

**FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
CITY OF GRAND JUNCTION/MESA COUNTY, COLORADO  
JOINT SEWER SYSTEM  
DECEMBER 31, 2016 AND 2015**



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JOINT SEWER SYSTEM  
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**Haynie &  
Company**

**Certified Public Accountants** (a professional corporation)

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

We have audited the accompanying financial statements of the business-type activities of the City of Grand Junction / Mesa County, Colorado Joint Sewer System (the "Joint Sewer System") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Joint Sewer System's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Joint Sewer System, as of December 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

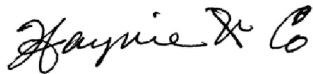
### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Joint Sewer System's basic financial statements. The accompanying supplemental summary of revenues, expenditures and changes in fund net position – budget (non-GAAP budgetary basis) and actual, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary summary of revenues, expenditures and changes in fund net position – budget (non-GAAP budgetary basis) and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Littleton, Colorado  
July 19, 2017



## 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, 2016. 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 2016 by \$100.2 million (net position). Of this amount, \$17.9 million, or 17.9%, is unrestricted and may be used to meet the ongoing obligations to customers and creditors. During 2016, the net position increased by \$5.8 million due to an increase in cash and short term investments, as well as a delay in planned major capital projects until 2017.
- In 2015, the Joint Sewer System completed a \$2.8 million biogas conditioning system and pipeline that produces fuel from the wastewater treatment plant's digester gas. Currently, the equivalent of 400 gallons of gasoline is produced onsite daily and has offset the same volume use of diesel fuel. This has resulted in a carbon emission reduction of approximately 3 million pounds per year.
- Sewer rates increased 10.2% in 2016 from \$19.60 to \$21.60 for a single family equivalent.

### OVERVIEW OF THE ANNUAL FINANCIAL REPORT

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This discussion and analysis is 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 position; a statement of revenues, expenses and changes in fund net position; a statement of cash flows; and notes to the financial statements.

*The statement of net position* presents information on all of the Joint Sewer System's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position* presents information showing how the Joint Sewer System's net position changed during the most recent fiscal year. All changes in net position 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 capital assets are depreciated.

*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

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As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Joint Sewer System, net position increased by \$5.8 million during fiscal year 2016.

By far, the largest portion of the Joint Sewer System's net position (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.

### STATEMENTS OF NET POSITION

	2016	2015
Current and other assets	\$ 18,297,394	\$ 12,346,728
Capital assets	88,376,275	89,690,418
Total assets	106,673,669	102,037,146
Long-term debt outstanding	5,163,267	6,097,240
Other liabilities	1,346,544	1,616,390
Total liabilities	6,509,811	7,713,630
Net position:		
Net investment in capital assets	82,279,035	82,677,336
Unrestricted	17,884,823	11,646,180
Total net position	\$ 100,163,858	\$ 94,323,516

#### Changes in Net Position

The Joint Sewer System's total revenues of \$15.9 million, including capital contributions, exceeded program expenses of \$10.1 million for an increase in net position of \$5.8 million in 2016.

Sewer service charges continue to be the main source of revenue for the Joint Sewer System and represent 79.3% of total 2016 revenues.

### CHANGES IN NET POSITION

	2016	2015
<b>Revenues:</b>		
Charges for sales and services	\$ 12,633,463	\$ 11,037,487
Investment income	119,628	60,507
Intergovernmental revenues	36,255	544,593
Miscellaneous	25,278	24,883
Gain (loss) on sale of assets	134,887	(25,273)
Total revenues	12,949,511	11,642,197
<b>Expenses:</b>		
Personnel services	3,423,241	3,426,326
Costs of sales and services	3,100,403	2,950,386
Depreciation and amortization	3,445,642	3,321,422
Debt service	265,617	290,277
Total expenses	10,234,903	9,988,411
Capital Contributions	3,125,734	2,009,450
Increase in net position	5,840,342	3,663,236
Net position, beginning	94,323,516	90,660,280
Net position, ending	\$ 100,163,858	\$ 94,323,516

## **BUDGETARY HIGHLIGHTS**

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During the fiscal year, the Joint Sewer System's budget was increased from an original budget total of \$15.5 million to a final budget of \$16.4 million. All recommended amendments for budget changes came through the Finance Department 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 in the same fund. In 2016, actual expenditures were \$8.9 million, which is less than the final budget of \$16.4 million largely due to the delay of budgeted major capital projects that will be completed in 2017. For the Joint Sewer System, the original budget for revenues was \$14.4 million, while the final budgeted amount was \$14.5 million, reflecting an increase in the projection for charges for service and investment income.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

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### **Capital Assets**

At the end of 2016, 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, 2016 and 2015:

<b>CAPITAL ASSETS AT YEAR-END</b>		
<b>(net of depreciation)</b>		
	<b>2016</b>	<b>2015</b>
Land	\$ 180,891	\$ 185,791
Buildings and improvements	1,238,897	1,304,258
Vehicles, machinery and equipment	2,264,104	2,042,947
Construction in process	279,104	742,643
Intangible assets	77,389	77,389
Infrastructure	84,335,890	85,337,390
Total	\$ 88,376,275	\$ 89,690,418

Major capital additions during 2016 include:

	<b>2016</b>
Sewer line replacement and extensions	\$ 534,013
Plant backbone improvements	435,303
Diffuser design	157,267

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 \$6.1 million. See Note 4 to the financial statements. The note 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 2017, the sewer rate will increase from \$21.60 to \$22.40 per single family equivalent unit. Plant investment fees will increase from \$4,320 to \$4,502 per single family equivalent unit. The plant investment fees rate increase will fund necessary growth related plant and collection system expansion projects. The 2017 budget reflects the Joint Sewer System's ongoing commitment to the community and environment.

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

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This financial report is designed to provide citizens, customers, investors and creditors with a general overview of the City/County Joint Sewer System's 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 Finance Department 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 POSITION**  
December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 16,730,616	\$ 11,034,258
Accounts receivable, net of allowance for uncollectibles of \$5,711	1,500,421	1,233,390
Special assessments receivable	17,845	38,681
Current portion of notes receivable	-	-
Total current assets	<u>18,248,882</u>	<u>12,306,329</u>
Noncurrent assets:		
Special assessments receivable	48,512	40,399
Capital assets		
Land	180,891	185,791
Buildings, improvements, plant and system	133,542,350	131,436,674
Equipment	4,145,763	3,651,502
Construction in process	279,104	742,643
Intangible assets	77,389	77,389
Less accumulated depreciation	<u>(49,849,222)</u>	<u>(46,403,581)</u>
Capital assets (net of accumulated depreciation)	<u>88,376,275</u>	<u>89,690,418</u>
Total noncurrent assets	<u>88,424,787</u>	<u>89,730,817</u>
Total assets	<u>106,673,669</u>	<u>102,037,146</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	77,357	184,278
Retainages payable	-	108,777
Accrued liabilities	-	93,510
Accrued interest payable	78,504	85,305
Current portion loan premium amortization	23,973	25,842
Current maturities of long-term debt	910,000	890,000
Compensated absences payable	15,066	13,558
Total current liabilities	<u>1,104,900</u>	<u>1,401,270</u>
Noncurrent liabilities:		
Compensated absences payable	241,644	215,120
Long-term debt including premium	5,163,267	6,097,240
Total noncurrent liabilities	<u>5,404,911</u>	<u>6,312,360</u>
Total liabilities	<u>6,509,811</u>	<u>7,713,630</u>
<b>NET POSITION</b>		
Net investment in capital assets	82,279,035	82,677,336
Unrestricted	17,884,823	11,646,180
Total net position	<u>\$ 100,163,858</u>	<u>\$ 94,323,516</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 REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
For the years ended December 31, 2016 and 2015

	2016	2015
<b>Operating revenues:</b>		
Charges for sales and services	\$ 12,633,463	\$ 11,037,487
<b>Operating expenses:</b>		
Personnel services	3,423,241	3,426,326
Costs of sales and services	3,100,403	2,950,386
Depreciation and amortization	3,445,642	3,321,422
Total operating expenses	9,969,286	9,698,134
Operating income (loss)	2,664,177	1,339,353
<b>Nonoperating revenues (expenses):</b>		
Investment income	119,628	60,507
Intergovernmental revenues	36,255	544,593
Miscellaneous	25,278	24,883
Gain (loss) on disposition of property and equipment	134,887	(25,273)
Interest expense	(265,617)	(290,277)
Total nonoperating revenues (expenses)	50,431	314,433
Income (loss) before contributions and transfers	2,714,608	1,653,786
Capital contributions	3,125,734	2,009,450
Change in net position	5,840,342	3,663,236
<b>Net position - beginning</b>	94,323,516	90,660,280
<b>Net position - ending</b>	\$ 100,163,858	\$ 94,323,516

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, 2016 and 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Cash received from customers and users	\$ 12,366,432	\$ 11,028,308
Cash paid to suppliers	(3,151,746)	(2,813,959)
Cash paid to employees	(3,488,719)	(3,402,574)
Miscellaneous receipts	25,278	24,883
Net cash provided by operating activities	5,751,245	4,836,658
<b>Cash flows from capital and related financing activities:</b>		
Contributed capital - tap fees	2,107,006	1,609,878
Contributed capital - special assessments	82,763	52,408
Principal payments - bonds	(890,000)	(865,000)
Interest paid	(298,259)	(331,120)
Intergovernmental receipts	36,255	544,593
Proceeds from disposition of capital assets	139,787	-
Purchase of capital assets	(1,352,067)	(6,581,398)
Net cash provided (used) in capital and related financing activities	(174,515)	(5,570,639)
<b>Cash flows from investing activities:</b>		
Investment income received	119,628	60,507
Net cash provided by investing activities	119,628	60,507
<b>Net increase (decrease) in cash and cash equivalents</b>	5,696,358	(673,474)
<b>Cash and cash equivalents, January 1</b>	11,034,258	11,707,732
<b>Cash and cash equivalents, December 31</b>	\$ 16,730,616	\$ 11,034,258
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
<b>Operating income (loss)</b>	\$ 2,664,177	\$ 1,339,353
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization expense	3,445,642	3,321,422
Miscellaneous receipts	25,278	24,883
(Increase) decrease in accounts receivable	(267,031)	(9,179)
Increase (decrease) in accounts payable	(106,921)	(678,861)
Increase (decrease) in retainages payable	(108,777)	(8,850)
Increase (decrease) in accrued wages and compensated absences payable	(65,478)	23,752
(Increase) decrease in accounts payable/retainages due to the purchase of capital assets on account	164,355	824,138
Total adjustments	3,087,068	3,497,305
<b>Net cash provided by operating activities</b>	\$ 5,751,245	\$ 4,836,658
<b>Noncash investing, capital and financing activities</b>		
Purchase of capital assets on account	\$ (90,867)	\$ 73,488
Noncash capital asset contributions	948,686	418,759

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2016 and 2015

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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 (the City) and the Board of County Commissioners of Mesa County, Colorado (the County). The Joint Sewer System was organized to provide sewer collection and treatment facilities for the metropolitan area in the Grand Valley. The City contributed certain assets, which were included in its Sewer Fund, while 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. Per 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 Metropolitan District 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.

On December 31, 2012, the Central Grand Valley 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 Central Grand Valley 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. Since the Joint Sewer Service is a 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 of accounting 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, 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 Position**

Investment in capital assets (net of related debt) is intended to reflect the portion of net position that is 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 a 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.

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**NOTE 2 - CASH AND INVESTMENTS**

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Cash and investments at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Equity in pooled cash and investments with the City of Grand Junction, Colorado	\$ 16,730,616	\$ 11,034,258

Substantially all the Joint Sewer System’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. Authority to manage the investment program is granted to the Deputy Finance Director (Investment Officer). The Investment Officer shall act in accordance with established written

procedures and internal controls for the operation of the investment program consistent with the City's Investment Policy. The Investment Officer carries out his/her responsibilities through the issuance of procedures and internal controls that are established by the Finance Director. The Finance Director also authorizes and monitors all investment activity.

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 No. 31, the Joint Sewer System's pool share value is reported as an Investment Trust Fund in the City's financial statements. See *Note 12* for more information on the Joint Sewer System.

**Cash Deposits**

*Custodial credit risk – deposits.* In the case of deposits, custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. 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, 2016 was as follows:

	<b>Bank Balance</b>	<b>Carrying Balance</b>
Cash on hand	\$ -	\$ 17,191
Insured deposits	250,000	250,000
Deposits collateralized in single institutional pools	5,172,836	2,968,264
	<b>\$ 5,422,836</b>	<b>\$ 3,235,455</b>

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to decline 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. Investments in state investment pools and mutual funds are not categorized by risk because 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 approximate the value of the City's investment in the pools.

As of December 31, 2016, the City had the following investments:

<b>Investment Type</b>	<b>S&amp;P Rating</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (Months)</b>
Federal agency securities	AA+	\$ 27,882,380	24.54
Treasury coupon securities	AA+	10,461,470	29.53
Certificates of deposit	NR	2,231,820	22.14
Municipal securities	A	500,725	14.99
Pass through securities			

(GNMA/CMO)	AA+	228,951	45.44
State investment pools	AAAm	19,363,430	0.00
Total		\$ 60,668,776	17.48

*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 into 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 does not allow for investment in foreign currency.

### NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increase	Decreases	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 185,791	\$ -	\$ 4,900	\$ 180,891
Construction in progress	742,643	279,104	742,643	279,104
Intangible assets	77,389	-	-	77,389
Total capital assets, not being depreciated	1,005,823	279,104	747,543	537,384
<i>Capital assets, being depreciated:</i>				
Improvements other than buildings	11,524	-	-	11,524
Equipment	3,651,502	494,261	-	4,145,763
Buildings and systems	131,425,150	2,105,677	-	133,530,827
Total capital assets, being depreciated	135,088,176	2,599,938	-	137,688,114
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	11,524	-	-	11,524
Equipment	1,608,556	273,103	-	1,881,659
Buildings and systems	44,783,501	3,172,539	-	47,956,040
Total accumulated depreciation	46,403,581	3,445,642	-	49,849,223
Total capital assets, being depreciated, net	88,684,595	(845,704)	-	87,838,891
Joint Sewer Fund capital assets, net	\$ 89,690,418	\$ (566,600)	\$ 747,543	\$ 88,376,275

## 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, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
Loan payable					
<i>CWRPDA</i>	\$ 4,350,000	\$ -	\$ 410,000	\$ 3,940,000	\$ 420,000
Plus deferred amounts:					
For loan premium	148,082	-	25,842	122,240	23,973
Bonds payable:					
<i>Build America Bonds</i>	2,515,000	-	480,000	2,035,000	490,000
Compensated absences	228,678	41,591	13,559	256,710	15,066
Business-type activity long-term liabilities	<u>\$ 7,241,760</u>	<u>\$ 41,591</u>	<u>\$ 929,401</u>	<u>\$ 6,353,950</u>	<u>\$ 949,039</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 account's assets and liabilities for the defeased bonds is not included in the financial statements of the Joint Sewer System.

Bonds and loans payable, as of December 31, 2016, 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 original principal amount was \$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, 2016 was \$3,940,000 payable over the following term from Business activities:

Year	Principal	Interest	Total
2017	\$ 420,000	\$ 172,380	\$ 592,380
2018	435,000	159,048	594,048
2019	450,000	145,591	595,591
2020	465,000	131,884	596,884
2021	480,000	117,802	597,802
2022-2024	1,690,000	152,266	1,842,266
	<u>\$ 3,940,000</u>	<u>\$ 878,971</u>	<u>\$ 4,818,971</u>

### Bonds Payable

The Joint Sewer System issued \$5,200,000 of approved revenue bonds (Direct Pay Build America Bonds Series 2009) bearing interest at 3.99%, payable June 1 and December 1 annually through December 2019. The revenue bonds were issued to extend, better, otherwise improve and equip the joint wastewater system. The unpaid principal at December 31, 2016 was \$2,035,000, payable over the following term from *Business activities*:

Year	Principal	Interest	Total
2017	\$ 490,000	\$ 93,275	\$ 583,275
2018	505,000	71,750	576,750
2019	1,040,000	48,807	1,088,807
	<u>\$ 2,035,000</u>	<u>\$ 213,832</u>	<u>\$ 2,248,832</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 2016, covered wages in the Joint Sewer System under this plan were \$2,434,479, employer contributions were \$146,069, and employee contributions were \$146,069. Total payroll for the Joint Sewer System for the year ended December 31, 2016 was \$2,529,855.

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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 a maximum of \$500,000 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 \$1,956,906 in the Self-Insurance Internal Service Fund at December 31, 2016 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 2015 and 2016 were:

	<u>January 1</u>		<u>Claims and</u>		<u>December 31</u>
	<u>Claims</u>		<u>Changes in</u>	<u>Claim</u>	<u>Claims</u>
	<u>Payable</u>		<u>Estimates</u>	<u>Payments</u>	<u>Payable</u>
2015	\$ 2,073,879	\$	1,211	\$ (707,655)	\$ 1,367,435
2016	\$ 1,367,435	\$	1,640,001	\$ (1,050,530)	\$ 1,956,906

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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.

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## **SUPPLEMENTAL INFORMATION**

City of Grand Junction/Mesa County, Colorado

Joint Sewer System

**SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION**

**BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL**

Year ended December 31, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Charges for sales and services	\$ 12,445,330	\$ 12,445,330	\$ 12,633,463	\$ 188,133
Sewer tap fees and system development	1,882,146	1,882,146	2,189,769	307,623
Investment income	70,485	100,500	130,340	29,840
Intergovernmental revenues	17,972	17,972	36,255	18,283
Miscellaneous	24,000	24,000	25,278	1,278
	<u>14,439,933</u>	<u>14,469,948</u>	<u>15,015,105</u>	<u>545,157</u>
<b>Expenditures:</b>				
Personnel services	3,636,511	3,563,987	3,395,208	168,779
Costs of sales and services	3,347,506	3,136,109	3,100,403	35,706
Debt retirement and interest expense	1,188,260	1,188,260	1,188,259	1
Capital outlay	7,286,700	8,264,104	1,187,712	7,076,392
Contingencies	-	283,436	-	283,436
	<u>15,458,977</u>	<u>16,435,896</u>	<u>8,871,582</u>	<u>7,564,314</u>
<b>Increase (decrease) in net position</b>	<b>\$ <u>(1,019,044)</u></b>	<b>\$ <u>(1,965,948)</u></b>	<b>\$ <u>6,143,523</u></b>	<b>\$ <u>8,109,471</u></b>
<b>Adjustments:</b>				
Add:				
Capital outlay			1,187,712	
Gain on disposition of capital assets			134,887	
Debt principal			890,000	
Accrued interest			6,800	
			<u>2,219,399</u>	
Less:				
Sewer tap fees and system development			(2,189,769)	
Depreciation expense			(3,419,800)	
Accrued compensated absences			(28,033)	
Investment fair market value adjustment			(10,712)	
			<u>(5,648,314)</u>	
<b>Net income (loss) before contributions and transfers</b>			<b>\$ <u>2,714,608</u></b>	

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