

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

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

**DECEMBER 31, 2011 AND 2010**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

June 25, 2012

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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

City of Grand Junction/Mesa County, Colorado Joint Sewer System  
June 25, 2012

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Junction/Mesa County, Colorado Joint Sewer System's basic financial statements. The accompanying 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. The supplemental summary of revenues, expenditures and changes in fund net assets – budget (non-gaap budgetary basis) and actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Chadwick, Steinbuehner, 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, 2011. This information should be read in conjunction with the financial statements.

### FINANCIAL HIGHLIGHTS

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- The Joint Sewer System remains in strong financial condition.
- The assets of the Joint Sewer System exceeded its liabilities at the close of 2011 by \$66 million (net assets). Of this amount \$11.8 million or 17.9% is unrestricted and may be used to meet the ongoing obligations to customers and creditors. During 2011, these net assets increased by \$1.4 million due to continued investment in capital assets (including infrastructure).
- In 2011 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 2011.

### OVERVIEW OF THE ANNUAL FINANCIAL REPORT

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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 \$1.4 million during fiscal year 2011.

By far the largest portion of the Joint Sewer System's net assets (82.1%) 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>2011</u>	<u>2010</u>
Current and other assets	\$ 12,498,733	\$ 14,752,998
Capital assets	65,669,481	63,243,064
Total assets	<u>78,168,214</u>	<u>77,996,062</u>
Long-term debt outstanding	10,152,321	11,486,345
Other liabilities	2,039,524	1,922,899
Total liabilities	<u>12,191,845</u>	<u>13,409,244</u>
Net assets:		
Invested in capital assets, net of debt	54,183,136	50,452,629
Unrestricted	11,793,233	14,134,189
Total net assets	<u>\$ 65,976,369</u>	<u>\$ 64,586,818</u>

### Changes in Net Assets

The Joint Sewer System's total revenues of \$9.9 million (including capital contributions) exceeded program expenses of \$8.5 million for an increase in net assets of \$1.4 million.

Sewer service charges continue to be the largest source of revenue for the Joint Sewer System and represent 78.7% of total revenues.

## CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>		
Charges for sales and services	\$ 7,812,412	\$ 7,945,850
Investment income	89,510	243,220
Intergovernmental revenues	59,523	63,610
Loss on disposition of capital assets	(4,913)	(170,539)
Total revenues	<u>7,956,532</u>	<u>8,082,141</u>
<b>Expenses:</b>		
Personnel services	2,811,055	2,841,582
Costs of sales and services	2,977,290	3,420,451
Depreciation and amortization	2,270,730	2,183,492
Debt service	477,453	515,616
Total expenses	<u>8,536,528</u>	<u>8,961,141</u>
Capital Contributions	1,969,547	1,470,517
Increase in net assets	1,389,551	591,517
<b>Net assets, beginning</b>	<u>64,586,818</u>	<u>63,995,301</u>
<b>Net assets, ending</b>	<u>\$ 65,976,369</u>	<u>\$ 64,586,818</u>

## BUDGETARY HIGHLIGHTS

During the fiscal year, the Joint Sewer System budget was increased from an original budget total of \$12.9 million to a final budget of \$13.3 million. 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 \$9.4 million, reflecting a decrease in the projection for sewer tap fees and investment income.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, 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, 2011 and 2010.

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

	<u>2011</u>	<u>2010</u>
Land	\$ 129,791	\$ 129,791
Buildings and improvements	888,510	485,477
Vehicles, machinery & equipment	692,183	680,277
Construction in process	3,037,571	1,574,922
Infrastructure	60,921,426	60,372,597
Total	<u>\$65,669,481</u>	<u>\$63,243,064</u>

Major capital additions during 2011 include:

	<u>2011</u>
Dissolved Air Flotation	\$ 828,869
Sewer Line Replacement & Extensions	799,542
Fruitvale Sanitation Outfall Line Replacement	753,351
Interceptor Repair & Replacement	617,897
Persigo Solar Energy Project	439,080
Persigo UV Project	357,928

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 \$11,486,345. 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**

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The Joint Sewer System is in a strong financial position. Reserves are at levels currently directed by the City Council/County Commissioners. During 2012, the sewer rate will not increase from the 2011 \$14.98 per single family equivalent unit. Plant investment fees will increase from \$3,400 to \$3,700 per single family equivalent unit. The plant investment fees rate increase will fund necessary growth related plant and collection system expansion projects. The 2012 Budget reflects the Joint Sewer System's ongoing commitment to our community and environment.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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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. 5<sup>th</sup> Street, Grand Junction, CO 81501.



City of Grand Junction/Mesa County, Colorado  
Joint Sewer System  
**STATEMENTS OF NET ASSETS**  
December 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 10,913,408	\$ 12,893,850
Accounts receivable, net of allowance for uncollectibles of \$5,711	853,281	932,005
Special assessments receivable	149,938	174,971
Current portion of notes receivable	19,187	-
Deferred charges - current	7,247	7,256
Prepaid items	700	-
Total current assets	11,943,761	14,008,082
Noncurrent assets:		
Special assessments receivable	418,460	605,690
Notes receivable	81,280	76,747
Deferred charges	55,232	62,479
Capital assets		
Land	129,791	129,791
Buildings, improvements, plant and system	95,543,453	92,475,092
Equipment	1,554,944	1,390,403
Construction in Process	3,037,571	1,574,922
Less accumulated depreciation	(34,596,278)	(32,327,144)
Capital assets (net of accumulated depreciation)	65,669,481	63,243,064
Total noncurrent assets	66,224,453	63,987,980
Total assets	78,168,214	77,996,062
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	281,350	151,224
Retainages payable	-	55,810
Accrued liabilities	45,580	44,157
Accrued interest payable	146,364	158,207
Current portion loan premium amortization	34,024	34,090
Current maturities of long-term debt	1,300,000	1,270,000
Compensated absences payable	13,861	15,183
Total current liabilities	1,821,179	1,728,671
Noncurrent liabilities:		
Compensated absences payable	218,345	194,228
Long-term debt including premium	10,152,321	11,486,345
Total noncurrent liabilities	10,370,666	11,680,573
Total liabilities	12,191,845	13,409,244
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	54,183,136	50,452,629
Unrestricted	11,793,233	14,134,189
Total net assets	\$ 65,976,369	\$ 64,586,818

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Operating revenues:</b>		
Charges for sales and services	\$ <u>7,812,412</u>	\$ <u>7,945,850</u>
<b>Operating expenses:</b>		
Personnel services	2,811,055	2,841,582
Costs of sales and services	2,977,290	3,420,451
Depreciation and amortization	<u>2,270,730</u>	<u>2,183,492</u>
Total operating expenses	<u>8,059,075</u>	<u>8,445,525</u>
Operating income (loss)	<u>(246,663)</u>	<u>(499,675)</u>
<b>Nonoperating revenues (expenses):</b>		
Investment income	89,510	243,220
Intergovernmental revenues	59,523	63,610
Loss on disposition of capital assets	(4,913)	(170,539)
Interest expense	(470,197)	(508,634)
Amortization of bond issue costs	<u>(7,256)</u>	<u>(6,982)</u>
Total nonoperating revenues (expenses)	<u>(333,333)</u>	<u>(379,325)</u>
Income (loss) before contributions and transfers	<u>(579,996)</u>	<u>(879,000)</u>
Capital contributions	<u>1,969,547</u>	<u>1,470,517</u>
Change in net assets	1,389,551	591,517
<b>Total net assets - beginning</b>	<u>64,586,818</u>	<u>63,995,301</u>
<b>Total net assets - ending</b>	<u>\$ <u>65,976,369</u></u>	<u>\$ <u>64,586,818</u></u>

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, 2011 and 2010

	2011	2010
<b>Cash flows from operating activities:</b>		
Cash received from customers and users	\$ 7,891,136	\$ 7,851,015
Cash paid to suppliers	(2,907,982)	(3,426,728)
Cash paid to employees	(2,786,837)	(2,852,192)
Net cash provided by operating activities	2,196,317	1,572,095
<b>Cash flows from capital and related financing activities:</b>		
Contributed capital - tap fees	1,125,952	849,312
Contributed capital - special assessments	217,958	289,456
Principal payments - bonds	(1,270,000)	(1,225,000)
Interest paid	(516,130)	(539,581)
Intergovernmental receipts	59,523	63,610
Purchase of capital assets	(3,883,572)	(3,139,178)
Net cash provided (used) in capital and related financing activities	(4,266,269)	(3,701,381)
<b>Cash flows from investing activities:</b>		
Investment income received	89,510	243,220
Net cash provided by investing activities	89,510	243,220
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,980,442)	(1,886,066)
<b>Cash and cash equivalents, January 1</b>	12,893,850	14,779,916
<b>Cash and cash equivalents, December 31</b>	\$ 10,913,408	\$ 12,893,850
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
<b>Operating income (loss)</b>	\$ (246,663)	\$ (499,675)
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization expense	2,270,730	2,183,492
(Increase) decrease in accounts receivable	78,724	(94,835)
(Increase) decrease in prepaid items	(700)	-
Increase (decrease) in accounts payable	130,126	(116,646)
Increase (decrease) in retainages payable	(55,810)	46,145
Increase (decrease) in accrued wages and compensated absences payable	24,218	(10,610)
(Increase) decrease in accounts payable/retainages due to the purchase of capital assets on account	(4,308)	64,224
Total adjustments	2,442,980	2,071,770
<b>Net cash provided by operating activities</b>	\$ 2,196,317	\$ 1,572,095
<b>Noncash Investing, Capital and Financing Activities</b>		
Purchase of capital assets on account	\$ 113,277	\$ 108,969
Special assessment deferred revenue in contributed capital	(212,263)	(230,864)
Noncash capital asset contributions	814,180	485,866

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 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, 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 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.

**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 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.

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**NOTE 2 - CASH AND INVESTMENTS**

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Cash and investments at December 31, 2011 and 2010, consists of the following:

	<u>2011</u>	<u>2010</u>
Equity in pooled cash and investments with the City of Grand Junction, Colorado	<u>\$ 10,913,408</u>	<u>\$ 12,893,850</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.

**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, 2011, is as follows:

	<u>Bank Balance</u>	<u>Carrying Balance</u>
Cash on hand	\$ -	\$ 12,355
Insured deposits	250,000	250,000
Deposits collateralized in single institutional pools	<u>4,387,562</u>	<u>3,309,420</u>
	<u>\$4,637,562</u>	<u>\$3,571,775</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 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, 2011, the City had the following investments:

<u>Investment Type</u>	<u>S&amp;P Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>
Federal Agency Securities	AA+	\$21,985,020	22.19
Treasury Coupon Securities	AA+	3,077,814	44.98
Pass Through Securities (GNMA/CMO)	AA+	4,385,560	89.69
Commercial Paper	A-1+	9,753,845	2.37
State investment pools	AAAm	50,033,601	0.03
Pension trust fund	Not rated	11,835,969	0.00
Total		<u>\$101,071,809</u>	<u>18.37</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.

### **NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increase	Decreases	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 129,791	\$ -	\$ -	\$ 129,791
Construction in progress	1,574,922	3,348,244	1,885,595	3,037,571
Total capital assets, not being depreciated	1,704,713	3,348,244	1,885,595	3,167,362
<i>Capital assets, being depreciated:</i>				
Improvements other than buildings	20,565	-	-	20,565
Equipment	1,390,403	164,541	-	1,554,944
Buildings and systems	92,454,527	3,071,160	2,799	95,522,888
Total capital assets, being depreciated	93,865,495	3,235,701	2,799	97,098,397
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	20,565	-	-	20,565
Equipment	710,126	152,635	-	862,761
Buildings and systems	31,596,453	2,118,095	1,596	33,712,952
Total accumulated depreciation	32,327,144	2,270,730	1,596	34,596,278
Total capital assets, being depreciated, net	61,538,351	964,971	1,203	62,502,119
Joint Sewer Fund capital assets, net	\$63,243,064	\$ 4,313,215	\$ 1,886,798	\$65,669,481

## 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, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
Loan payable					
<i>CWRPDA</i>	\$7,700,000	\$ -	\$830,000	\$6,870,000	\$855,000
Plus deferred amounts:					
For loan premium	310,435	-	34,090	276,345	34,024
Bonds payable					
<i>Build America Bonds</i>	4,780,000	-	440,000	4,340,000	445,000
Compensated absences	209,411	37,978	15,183	232,206	13,861
Business-type activity long-term liabilities	<u>\$12,999,846</u>	<u>\$37,978</u>	<u>\$1,319,273</u>	<u>\$11,718,551</u>	<u>\$1,347,885</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, 2011, 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, 2011 was \$6,870,000 payable over the following term from *Business activities*:

Year	Principal	Interest	Total
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	410,000	244,321	654,321
2017-2021	2,250,000	1,012,395	3,262,395
2022-2024	1,690,000	267,116	1,957,116
	<u>\$6,870,000</u>	<u>\$2,659,606</u>	<u>\$9,529,606</u>



### **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, 2011 was \$4,340,000 payable over the following term from *Business activities*:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	480,000	112,441	592,441
2017-2019	2,035,000	213,832	2,248,832
	<u>\$4,340,000</u>	<u>\$917,596</u>	<u>\$5,257,596</u>

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### **NOTE 5 - RETIREMENT PLAN**

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#### **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 2011, covered wages in the Joint Sewer System under this plan were \$2,021,526; employer contributions were \$121,292; and employee contributions were \$121,292. Total payroll for the Joint Sewer System for the year ended December 31, 2011, was \$2,150,478.

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### **NOTE 6 - RISK MANAGEMENT AND INSURANCE**

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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 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 \$1,990,936 in the Self-Insurance Internal Service Fund at December 31, 2011, 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. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider these factors. Changes in the City's Self-Insurance Internal Service Fund claims liability amount in 2010 and 2011 were:

	January 1 Claims Payable	Claims and Changes in Estimates	Claim Payments	December 31 Claims Payable
2010	\$2,126,930	\$2,622,708	\$(1,346,767)	\$3,402,871
2011	\$3,402,871	\$344,423	\$(1,756,358)	\$1,990,936

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## **NOTE 7 – TAX, SPENDING AND DEBT LIMITATIONS**

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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, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Charges for sales and services	\$ 7,862,380	\$ 7,862,380	\$ 7,812,412	\$ (49,968)
Sewer tap fees and system development	1,462,698	1,436,062	1,363,097	(72,965)
Investment income	181,591	82,740	141,653	58,913
Intergovernmental revenues	-	-	59,689	59,689
	<u>9,506,669</u>	<u>9,381,182</u>	<u>9,376,851</u>	<u>(4,331)</u>
<b>Expenditures:</b>				
Personal services	2,860,576	2,870,427	2,788,260	82,167
Costs of sales and services	3,365,691	3,348,092	2,977,290	370,802
Debt retirement and interest expense	1,786,130	1,786,130	1,786,130	-
Capital outlay	4,913,703	5,327,350	3,887,880	1,439,470
	<u>12,926,100</u>	<u>13,331,999</u>	<u>11,439,560</u>	<u>1,892,439</u>
<b>Increase (decrease) in net assets</b>	<b>\$ (3,419,431)</b>	<b>\$ (3,950,817)</b>	<b>\$ (2,062,709)</b>	<b>\$ 1,888,108</b>
<b>Adjustments:</b>				
Add:				
Capital outlay			3,887,880	
Debt principal			1,270,000	
Accrued interest			11,843	
			<u>5,169,723</u>	
Less:				
Sewer tap fees and system development			(1,363,097)	
Depreciation and amortization			(2,243,896)	
Investment fair market value adjustment			(52,143)	
Accrued compensated absences			(22,795)	
Loss on disposition of capital assets			(4,913)	
Accrued intergovernmental subsidy			(166)	
			<u>(3,687,010)</u>	
<b>Net Income (Loss) Before Contributions and Transfers</b>			<b>\$ (579,996)</b>	

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