

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
CITY OF GRAND JUNCTION/MESA COUNTY, COLORADO
JOINT SEWER SYSTEM
DECEMBER 31, 2021 AND 2020**


CONTENTS

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
<i>Statements of Net Position</i>	7
<i>Statements of Revenues, Expenses and Changes in Fund Net Position</i>	8
<i>Statements of Cash Flows</i>	9
<i>Notes to the Financial Statements</i>	11
Supplemental Information	
<i>Summary of Revenues, Expenditures, and Changes In Fund Net Position - Budget (Non-GAAP Budgetary Basis) and Actual</i>	19

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Independent Auditor's Report

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

Opinions

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, 2021, 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, 2021, 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 Opinions

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.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during

Other Matters

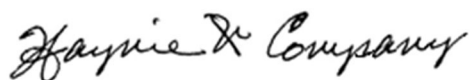
Required Supplementary Information

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 11, 2022

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, 2021. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The Joint Sewer System remains in strong financial condition.
- The assets of the Joint Sewer System exceeded its liabilities at the close of 2021 by \$139.0 million (net position). Of this amount, \$40.8 million, or 29.4%, is unrestricted and may be used to meet the ongoing obligations to customers and creditors. During 2021, the net position increased by \$9.9 million due to an increase in cash and investments, an increase in capital assets due to planned major capital projects, and an increase in capital contributions.
- The Joint Sewer System invested over \$5.7 million in sewer collection and treatment system improvements.
- Sewer rates increased from \$22.62 in 2020 to \$22.85 in 2021 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

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 \$9.9 million during fiscal year 2021.

By far, the largest portion of the Joint Sewer System's net position (70.6%) 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

	2021	2020
Current and other assets	\$ 43,296,361	\$ 35,448,919
Capital assets	99,879,991	96,620,243
Total assets	<u>143,176,352</u>	<u>132,069,162</u>
Long-term debt outstanding	1,179,762	1,711,176
Other liabilities	3,009,723	1,247,624
Total liabilities	<u>4,189,485</u>	<u>2,958,800</u>
Net position:		
Net investment in capital assets	98,168,815	94,412,684
Unrestricted	40,818,052	34,697,678
Total net position	<u>\$ 138,986,867</u>	<u>\$ 129,110,362</u>

Changes in Net Position

The Joint Sewer System's total revenues of over \$21.7 million, including capital contributions, exceeded program expenses of \$11.8 million for an increase in net position of \$9.9 million in 2021.

Sewer service charges continue to be the main source of revenue for the Joint Sewer System and represent 68.0% of total 2021 revenues.

CHANGES IN NET POSITION

	2021	2020
Revenues:		
Charges for sales and services	\$ 14,792,008	\$ 14,544,285
Fines and forfeitures	-	1,250
Investment income (loss)	(158,190)	593,194
Intergovernmental revenues	-	540,000
Total revenues	<u>14,633,818</u>	<u>15,678,729</u>
Expenses:		
Personnel services	3,776,903	3,666,960
Costs of sales and services	4,027,255	4,384,105
Depreciation and amortization	4,005,884	3,929,675
Interest expense	86,689	109,811
Loss on disposition of property and equipment	15,443	5,867
Total expenses	<u>11,912,174</u>	<u>12,096,418</u>
Capital contributions	7,154,861	5,361,692
Change in net position	9,876,505	8,944,003
Net position - beginning	<u>129,110,362</u>	<u>120,166,359</u>
Net position - ending	<u>\$ 138,986,867</u>	<u>\$ 129,110,362</u>

BUDGETARY HIGHLIGHTS

During the fiscal year, the Joint Sewer System's budgeted expenditures remained the same from an original budget total of \$25.4 million to a final budget of \$18.8 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 2021, actual expenditures were \$14.3 million, which is less than the final budget of \$18.8 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 \$18.0 million, and the final budget for revenues was \$19.5 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the Joint Sewer System had invested in a broad range of capital assets, including building improvements and other infrastructure.

The table below provides a summary of total capital assets at December 31, 2021 and 2020:

CAPITAL ASSETS AT YEAR-END		
(net of depreciation)		
	2021	2020
Land	\$ 180,891	\$ 180,891
Buildings and improvements	912,080	977,443
Vehicles, machinery, and equipment	1,748,240	1,870,137
Construction in progress	6,340,024	606,613
Improvements	37,939	39,990
Intangible assets	77,389	77,389
Infrastructure	90,583,428	92,867,780
Total	\$ 99,879,991	\$ 96,620,243

Major capital additions during 2021 include:

	2021
Sewer line replacement and extensions	\$ 2,572,359
Wastewater treatment plant improvements	1,840,037
CNG gas storage enhanced fueling station	918,940

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 \$1.7 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 2022, the sewer rate will increase to \$23.31 per single family equivalent unit. The Plant Investment Fee (PIF) will increase from \$5,067 to \$5,219 per single family equivalent unit effective January 1, 2022. The PIF increase will fund necessary growth-related plant and collection system expansion projects. The 2022 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. 5th Street, Grand Junction, CO 81501.

City of Grand Junction/Mesa County, Colorado
Joint Sewer System
STATEMENTS OF NET POSITION
December 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and investments	\$ 41,574,052	\$ 32,934,084
Restricted cash and investments	10	10
Accounts receivable, net of allowance for uncollectibles of \$1,238	1,689,329	2,480,262
Special assessments receivable	26,097	26,097
Prepays	1,725	2,030
Total current assets	43,291,213	35,442,483
Noncurrent assets:		
Special assessments receivable	5,148	6,436
Capital assets		
Land	180,891	180,891
Buildings, improvements, plant and system	156,116,139	154,971,857
Equipment	5,274,635	5,067,184
Construction in progress	6,340,024	606,613
Intangible assets	77,389	77,389
Less accumulated depreciation	(68,109,087)	(64,283,691)
Capital assets (net of accumulated depreciation)	99,879,991	96,620,243
Total noncurrent assets	99,885,139	96,626,679
Total assets	143,176,352	132,069,162
LIABILITIES		
Current liabilities:		
Accounts payable	1,950,465	394,608
Retainages payable	147,742	872
Accrued liabilities	62,315	44,712
Accrued interest payable	33,364	48,095
Current portion loan premium amortization	11,414	16,383
Current maturities of long-term debt	520,000	480,000
Compensated absences payable	23,094	18,791
Total current liabilities	2,748,394	1,003,461
Noncurrent liabilities:		
Compensated absences payable	261,329	244,163
Long-term debt including premium	1,179,762	1,711,176
Total noncurrent liabilities	1,441,091	1,955,339
Total liabilities	4,189,485	2,958,800
NET POSITION		
Net investment in capital assets	98,021,073	94,412,684
Unrestricted	40,965,794	34,697,678
Total net position	\$ 138,986,867	\$ 129,110,362

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, 2021 and 2020

	2021	2020
Operating revenues:		
Charges for sales and services	\$ 14,792,008	\$ 14,544,285
Fines and forfeitures	-	1,250
Total operating revenues	14,792,008	14,545,535
Operating expenses:		
Personnel services	3,776,903	3,666,960
Costs of sales and services	4,027,255	4,384,105
Depreciation and amortization	4,005,884	3,929,675
Total operating expenses	11,810,042	11,980,740
Operating income	2,981,966	2,564,795
Nonoperating revenues (expenses):		
Investment income (loss)	(158,190)	593,194
Intergovernmental revenues	-	540,000
Loss on disposition of property and equipment	(15,443)	(5,867)
Interest expense	(86,689)	(109,811)
Total nonoperating revenues (expenses)	(260,322)	1,017,516
Income before contributions and transfers	2,721,644	3,582,311
Capital contributions	7,154,861	5,361,692
Change in net position	9,876,505	8,944,003
Net position - beginning	129,110,362	120,166,359
Net position - ending	\$ 138,986,867	\$ 129,110,362

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 15,582,941	\$ 13,522,733
Cash paid to suppliers	(4,313,080)	(4,498,389)
Cash paid to employees	(3,737,831)	(3,754,368)
Net cash provided by operating activities	<u>7,532,030</u>	<u>5,269,976</u>
Cash flows from capital and related financing activities:		
Contributed capital - tap fees	5,809,126	3,932,769
Contributed capital - special assessments	28,122	2,049
Principal payments - bonds	(480,000)	(465,000)
Interest paid	(117,802)	(131,884)
Intergovernmental receipts	-	540,000
Purchase of capital assets	(3,973,318)	(3,902,557)
Net cash used in capital and related financing activities	<u>1,266,128</u>	<u>(24,623)</u>
Cash flows from investing activities:		
Investment income (loss)	(158,190)	593,194
Net cash provided by investing activities	<u>(158,190)</u>	<u>593,194</u>
Net increase in cash and cash equivalents	8,639,968	5,838,547
Cash and cash equivalents, January 1	<u>32,934,094</u>	<u>27,095,547</u>
Cash and cash equivalents, December 31	<u>\$ 41,574,062</u>	<u>\$ 32,934,094</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ <u>2,981,966</u>	\$ <u>2,564,795</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	4,005,884	3,929,675
Miscellaneous receipts	-	-
(Increase) decrease in accounts receivable	790,933	(1,022,802)
Increase (decrease) in accounts payable	1,555,857	(707,779)
Increase (decrease) in retainages payable	146,870	(154,102)
(Increase) decrease in prepaids	305	(2,030)
Increase (decrease) in accrued wages and compensated absences payable	39,072	(87,408)
(Increase) decrease in accounts payable/retainages due to the purchase of capital assets on account	(1,988,857)	749,627
Total adjustments	<u>4,550,064</u>	<u>2,705,181</u>
Net cash provided by operating activities	<u>\$ 7,532,030</u>	<u>\$ 5,269,976</u>
Noncash investing, capital and financing activities		
Purchase of capital assets on account	\$ 1,984,096	\$ (4,761)
Noncash capital asset contributions	1,318,900	1,404,115

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, 2021 and 2020

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, 2021 and 2020 consisted of the following:

	2021	2020
Equity in pooled cash and investments with the City of Grand Junction, Colorado	\$ 41,574,062	\$ 32,934,094

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, 2021 was as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ -	\$ 13,885
Insured deposits	500,000	500,000
Deposits collateralized in single institutional pools	5,785,987	5,751,302
	\$ 6,285,987	\$ 6,265,187

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, 2021, the City had the following investments:

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>
Federal agency securities	AA+	\$ 24,200,038	41.73
Treasury coupon securities	AAA	6,453,206	34.29
Certificates of deposit	FDIC Ins.	4,965,049	17.22
Municipal securities	AA	38,629,189	39.28
Corporate holdings	AA	3,124,111	45.38
Money market accounts	NR	150,436	0.00
State investment pools	AAAm	53,655,517	0.00
Total		\$ 131,177,546	22.69

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, 2021 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	606,613	5,733,411	-	6,340,024
Intangible assets	77,389	-	-	77,389
Total capital assets, not being depreciated	864,893	5,733,411	-	6,598,304
<i>Capital assets, being depreciated:</i>				
Improvements other than buildings	52,539	-	-	52,539
Equipment	5,067,184	228,764	21,313	5,274,635
Buildings and systems	154,919,318	1,318,900	174,618	156,063,600
Total capital assets, being depreciated	160,039,041	1,547,664	195,931	161,390,774

<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	12,549	2,051	-	14,600
Equipment	3,197,047	350,661	21,313	3,526,395
Buildings and systems	<u>61,074,095</u>	<u>3,653,172</u>	<u>159,175</u>	<u>64,568,092</u>
Total accumulated depreciation	<u>64,283,691</u>	<u>4,005,884</u>	<u>180,488</u>	<u>68,109,087</u>
Total capital assets, being depreciated, net	<u>95,755,350</u>	<u>(2,458,220)</u>	<u>15,443</u>	<u>93,281,687</u>
Joint Sewer Fund capital assets, net	<u>\$ 96,620,243</u>	<u>\$ 3,275,191</u>	<u>\$ 15,443</u>	<u>\$ 99,879,991</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, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
Loan payable:					
<i>CWRPDA</i>	\$ 2,170,000	\$ -	\$ 480,000	\$ 1,690,000	\$ 520,000
Plus deferred amounts:					
For loan premium	<u>37,559</u>	<u>-</u>	<u>16,383</u>	<u>21,176</u>	<u>11,414</u>
Total loan payable	<u>2,207,559</u>	<u>-</u>	<u>496,383</u>	<u>1,711,176</u>	<u>531,414</u>
Compensated absences	<u>262,954</u>	<u>40,260</u>	<u>18,791</u>	<u>284,423</u>	<u>23,094</u>
Business-type activity long-term liabilities	<u>\$ 2,470,513</u>	<u>\$ 40,260</u>	<u>\$ 515,174</u>	<u>\$ 1,995,599</u>	<u>\$ 554,508</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 in note 4 is not included in the financial statements of the Joint Sewer System.

Bonds and loans payable, as of December 31, 2021, 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, 2021 was \$1,842,266 payable over the following term from Business activities:

Year	Principal	Interest	Total
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>\$ 1,690,000</u>	<u>\$ 152,266</u>	<u>\$ 1,842,266</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 MissionSquare Retirement 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. In 2021, covered wages in the Joint Sewer System under this plan were \$2,703,652, employer contributions were \$162,219, and employee contributions were \$162,219. Total payroll for the Joint Sewer System for the year ended December 31, 2021 was \$2,755,634. At December 31, 2021, 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, 2021 was \$641,012. 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 \$5,173,132 in the Self-Insurance Internal Service Fund at December 31, 2021 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 2020 and 2021 were:

	<u>January 1</u>		<u>Claims and</u>		<u>December 31</u>
	<u>Claims</u>		<u>Changes in</u>		<u>Claims</u>
	<u>Payable</u>		<u>Estimates</u>	<u>Claim</u>	<u>Payable</u>
				<u>Payments</u>	
2020	\$ 4,206,448	\$	1,879,270	\$ (1,486,991)	\$ 4,598,727
2021	\$ 4,598,727	\$	1,906,972	\$ (1,332,567)	\$ 5,173,132

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.

NOTE 7 – TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

SUPPLEMENTAL INFORMATION

City of Grand Junction/Mesa County, Colorado

Joint Sewer System

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

Year ended December 31, 2021

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Charges for sales and services	\$ 14,473,599	\$ 15,150,085	\$ 14,792,008	\$ (358,077)
Fines and forfeitures	1,000	1,000	-	(1,000)
Sewer tap fees and system development	3,327,300	4,087,350	5,837,248	1,749,898
Investment income	190,839	271,700	279,432	7,732
Intergovernmental revenues	-	-	-	-
	<u>17,992,738</u>	<u>19,510,135</u>	<u>20,908,688</u>	<u>1,398,553</u>
Expenditures:				
Personnel services	3,925,699	3,925,699	3,755,434	170,265
Costs of sales and services	3,990,527	4,063,687	4,027,255	36,432
Debt retirement and interest expense	597,802	597,802	597,802	-
Capital outlay	16,945,000	10,252,179	5,962,175	4,290,004
	<u>25,459,028</u>	<u>18,839,367</u>	<u>14,342,666</u>	<u>4,496,701</u>
Increase (decrease) in net position	\$ <u><u>(7,466,290)</u></u>	\$ <u><u>670,768</u></u>	\$ <u><u>6,566,022</u></u>	\$ <u><u>5,895,254</u></u>
Adjustments:				
Add:				
Capital outlay			5,962,175	
Gain (loss) on disposition of capital assets			(15,443)	
Debt principal			480,000	
Investment fair market value adjustment			(437,622)	
Accrued interest			14,730	
			<u>6,003,840</u>	
Less:				
Sewer tap fees and system development			(5,837,248)	
Depreciation expense			(3,989,501)	
Accrued compensated absences			(21,469)	
			<u>(9,848,218)</u>	
Net income before contributions and transfers			\$ <u><u>2,721,644</u></u>	

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