Noncash capital asset contributions	485,866	1,186,591

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

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Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the City of Grand Junction/Mesa County, Colorado, Joint Sewer System (Joint Sewer System) is presented to assist in understanding the Joint Sewer System's financial statements. The financial statements and notes are representations of the Joint Sewer System's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

History and Activity

The City of Grand Junction/Mesa County, Colorado, Joint Sewer System was organized under several agreements, the most recent being dated May 1, 1980, between the City Council of the City of Grand Junction, Colorado, and the Board of County Commissioners of Mesa County, Colorado. The Joint Sewer System was organized to provide sewer collection and treatment facilities for the metropolitan area in the Grand Valley. The City of Grand Junction, Colorado, (the City) contributed certain assets which were included in its Sewer Fund while Mesa County, Colorado, (the County) contributed its name through the issuance of revenue bonds. Both the City and the County approve the Joint Sewer System's annual appropriation budget and the City's utility department operates and manages the system. According to the May 1, 1980 agreement, upon dissolution of the system ownership of the assets of the system shall be determined by mutual agreement between the City and the County.

On January 1, 1993, the Grand Junction West Water and Sanitation District, a special district which provided its residents with sanitary sewer services, was effectively dissolved and annexed into the City. The sewer service portion of the Grand Junction West Water and Sanitation District was contributed to the Joint Sewer System upon annexation.

On July 17, 1992, the Ridges Metropolitan District, a special district which provided its residents with municipal water, irrigation and sanitary sewer services, was effectively dissolved and annexed into the City. The sewer service portion of the Ridges was contributed to the Joint Sewer System upon annexation.

On January 1, 2009, the Fruitvale Sanitation District, a special district which provided its residents with sanitary sewer services, was effectively dissolved and annexed into the City. The sewer service portion of the Fruitvale Sanitation District was contributed to the Joint Sewer System upon annexation.

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

Reporting Entity and Fund Type

The Joint Sewer System has no component units using the criteria as set forth in generally accepted accounting principles. The Joint Sewer System is accounted for as an enterprise fund.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting. It is the policy of the Joint Sewer System not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989. Since the Joint Sewer Service is special purpose government engaged only in a business-type activity, only enterprise fund financial statements are presented.

Budget and Budgetary Accounting

An annual budget is adopted for the Joint Sewer System. The budget is prepared on the accrual basis modified to include tap fees and bond proceeds as budgeted revenues and capital expenditures, debt issuance costs, and debt service principal payments as budgeted expenditures and to exclude depreciation and amortization and adjustments for accrued compensated absences from budget expenditures. The budget is approved by both the City Council of the City and the Board of County Commissioners of the County.

Property, Plant and Equipment

Property, plant, and equipment are carried at cost. Depreciation of property, plant, and equipment is provided on the straight-line method over the following estimated useful lives:

	<u>Estimated lives</u>
Plant and system	10-50 years
Equipment	3-10 years

Maintenance, repairs and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property, plant, and equipment are included in income.

Net Assets

Investment in capital assets (net of related debt) is intended to reflect the portion of net assets that are associated with non-liquid capital assets, less outstanding capital related debt.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure are recorded during the year as an extension of formal budgetary integration in order to reserve that portion of the applicable appropriation, is not included for financial

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

reporting purposes at year end because unused appropriations and encumbrances lapse at year end and must be reappropriated in the following year to be expended.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Joint Sewer System and the City consider all highly liquid investments, including restricted assets with a maturity of three months or less when purchased, to be cash equivalents. Cash in the City's common cash and investment pool is also considered to be cash or a cash equivalent.

Special Assessments Receivable

Special assessments receivable are recorded for the property owner's share of the cost of utility improvements within special improvement districts. The property owner's share of the cost of these improvements has been recorded as contributed capital.

Amortization of Bond Issuance Costs

Bond issue costs are being amortized using the bonds-outstanding method, which approximates the effective interest method. Bond issue costs are recorded as deferred charges.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at December 31, 2010 and 2009, consists of the following:

	<u>2010</u>	<u>2009</u>
Equity in pooled cash and investments with the City of Grand Junction, Colorado	<u>\$ 12,893,850</u>	<u>\$ 14,779,916</u>

Substantially all the City's cash and investments are part of the City's sponsored cash pool, which includes both internal and external participants. The pool is not registered with the Securities and Exchange Commission as an investment company. The City Finance Director (Treasurer) is granted authority for managing the pool by City Council. The City Treasurer reports investment activity quarterly to the Investment Advisory Committee, which is appointed by the City Manager, and reports annually to the City Council.

Cash and investments held for the City of Grand Junction/Mesa County, Colorado, Joint Sewer System are included in and inseparable from the City's pooled cash and investments. Since the Joint Sewer System is not part of the City's reporting entity, they are considered involuntary external participants of the City's cash pool. Under *GASB Statement 31*, the Joint Sewer System's pool share value is reported as an Investment Trust Fund in the City's financial statements.

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

Cash Deposits

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Colorado State Statutes require that all deposits be secured by federal deposit insurance or secured by collateral. Statutes require a financial institution to deposit collateral with another financial institution securing 102% of the market value of public funds held which exceed the amount insured by federal deposit insurance. All deposits of the City are insured or collateralized with government securities held by or for the entity.

The Colorado Divisions of Banking and Financial Services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The composition of all cash held by the City cash pool at December 31, 2010, is as follows:

	<u>Bank Balance</u>	<u>Carrying Balance</u>
Cash on hand	\$ -	\$ 11,146
Insured deposits	250,000	250,000
Deposits collateralized in single institutional pools	<u>8,065,636</u>	<u>6,423,591</u>
	<u>\$8,315,636</u>	<u>\$6,684,737</u>

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by maintaining a minimum of 30% of the portfolio in short-term securities (less than one year) and employing a buy-and-hold strategy.

The City voluntarily participates in the state investment pools. The state investment pools exist under the laws of the State of Colorado and are registered with the Securities Commissioner of the State of Colorado. The state investment pools and mutual funds are similar to money market funds, with each share valued at \$1. The designated custodial banks provide safekeeping and depository services, and securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. Investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. The investment in the Fire and Police Pension Association of Colorado (FPPA) investment pool is set by Colorado statute for funding of police and fire defined benefit pension plans. Investments consist of publicly traded common and preferred stock, convertible bonds, venture capital and real estate. Investments in state investment pools, mutual funds, and FPPA are not categorized by risk, as they are not evidenced by securities

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

that exist in physical or book entry form. The fair value of the position in the state investment pools and FPPA approximate the value of the City's investment in the pools.

As of December 31, 2010, the City had the following investments:

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>
Corporate stock	Not rated	\$23,959	0.00
Federal Agency Securities	AAA	7,359,189	14.99
FDIC (Govt Backed Corporate)	AAA	6,102,695	29.49
Pass Through Securities (GNMA/CMO)	AAA	6,763,889	99.66
Commercial Paper	A-1+	5,985,903	5.52
State investment pools	AAA	71,872,673	0.03
Pension trust fund	Not rated	12,735,344	0.00
Total		<u>\$110,843,652</u>	<u>14.96</u>

Credit risk. The City's investment practices are governed by the City of Grand Junction Charter, Article IX paragraph 72, the Colorado Revised Statutes 24-75-601 to 605, and the City's investment policy as adopted by its legislative body. These controls limit investments to U.S. Government and Agency obligations, collateralized deposits, and commercial paper with the highest rating issued by one of the nationally recognized statistical rating organizations (NRSRO's).

Concentration of credit risk. The City's investment policy dictates diversification and does not allow for an investment in any one issuer that is in excess of five percent of the City's total investments.

Custodial credit risk. State law requires financial institutions to collateralize deposits of government funds. By City policy, all marketable securities shall be deposited in a safe keeping account with an independent third party state or national bank having an office in Colorado.

Foreign Currency Risk. The City's investment policy, excluding the FPPA pension trust funds, does not allow for investment in foreign currency.

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increase	Decreases	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 129,791	\$ -	\$ -	\$ 129,791
Construction in progress	127,306	1,500,312	52,696	1,574,922
Total capital assets, not being depreciated	<u>257,097</u>	<u>1,500,312</u>	<u>52,696</u>	<u>1,704,713</u>
<i>Capital assets, being depreciated:</i>				
Improvements other than buildings	20,565	-	-	20,565
Equipment	974,009	477,025	60,631	1,390,403
Buildings and systems	91,128,973	1,645,844	320,290	92,454,527
Total capital assets, being depreciated	<u>92,123,547</u>	<u>2,122,869</u>	<u>380,921</u>	<u>93,865,495</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	20,565	-	-	20,565
Equipment	678,403	92,355	60,632	710,126
Buildings and systems	29,645,401	2,091,137	140,085	31,596,453
Total accumulated depreciation	<u>30,344,369</u>	<u>2,183,492</u>	<u>200,717</u>	<u>32,327,144</u>
Total capital assets, being depreciated, net	<u>61,779,178</u>	<u>(60,623)</u>	<u>180,204</u>	<u>61,538,351</u>
Joint Sewer Fund capital assets, net	<u>\$62,036,275</u>	<u>\$ 1,439,689</u>	<u>\$ 232,900</u>	<u>\$63,243,064</u>

NOTE 4 - LONG-TERM DEBT

The following is a summary of long-term liability of the Joint Sewer System for the year ended December 31, 2010:

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
Loan payable					
<i>CWRPDA</i>	\$8,505,000	\$ -	\$805,000	\$7,700,000	\$830,000
Plus deferred amounts:					
For loan premium	344,568	-	34,133	310,435	34,090
Bonds payable					
<i>Build America Bonds</i>	5,200,000	-	420,000	4,780,000	440,000
Compensated absences	220,039	5,063	15,691	209,411	15,183
Business-type activity long-term liabilities	<u>\$14,269,607</u>	<u>\$5,063</u>	<u>\$1,274,824</u>	<u>\$12,999,846</u>	<u>\$1,319,273</u>

In prior years, the Joint Sewer System defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and the liability for the defeased bonds is not included in the financial statements of the Joint Sewer System.

Bonds and loans payable as of December 31, 2010, are comprised of the following:

Loan Payable

The Joint Sewer System entered into a loan agreement dated April 1, 2002 with the Colorado Water Resources and Power Development Authority to finance the elimination of combined storm and sanitary sewer lines and septic system elimination. The principal amount is \$13,490,000 at a net effective interest rate of 3.62%, payable February 1 and August 1 annually through 2024. The sewer system net revenues are pledged as security for the loan. The loan proceeds are held by a trustee on behalf of the Joint Sewer System with disbursements occurring upon receipt of a requisition executed by the City/County. The unpaid principal at December 31, 2010 was \$7,700,000 payable over the following term from *Business activities*:

Year	Principal	Interest	Total
2011	\$ 830,000	\$ 345,589	\$ 1,175,589
2012	855,000	318,306	1,173,306
2013	885,000	290,202	1,175,202
2014	385,000	269,961	654,961
2015	395,000	257,305	652,305
2016-2020	2,180,000	1,082,891	3,262,891
2021-2024	2,170,000	440,941	2,610,941
	<u>\$7,700,000</u>	<u>\$3,005,195</u>	<u>\$10,705,195</u>

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

Bonds Payable

\$5,200,000 of approved Joint Sewer System Revenue Bonds (Direct Pay Build America Bonds Series 2009) bearing interest at 3.99% payable June 1 and December 1 annually through December 2019 were issued to extend, better, otherwise improve and equip its joint wastewater system, fund a reserve account and to pay the costs of issuing the 2009 Bonds. The unpaid principal at December 31, 2010 was \$4,780,000 payable over the following term from *Business activities*:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 440,000	\$ 170,542	\$ 610,542
2012	445,000	164,835	609,835
2013	450,000	155,103	605,103
2014	460,000	142,714	602,714
2015	470,000	128,671	598,671
2016-2019	2,515,000	326,273	2,841,273
	<u>\$4,780,000</u>	<u>\$1,088,138</u>	<u>\$5,868,138</u>

NOTE 5 - RETIREMENT PLAN

Defined Contribution Plan

All full-time employees of the Joint Sewer System participate in a mandatory defined contribution retirement plan. In a defined contribution plan, benefits depend solely on amounts contributed on the plan participant's behalf to the plan plus investment earnings. The plan is administered by an outside administrator. The plan provides for retirement benefits based upon an employee's vested account. A participant becomes 100% vested on completion of five years of service. Amounts forfeited by employees who leave employment before becoming fully vested are used to pay for administrative expenses of the plan. The Joint Sewer System matches employees' required contributions of 6% of base salary. An employee may make voluntary contributions of up to an additional 10%. In 2010, covered wages in the Joint Sewer System under this plan were \$2,067,175; employer contributions were \$124,030; and employee contributions were \$124,030. Total payroll for the Joint Sewer System for the year ended December 31, 2010, was \$2,168,595.

NOTE 6 - RISK MANAGEMENT AND INSURANCE

The Joint Sewer System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Joint Sewer System is included in the City's risk financing. The City has established the Self-Insurance Internal Service Fund to account for and finance its uninsured risks of loss. Under this program, the

Joint Sewer System

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010 and 2009

Self-Insurance Internal Service Fund provides coverage for up to a maximum of \$350,000 per occurrence on each worker’s compensation claim and up to \$150,000 for each general liability or property damage claim. The City purchases commercial insurance for claims in excess of coverage for worker’s compensation and participates in the Colorado Intergovernmental Risk Sharing Agency (CIRSA) for claims in excess of coverage for general liability and property. Settled claims have not exceeded these coverages in any of the past three fiscal years.

The Joint Sewer System and all funds of the City participate in the program and make payments to the Self-Insurance Internal Service Fund at amounts that approximate amounts which would have been paid to outside insurance providers. The claims liability of \$3,402,871 in the Self-Insurance Internal Service Fund at December 31, 2010, includes estimated ultimate losses for claims made and claims incurred but not reported, where information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Retained earnings of the fund in the amount of \$689,186 would be used in the event of a future catastrophic loss. Changes in the City’s Self-Insurance Internal Service Fund claims liability amount in 2009 and 2010 were:

	January 1 Claims Payable	Claims and Changes in Estimates	Claim Payments	December 31 Claims Payable
2009	\$1,220,680	\$2,048,340	\$(1,142,090)	\$2,126,930
2010	\$2,126,930	\$2,622,708	\$(1,346,767)	\$3,402,871

NOTE 7 – TAX, SPENDING AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which added a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations, and certain election requirements, which apply to the State of Colorado and all local governments.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. **The City of Grand Junction/Mesa County Joint Sewer System is considered an “enterprise” by definition and therefore is exempt from TABOR and the establishment of an emergency reserve.**

TABOR is complex and subject to interpretation. The Joint Sewer System’s management believes the Joint Sewer System is in compliance with the provisions of TABOR, as it is understood from judicial interpretations, legal opinions and commonly accepted practices.

SUPPLEMENTAL INFORMATION

City of Grand Junction/Mesa County, Colorado

Joint Sewer System

**SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL**

Year ended December 31, 2010

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Charges for sales and services	\$ 8,112,332	\$ 8,056,765	\$ 7,940,236	\$ (116,529)
Sewer tap fees and system development	930,000	930,000	1,138,768	208,768
Investment income	415,472	181,591	235,099	53,508
Intergovernmental revenues	-	-	58,636	58,636
	<u>9,457,804</u>	<u>9,168,356</u>	<u>9,372,739</u>	<u>204,383</u>
Expenditures:				
Personal services	3,003,111	3,048,510	2,852,211	196,299
Costs of sales and services	3,276,473	3,273,968	3,414,837	(140,869)
Debt retirement and interest expense	1,830,200	1,830,200	1,771,563	58,637
Capital outlay	7,970,766	4,869,416	3,084,619	1,784,797
Contingencies	-	3,058,456	-	3,058,456
	<u>16,080,550</u>	<u>16,080,550</u>	<u>11,123,230</u>	<u>4,957,320</u>
Increase (decrease) in net assets	\$ <u><u>(6,622,746)</u></u>	\$ <u><u>(6,912,194)</u></u>	\$ <u><u>(1,750,491)</u></u>	\$ <u><u>5,161,703</u></u>
Adjustments:				
Add:				
Capital outlay			3,084,619	
Debt principal			1,225,000	
Accrued intergovernmental subsidy			4,974	
Investment fair market value adjustment			8,121	
Accrued compensated absences			10,629	
			<u>4,333,343</u>	
Less:				
Sewer tap fees and system development			(1,138,768)	
Depreciation, amortization & accrued interest			(2,152,545)	
Loss on disposition of capital assets			(170,539)	
			<u>(3,461,852)</u>	
Net Income (Loss) Before Contributions and Transfers			\$ <u><u>(879,000)</u></u>	

Note: The budget basis differs from generally accepted accounting principles (GAAP) basis as shown above.

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