

**FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
CITY OF GRAND JUNCTION/MESA COUNTY, COLORADO  
JOINT SEWER SYSTEM  
DECEMBER 31, 2020 AND 2019**




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## Independent Auditor's Report

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

### Opinion

We have audited the accompanying financial statements of the business-type activities of City of Grand Junction / Mesa County, Colorado Joint Sewer System (the "Joint Sewer System") as of and for the year ended December 31, 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Joint Sewer System, as of December 31, 2020, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Joint Sewer System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Joint Sewer System's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Joint Sewer System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Joint Sewer System's ability to continue as a going concern for a reasonable period of time.

#### **Other Matters**

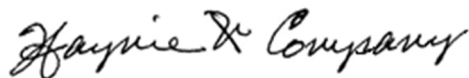
##### *Required Supplementary Information*

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 supplementary information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Littleton, Colorado  
July 27, 2021

## MANAGEMENT'S DISCUSSION & ANALYSIS

Our discussion and analysis of the City of Grand Junction/Mesa County Joint Sewer System's (Joint Sewer System) financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2020. 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 2020 by \$129.1 million (net position). Of this amount, \$34.7 million, or 26.9%, is unrestricted and may be used to meet the ongoing obligations to customers and creditors. During 2020, the net position increased by \$8.9 million due to an increase in cash and accounts receivable, an increase in capital assets due to planned major capital projects, and a decrease in current maturities of long-term debt and other current liabilities.
- The Joint Sewer System invested over \$5.6 million in sewer collection and treatment system improvements.
- Sewer rates increased from \$22.40 in 2019 to \$22.62 in 2020 for a single-family equivalent.
- The Joint Sewer System continues to operate a biogas condition system and pipeline that produces fuel from the wastewater treatment plant's digester gas. This system was completed in 2015 and has earned nation-wide recognition for innovation. Currently, the approximate equivalent of 400 gallons of gasoline is produced onsite daily and has offset the same volume use in diesel fuel which has resulted in a carbon emission reduction of approximately 3 million pounds per year.

### 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; notes to the financial statements; and other supplementary information.

**The statement of net position** presents information on all 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.

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

## FINANCIAL ANALYSIS

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 over \$8.9 million during fiscal year 2020.

By far, the largest portion of the Joint Sewer System's net position (73.1%) 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 is 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

	2020	2019
Current and other assets	\$ 35,448,919	\$ 28,562,779
Capital assets	96,620,243	95,998,742
Total assets	132,069,162	124,561,521
Long-term debt outstanding	1,711,176	2,207,559
Other liabilities	1,247,624	2,187,603
Total liabilities	2,958,800	4,395,162
Net position:		
Net investment in capital assets	94,412,684	93,307,842
Unrestricted	34,697,678	26,858,517
Total net position	\$ 129,110,362	\$ 120,166,359

### Changes in Net Position

The Joint Sewer System's total revenues of over \$21.0 million, including capital contributions, exceeded program expenses of \$12.1 million for an increase in net position of \$8.9 million in 2020.

Sewer service charges continue to be the main source of revenue for the Joint Sewer System and represent 69.1% of total 2020 revenues.

### CHANGES IN NET POSITION

	2020	2019
<b>Revenues:</b>		
Charges for sales and services	\$ 14,544,285	\$ 13,766,171
Fines and forfeitures	1,250	9,864
Investment income	593,194	767,398
Intergovernmental revenues	540,000	14,902
Total revenues	15,678,729	14,558,335
<b>Expenses:</b>		
Personnel services	3,666,960	3,523,878
Costs of sales and services	4,384,105	4,114,081
Depreciation and amortization	3,929,675	3,785,581
Interest expense	109,811	162,289
Loss on disposition of property and equipment	5,867	30,707

Total expenses	12,096,418	11,616,536
Capital contributions	5,361,692	3,423,180
Change in net position	8,944,003	6,364,979
<b>Net position - beginning</b>	<b>120,166,359</b>	<b>113,801,380</b>
<b>Net position - ending</b>	<b>\$ 129,110,362</b>	<b>\$ 120,166,359</b>

## **BUDGETARY HIGHLIGHTS**

During the fiscal year, the Joint Sewer System’s budgeted expenditures were increased from an original budget total of \$20.1 million to a final budget of \$23.4 million. All recommended amendments for budget changes come 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 2020, actual expenditures were \$11.8 million, which is less than the final budget of \$23.4 million largely due to the delay of budgeted major capital projects that were temporarily postponed. For the Joint Sewer System, the original budget for revenues was \$18.1 million, and the final budget for revenues was \$18.6 million.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2020, 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, 2020 and 2019:

<b>CAPITAL ASSETS AT YEAR-END</b>		
(net of depreciation)		
	<b>2020</b>	<b>2019</b>
Land	\$ 180,891	\$ 180,891
Buildings and improvements	977,443	1,042,806
Vehicles, machinery, and equipment	1,870,137	2,164,299
Construction in progress	606,613	1,750,168
Improvements	39,990	-
Intangible assets	77,389	77,389
Infrastructure	92,867,780	90,783,189
Total	\$ 96,620,243	\$ 95,998,742

Major capital additions during 2020 include:

	<b>2020</b>
Sewer line replacement and extensions	\$ 1,892,590
Lift station elimination	942,530

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 debt outstanding of \$2.2 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**

The Joint Sewer System is in a strong financial position. Reserves are at levels currently directed by the City Council/County Commissioners. During 2021, the sewer rate will increase to \$22.85 per single family equivalent unit. The Plant Investment Fee (PIF) will increase from \$4,919 to \$5,067 per single family equivalent unit effective January 1, 2021. The PIF increase will fund necessary growth-related plant and collection system expansion projects. The 2021 budget reflects the Joint Sewer System's ongoing commitment to the community and environment.

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

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, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 32,934,084	\$ 27,095,537
Restricted cash and investments	10	10
Accounts receivable, net of allowance for uncollectibles of \$1,238	2,480,262	1,457,460
Special assessments receivable	26,097	2,049
Prepays	2,030	-
Total current assets	35,442,483	28,555,056
Noncurrent assets:		
Special assessments receivable	6,436	7,723
Capital assets		
Land	180,891	180,891
Buildings, improvements, plant and system	154,971,857	149,391,450
Equipment	5,067,184	5,017,735
Construction in progress	606,613	1,750,168
Intangible assets	77,389	77,389
Less accumulated depreciation	(64,283,691)	(60,418,891)
Capital assets (net of accumulated depreciation)	96,620,243	95,998,742
Total noncurrent assets	96,626,679	96,006,465
Total assets	132,069,162	124,561,521
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	394,608	1,102,387
Retainages payable	872	154,974
Accrued liabilities	44,712	154,838
Accrued interest payable	48,095	51,827
Current portion loan premium amortization	16,383	18,341
Current maturities of long-term debt	480,000	465,000
Compensated absences payable	18,791	17,686
Total current liabilities	1,003,461	1,965,053
Noncurrent liabilities:		
Compensated absences payable	244,163	222,550
Long-term debt including premium	1,711,176	2,207,559
Total noncurrent liabilities	1,955,339	2,430,109
Total liabilities	2,958,800	4,395,162
<b>NET POSITION</b>		
Net investment in capital assets	94,412,684	93,307,842
Unrestricted	34,697,678	26,858,517
Total net position	\$ 129,110,362	\$ 120,166,359

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, 2020 and 2019

	2020	2019
<b>Operating revenues:</b>		
Charges for sales and services	\$ 14,544,285	\$ 13,766,171
Fines and forfeitures	1,250	9,864
Total operating revenues	14,545,535	13,776,035
<b>Operating expenses:</b>		
Personnel services	3,666,960	3,523,878
Costs of sales and services	4,384,105	4,114,081
Depreciation and amortization	3,929,675	3,785,581
Total operating expenses	11,980,740	11,423,540
Operating income	2,564,795	2,352,495
<b>Nonoperating revenues (expenses):</b>		
Investment income	593,194	767,398
Intergovernmental revenues	540,000	14,902
Loss on disposition of property and equipment	(5,867)	(30,707)
Interest expense	(109,811)	(162,289)
Total nonoperating revenues (expenses)	1,017,516	589,304
Income before contributions and transfers	3,582,311	2,941,799
Capital contributions	5,361,692	3,423,180
Change in net position	8,944,003	6,364,979
<b>Net position - beginning</b>	120,166,359	113,801,380
<b>Net position - ending</b>	\$ 129,110,362	\$ 120,166,359

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, 2020 and 2019

	2020	2019
<b>Cash flows from operating activities:</b>		
Cash received from customers and users	\$ 13,522,733	\$ 13,928,232
Cash paid to suppliers	(4,498,389)	(3,758,467)
Cash paid to employees	(3,754,368)	(3,509,810)
Net cash provided by operating activities	5,269,976	6,659,955
<b>Cash flows from capital and related financing activities:</b>		
Contributed capital - tap fees	3,932,769	2,615,535
Contributed capital - special assessments	2,049	16,435
Principal payments - bonds	(465,000)	(1,490,000)
Interest paid	(131,884)	(194,399)
Intergovernmental receipts	540,000	14,902
Purchase of capital assets	(3,902,557)	(7,317,453)
Net cash used in capital and related financing activities	(24,623)	(6,354,980)
<b>Cash flows from investing activities:</b>		
Investment income received	593,194	767,398
Net cash provided by investing activities	593,194	767,398
<b>Net increase in cash and cash equivalents</b>	5,838,547	1,072,373
<b>Cash and cash equivalents, January 1</b>	27,095,547	26,023,174
<b>Cash and cash equivalents, December 31</b>	\$ 32,934,094	\$ 27,095,547
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
<b>Operating income</b>	\$ 2,564,795	\$ 2,352,495
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization expense	3,929,675	3,785,581
Miscellaneous receipts	-	-
(Increase) decrease in accounts receivable	(1,022,802)	152,197
Increase (decrease) in accounts payable	(707,779)	(526,376)
Increase (decrease) in retainages payable	(154,102)	(39,255)
(Increase) decrease in prepaids	(2,030)	-
Increase (decrease) in accrued wages and compensated absences payable	(87,408)	14,068
(Increase) decrease in accounts payable/retainages due to the purchase of capital assets on account	749,627	921,245
Total adjustments	2,705,181	4,307,460
<b>Net cash provided by operating activities</b>	\$ 5,269,976	\$ 6,659,955
<b>Noncash investing, capital and financing activities</b>		
Purchase of capital assets on account	\$ (4,761)	\$ 744,866
Noncash capital asset contributions	1,404,115	808,666

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, 2020 and 2019

**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 (GAAP) 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 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.

On December 29, 2016, the Orchard Mesa 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 Orchard Mesa 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 GAAP. 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 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 Statements 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.

## NOTE 2 - CASH AND INVESTMENTS

Cash and investments at December 31, 2020 and 2019 consisted of the following:

	2020	2019
Equity in pooled cash and investments with the City of Grand Junction, Colorado	\$ 32,934,094	\$ 27,095,547

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 General Services 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.

Cash and investments held for the 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, as amended, 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, 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, 2020 was as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ -	\$ 14,712
Insured deposits	500,000	500,000
Deposits collateralized in single institutional pools	7,096,520	6,106,775
	\$ 7,596,520	\$ 6,621,487

*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. 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, 2020, 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+	\$ 17,137,224	34.86
Treasury coupon securities	AAA	1,024,340	18.20
Certificates of deposit	NR	5,762,820	18.95
Municipal securities	AA	24,585,722	39.02
Corporate holdings	AA-	625,853	1.10
Money market accounts	NR	1,064,465	0.00
State investment pools	AAAm	37,314,399	0.00
Total		\$ 87,514,823	19.26

*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 approved by the City Manager. 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 plans, does not allow for investment in foreign currency.

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

Capital asset activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 180,891	\$ -	\$ -	\$ 180,891
Construction in progress	1,750,168	606,613	1,750,168	606,613
Intangible assets	77,389	-	-	77,389
Total capital assets, not being depreciated	<u>2,008,448</u>	<u>606,613</u>	<u>1,750,168</u>	<u>864,893</u>
<i>Capital assets, being depreciated:</i>				
Improvements other than buildings	11,524	41,015	-	52,539
Equipment	5,017,735	49,449	-	5,067,184
Buildings and systems	<u>149,379,926</u>	<u>5,610,135</u>	<u>70,743</u>	<u>154,919,318</u>
Total capital assets, being depreciated	154,409,185	5,700,599	70,743	160,039,041

<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	11,524	1,025	-	12,549
Equipment	2,853,436	343,611	-	3,197,047
Buildings and systems	<u>57,553,931</u>	<u>3,585,039</u>	<u>64,875</u>	<u>61,074,095</u>
Total accumulated depreciation	<u>60,418,891</u>	<u>3,929,675</u>	<u>64,875</u>	<u>64,283,691</u>
Total capital assets, being depreciated, net	<u>93,990,294</u>	<u>1,770,924</u>	<u>5,868</u>	<u>95,755,350</u>
Joint Sewer Fund capital assets, net	<u>\$ 95,998,742</u>	<u>\$ 2,377,537</u>	<u>\$ 1,756,036</u>	<u>\$ 96,620,243</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, 2020:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Business-type Activities</b>					
Loan payable:					
<i>CWRPDA</i>	\$ 2,635,000	\$ -	\$ 465,000	\$ 2,170,000	\$ 480,000
Plus deferred amounts:					
For loan premium	<u>55,900</u>	<u>-</u>	<u>18,341</u>	<u>37,559</u>	<u>16,383</u>
Total loan payable	<u>2,690,900</u>	<u>-</u>	<u>483,341</u>	<u>2,207,559</u>	<u>496,383</u>
Compensated absences	<u>240,236</u>	<u>40,404</u>	<u>17,686</u>	<u>262,954</u>	<u>18,791</u>
Business-type activity long-term liabilities	<u>\$ 2,931,136</u>	<u>\$ 40,404</u>	<u>\$ 501,027</u>	<u>\$ 2,470,513</u>	<u>\$ 515,174</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, 2020, 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, 2020 was \$2,440,068 payable over the following term from Business activities:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	480,000	117,802	597,802
2022	520,000	82,071	602,071
2023	565,000	55,091	620,091
2024	<u>605,000</u>	<u>15,104</u>	<u>620,104</u>
	<u>\$ 2,170,000</u>	<u>\$ 270,068</u>	<u>\$ 2,440,068</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 the International City Manager's Association Retirement Corporation (ICMA-RC) with the City of Grand Junction General Employees Retirement Plan Board having the option to alter, amend, or terminate the plan. 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 2020, covered wages in the Joint Sewer System under this plan were \$2,547,880, employer contributions were \$152,873, and employee contributions were \$152,873. Total payroll for the Joint Sewer System for the year ended December 31, 2020 was \$2,703,654. At December 31, 2020, there were no amounts due from the City to the plan.

## NOTE 6 - RISK MANAGEMENT AND INSURANCE

The Joint Sewer System is exposed to various risks of loss related to employee health claims; 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. Prior to 2018, the City was self-insured for workers' compensation with an excess policy purchased from the Colorado Intergovernmental Risk Sharing Agency (CIRSA). Effective January 1, 2018, the City became fully insured with CIRSA for workers' compensation. The Self-Insurance Internal Service Fund provides coverage for up to a maximum of \$150,000 per occurrence on each workers' compensation, general liability, or property damage claim.

For excess liability, property and workers' compensation, the City is involved with CIRSA, a separate and independent governmental and legal entity formed by an intergovernmental agreement by member municipalities pursuant to the provision of 24-10-1 15.5, Colorado Revised Statutes (1982 Replacement Volume) and Colorado Constitution, Article XIV, Section 18(2). The City's share of surplus contributions held by CIRSA at December 31, 2020 was \$256,632. There were no settlements in excess of the insurance coverage in any of the three prior 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 \$4,598,727 in the Self-Insurance Internal Service Fund at December 31, 2020 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 2019 and 2020 were:

	<b>January 1</b>		<b>Claims and</b>		<b>December 31</b>
	<b>Claims</b>		<b>Changes in</b>	<b>Claim</b>	<b>Claims</b>
	<b>Payable</b>		<b>Estimates</b>	<b>Payments</b>	<b>Payable</b>
2019	\$ 1,797,959	\$	3,278,395	\$ (869,816)	\$ 4,206,448
2020	\$ 4,206,448	\$	1,879,270	\$ (1,486,991)	\$ 4,598,727

It is the intent of the members of CIRSA to create an entity of perpetuity, which will administer and use funds

contributed by the members to defend and indemnify, in accordance with the bylaws, any member of CIRSA against stated liability of loss to the limit of the financial resource of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverage at reasonable costs. All income and assets of CIRSA shall be at all times dedicated to the exclusive benefit of its members.

CIRSA is a separate legal entity, and the City does not approve budgets nor does it have the ability to significantly affect the operations of the unit.

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

Year ended December 31, 2020

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Charges for sales and services	\$ 13,996,274	\$ 14,471,274	\$ 14,544,285	\$ 73,011
Fines and forfeitures	1,000	1,000	1,250	250
Sewer tap fees and system development	3,083,937	3,083,937	3,934,818	850,881
Investment income	406,953	437,601	435,458	(2,143)
Intergovernmental revenues	595,000	615,000	540,000	(75,000)
	<u>18,083,164</u>	<u>18,608,812</u>	<u>19,455,811</u>	<u>846,999</u>
<b>Expenditures:</b>				
Personnel services	3,743,649	3,743,649	3,644,242	99,407
Costs of sales and services	3,995,133	4,571,133	4,384,105	187,028
Debt retirement and interest expense	596,884	596,884	596,884	-
Capital outlay	11,797,000	14,449,796	3,152,930	11,296,866
	<u>20,132,666</u>	<u>23,361,462</u>	<u>11,778,161</u>	<u>11,583,301</u>
<b>Increase (decrease) in net position</b>	\$ <u>(2,049,502)</u>	\$ <u>(4,752,650)</u>	\$ <u>7,677,650</u>	\$ <u>12,430,300</u>
<b>Adjustments:</b>				
Add:				
Capital outlay			3,152,930	
Gain (loss) on disposition of capital assets			(5,867)	
Debt principal			465,000	
Investment fair market value adjustment			157,736	
Accrued interest			3,732	
			<u>3,773,531</u>	
Less:				
Sewer tap fees and system development			(3,934,818)	
Depreciation expense			(3,911,334)	
Accrued compensated absences			(22,718)	
			<u>(7,868,870)</u>	
<b>Net income before contributions and transfers</b>			\$ <u>3,582,311</u>	

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