

**HEART OF THE VALLEY
METROPOLITAN SEWERAGE DISTRICT**

KAUKAUNA, WISCONSIN

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

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INDEPENDENT AUDITOR'S REPORT

Members of the Commission
Heart of the Valley Metropolitan Sewerage District
Kaukauna, Wisconsin

We have audited the accompanying financial statements of the business-type activities of Heart of the Valley Metropolitan Sewerage District (District) as of and for the years ended December 31, 2014 and 2013, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Heart of the Valley Metropolitan Sewerage District as of December 31, 2014 and 2013, and the respective changes in the financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 21-22 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Heart of the Valley Metropolitan Sewerage District's financial statements as a whole. The schedules of user fees revenue and operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of user fees revenue and operating expenses are the responsibility of management and were derived from and related 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Erickson & Associates, S.C.
ERICKSON & ASSOCIATES, S.C.

Appleton, Wisconsin

June 24, 2015

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Heart of the Valley Metropolitan Sewerage District (District or HOVMSD), we offer readers of the District's financial statements this narrative overview of the financial activities for the years ended December 31, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Net Position - In 2014, the assets of the District exceeded liabilities by \$21.54 million. Of this amount, \$3.30 million was reported as "unrestricted net position," which may be used to meet our on-going obligations.

Changes in Net Position - The District's "total net position" increased by \$0.65 million during 2014 compared to an increase of \$.25 million in 2013.

Operating Revenue - Operating revenue increased \$291,430 with user fees increasing \$252,710.

Operating Expenses - Operating expenses in 2014 decreased by \$112,818.

Investment Income - The District's investment income in 2014 increased \$5,808.

Clean Water Fund Contribution - Beginning in 2005, the District began recognizing an annual clean water fund contribution from two of its users. This revenue is the annual amortization of note principal from Combined Locks and Darboy Sanitary and is intended to offset a majority of the increased depreciation and interest expense from the interceptor. The 2014 revenue recognized was \$153,719.

Interest Expense - Interest expense decreased \$49,852 as a result of principal payments made.

Loss on Disposal of Fixed Assets - Assets with a book value of \$90,164 were disposed of during 2014. There were no proceeds on these disposals.

Debt - The District's total debt obligation decreased \$2.03 million during 2014. There were no borrowings, this was all principal payments.

Notes Receivable and Deferred Revenue - During 2005, the District accepted notes from Combined Locks and Darboy Sanitary. The remaining portion of these notes, \$1,629,693, is classified as: current, \$146,363, and long-term, \$1,483,330. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$1,460,326, is considered to be a deferred inflow of resources.

Utility Plant - The District's net utility plant decreased \$1.41 million during 2014. Depreciation (and removals) exceeded current additions of \$759,833.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of a single enterprise fund, thus no fund level financial statements are shown. This report also contains other supplementary information in addition to the basic financial statements themselves.

BASIC FINANCIAL STATEMENTS

The basic financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to business-type activities. They are comprised of the *Statements of Net Position* and *Statements of Revenue, Expenses, and Changes in Fund Net Position*.

Statements of Net Position - presents information on all of the District'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 District is improving or deteriorating.

Statements of Revenue, Expenses, and Changes in Fund Net Position - presents information showing how the District's net position changed during the 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 the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	<u>2014</u>	<u>2013</u>
Current assets	\$ 3,751,401	\$ 4,141,194
Restricted assets	7,090,309	6,553,029
Capital assets	37,557,587	38,969,960
Other assets	<u>1,483,330</u>	<u>1,629,694</u>
Total assets	49,882,627	51,293,877
Current liabilities	2,807,661	2,634,297
Long-term debt	24,075,611	26,154,252
Deferred inflows	<u>1,460,326</u>	<u>1,614,045</u>
Total liabilities	<u>28,343,598</u>	<u>30,402,594</u>
Total net position	<u>\$ 21,539,029</u>	<u>\$ 20,891,283</u>

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Net Position

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of Heart of the Valley Metropolitan Sewerage District, net position totaled \$21.54 million at the close of the fiscal year ending December 31, 2014. This is an increase of \$.65 million or 3.10% from the previous year.

A significant portion of the District's net position, 51.76%, is invested in capital assets. An additional 32.92% represents resources that are subject to restriction on how they may be used. The remaining balance of unrestricted net position may be used to meet the District's ongoing obligations.

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2014	2013
Operating revenue	\$ 5,806,582	\$ 5,515,152
Operating expenses	4,636,141	4,748,959
Total operating income	<u>1,170,441</u>	<u>766,193</u>
Non-operating income (expense):		
Interest income	51,586	57,394
Clean water fund contribution	153,719	153,719
Interest expense	(637,836)	(687,688)
Loss on disposal of fixed assets	(90,164)	(39,850)
Total net other expense	<u>(522,695)</u>	<u>(516,425)</u>
Change in net position	647,746	249,768
Net position, beginning	<u>20,891,283</u>	<u>20,641,515</u>
Net position, ending	<u><u>\$ 21,539,029</u></u>	<u><u>\$ 20,891,283</u></u>

Changes in Net Position

The District's net position increased \$.65 million during the year.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

SIGNIFICANT EVENTS

Our budget for 2014 included expenditures of \$6,304,474 - a decrease of 0.33% from the 2013 budget. Budgeted receipts were \$5,908,623, with the \$395,851 difference made up by the application of unrestricted assets. A methodology was determined in 2011 as to how much of the unrestricted fund balance could be safely utilized in reducing the required revenue. The unrestricted fund balance has grown as a result of financial results being better than budget for several years (other than 2012, which was below budget).

Actual receipts (on a budgetary basis) were \$6,397,000 - 8.27% above budget. Actual expenditures for 2014 (on a budgetary basis) were \$6,527,896 - 2.22% above budget. Most of this increase was due to the interceptor sewer manhole rehabilitation and odor control project, which had expenditures of \$505,675 during the year. This project was not included in the 2014 budget as the original intention was to fund it with a separate loan. Overall net receipts (including unrestricted assets applied) were less than expenditures by \$130,896 or 2.22% of budgeted expenditures.

User fees for 2014 were 5.20% less than budget. User fees were budgeted for an increase of 0.92%. Actual results were 5.20% more than last year's actual results. The budget decrease in user fees was made up with other revenue, primarily connection fees.

The 2015 budget was approved with expenditures of \$6,134,492 - a decrease of 2.70%. Revenue was budgeted at \$5,764,304, with the \$370,188 difference made up by the application of unrestricted assets. The 2015 user fees revenue is budgeted at \$4,980,282 - which is a decrease of 7.72% from the 2014 budget.

In 2014, each of the District communities completed a Capacity, Management, Operations and Maintenance (CMOM) plan report and submitted it to the District for review and acceptance. The CMOM is designed to:

- 1) promote the proper management, operations and maintenance of the Communities and District sanitary sewer collection systems
- 2) ensure the collection system provides adequate capacity to convey peak flows
- 3) direct feasibility steps to eliminate excessive infiltration and inflows
- 4) mitigate the impact of overflows and provide for public notification when they occur and
- 5) provide for DNR reporting through the Compliance Maintenance Annual Report (CMAR).

The HOVMSD Commission adopted Resolution No. 164, on October 28, 2014, which provides for a Fats, Oils, Grease (FOG) policy and program. Stoeger and Associates has been contracted for a period of 3 years to manage the FOG Control Program for the District. Costs incurred by Stoeger and Associates are billed back to the member Communities, for services provided within their jurisdiction.

HOVMSD had a change in management structure and personnel at the close of 2014. District Manager, Mark Surwillo, retired after 17 years of service. Glen Geurts became the new District Director on January 1, 2015. District Commissioner Peter Wallace retired from the Commission after 15 years of service. Pat Hennessey replaced him as a District Commissioner.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

SIGNIFICANT EVENTS - CONTINUED

In 2014, HOVMSD had an interceptor sewer manhole rehabilitation and odor control project stall due to unsatisfactory performance from a sub-contractor on the project. That contractor has been removed from the project. Completion of the \$835,000 rehabilitation project will occur in 2015 with completion of the work performed by a replacement contractor.

The HOVMSD Employees Local 103-B, AFSCME, AFL-CIO Union decertified on January 1, 2014. The collective bargaining agreement with the union expired on December 31, 2013. The District has developed an employee manual for personnel direction.

Donohue & Associates continued their Clean Water Reduction Project with the Antecedent Moisture / Flow Modeling Program and report for the District communities. The 2014 program expense was \$25,750.

HOVMSD partnered with the Outagamie County Land Conservation Office for participation in a grant program called the Great Lakes Restoration Initiative. The specific project name is the Plum & Kankapot Creeks Riparian Protection Project. It provides cost-share funds to grant recipients in return for the installation, operation, and maintenance of best management practices (BMPs) designed to enhance water quality. The agreement commits the HOVMSD for 15 years and takes approximately 22 acres of farmland out of production with the installation of grassed waterways to reduce erosion. In exchange, HOVMSD received a payment of \$55,021.

The outside pole and wall pack lighting systems at the District facility had fixtures replaced with new energy efficient units. The District payment was \$24,600 and Focus On Energy contributed \$1,680 in the form of an energy improvement grant which offset some of the cost.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

STATEMENTS OF NET POSITION

December 31,

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 3,091,810	\$ 3,368,845
Accounts receivable		
Users	433,387	490,510
Others	59,151	103,085
Accrued interest receivable	546	588
Notes receivable	146,363	142,980
Prepaid expenses	<u>20,144</u>	<u>35,186</u>
Total current assets	3,751,401	4,141,194
Restricted assets:		
Cash and cash equivalents	7,090,309	6,553,029
Utility plant:		
Utility plant in service	63,522,791	63,532,762
Less accumulated depreciation	<u>26,470,879</u>	<u>24,637,948</u>
Net utility plant in service	37,051,912	38,894,814
Construction in progress	<u>505,675</u>	<u>75,146</u>
Total utility plant	37,557,587	38,969,960
Other assets:		
Notes receivable	<u>1,483,330</u>	<u>1,629,694</u>
Total assets	<u><u>\$ 49,882,627</u></u>	<u><u>\$ 51,293,877</u></u>

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable - operating	\$ 139,093	\$ 119,916
Accounts payable - construction	254,381	87,442
Current portion of long-term debt	2,078,641	2,030,389
Accrued interest	109,093	117,553
Accrued liabilities	<u>226,453</u>	<u>278,997</u>
Total current liabilities	2,807,661	2,634,297
Long-term liabilities:		
Long-term debt	<u>24,075,611</u>	<u>26,154,252</u>
Total liabilities	26,883,272	28,788,549
Deferred inflows of resources:		
Deferred revenue	1,460,326	1,614,045
Net position:		
Net investment in capital assets	11,148,954	10,697,877
Restricted for plant replacement	4,414,197	3,876,344
Restricted for debt service	2,676,112	2,676,685
Unrestricted	<u>3,299,766</u>	<u>3,640,377</u>
Total net position	<u>21,539,029</u>	<u>20,891,283</u>
Total liabilities and net position	<u><u>\$ 49,882,627</u></u>	<u><u>\$ 51,293,877</u></u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Operating revenues:		
User fees	\$ 5,116,295	\$ 4,863,585
Connection fees	448,670	429,124
Grants	55,021	3,641
Other	<u>186,596</u>	<u>218,802</u>
Total operating revenues	5,806,582	5,515,152
Operating expenses:		
Plant operations	1,604,872	1,525,575
Plant maintenance	468,882	494,951
Quality control and pretreatment	120,989	185,974
Administrative and general	359,356	417,682
Depreciation	<u>2,082,042</u>	<u>2,124,777</u>
Total operating expenses	<u>4,636,141</u>	<u>4,748,959</u>
Operating income	1,170,441	766,193
Non-operating revenue (expenses):		
Interest income	51,586	57,394
Clean water fund contribution	153,719	153,719
Interest expense	(637,836)	(687,688)
Loss on disposal of fixed assets	<u>(90,164)</u>	<u>(39,850)</u>
Total non-operating revenue (expenses)	<u>(522,695)</u>	<u>(516,425)</u>
Change in net position	647,746	249,768
Net position, beginning	<u>20,891,283</u>	<u>20,641,515</u>
Net position, ending	<u>\$ 21,539,029</u>	<u>\$ 20,891,283</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from operating revenue	\$ 5,907,639	\$ 5,338,610
Cash paid for operating expenses	<u>(2,572,424)</u>	<u>(2,622,407)</u>
Net cash provided by operating activities	<u>3,335,215</u>	<u>2,716,203</u>
 Cash flows from capital and related financing activities:		
Purchases of property and equipment	(592,894)	(218,923)
Payments of interest on debt	(646,296)	(693,988)
Payment of principal on debt	(2,030,389)	(1,983,257)
Principal payments received on notes receivable	<u>142,981</u>	<u>139,675</u>
Net cash used in capital and related financing activities	<u>(3,126,598)</u>	<u>(2,756,493)</u>
 Cash flows from investing activities:		
Interest received	<u>51,628</u>	<u>57,620</u>
 Net change in cash and cash equivalents	260,245	17,330
 Cash and cash equivalents, beginning of year	<u>9,921,874</u>	<u>9,904,544</u>
 Cash and cash equivalents, end of year	<u><u>\$ 10,182,119</u></u>	<u><u>\$ 9,921,874</u></u>

**RECONCILIATIONS OF NET INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Operating income	\$ 1,170,441	\$ 766,193
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,082,042	2,124,777
(Increase) decrease in:		
Accounts receivable - users	57,123	(122,684)
Accounts receivable - other	43,934	(53,858)
Prepaid expenses	15,042	11,213
Increase (decrease) in:		
Accounts payable - operating	19,177	(23,258)
Accrued liabilities	<u>(52,544)</u>	<u>13,820</u>
Net cash provided by operating activities	<u>\$ 3,335,215</u>	<u>\$ 2,716,203</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies:

The financial statements of Heart of the Valley Metropolitan Sewerage District (District or HOVMSD) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

Heart of the Valley Metropolitan Sewerage District is organized under Section 66.20 of the State of Wisconsin Statutes, and constitutes a separate, distinct municipality. The District is designed to be a self-support entity, deriving its revenue from sewerage treatment user fees from the five communities it serves (City of Kaukauna, Villages of Little Chute, Kimberly and Combined Locks and Darboy Joint Sanitary District #1).

Basis of Financial Statement Presentation

Proprietary Fund Statements:

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District follows all pronouncements of the Governmental Accounting Standards Board (GASB). A single proprietary fund account is used for all activity.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Accounts Receivable

Uncollectible accounts receivable are charged to income when they are considered uncollectible. The accounts receivable balance is thought to be collectible, and no provision for uncollectible accounts has been made in these statements. Credit is extended on an unsecured basis.

Inventories

Replacement parts and supplies kept on hand at the utility plant are recorded as an expense at the time individual inventory items are purchased.

Utility Plant in Service

The utility plant is recorded at cost. The aggregate cost of the plant facilities includes all cost associated with the planning, financing, design, and construction of the sewerage treatment system, construction of intercepting and main sewers, and other system construction. Costs include interest paid during the construction period, reduced by interest earned on temporary investments of debt proceeds.

Expenditures for additions and improvements are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets, are expensed as incurred.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 1. Summary of Significant Accounting Policies - Continued:

When depreciable property is retired, the original cost, together with removal cost less salvage, is charged to accumulated depreciation.

Depreciation is calculated on a straight-line basis. Estimated useful lives of the assets are as follows:

Buildings and improvements	20-40 years
Sewerage collection system	10-50 years
Equipment and vehicles	5-25 years

Net Position

The District classifies its net position as follows:

- Designated - That portion of fund balance for which the District has made tentative plans for a specific purpose. Such plans are subject to change from original authorizations and may never result in expenditures.
- Reserved - That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.
- Unreserved - That portion of accumulated earnings which remains after designations and reserves are satisfied.

Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

The District's policy allows employees to earn varying amounts of vacation for each year employed. Upon retirement or termination of employment, the employee is entitled to payment in cash for any unused vacation. Sick days are accumulated by employees to a maximum of 130 days but are lost upon termination of employment. However, upon retirement or death, employees are paid for 75% of their accumulated sick days. The estimated liability for accumulated unpaid vacation and sick leave, together with salary-related payments such as payroll taxes and pension plan contributions, is included in accrued liabilities.

Deferred Outflows / Inflows of Resources

The District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of an item that qualifies for reporting in this category, deferred revenue. This amount will be recognized as an inflow of resources in the subsequent years when it is received.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 2. Cash and Cash Equivalents:

The District is required to invest its funds in accordance with Wisconsin Statute 66.04 (2). Allowable investments include:

- Time deposits
- Securities guaranteed by the U. S. Government
- Securities of Wisconsin Municipal Units
- Securities of Wisconsin Local Government Investment Pool

Although not categorized as deposits, the investment in the State Treasurer's Investment Pool is insured against defaults in principal payments by Financial Security Assurance Incorporated.

	Carrying Amount	Bank Balance
Checking accounts	\$ 430,275	\$ 379,302
Bank money market accounts	658,516	652,651
Certificates of deposit	455,191	455,191
Total in commercial banks	1,543,982	1,487,144
Wisconsin State Treasurer's Investment Pool	8,638,137	8,638,137
Total cash and cash equivalents	<u>\$ 10,182,119</u>	<u>\$ 10,125,281</u>
	2014	
Cash and cash equivalents, unrestricted	\$ 3,091,810	
Cash and cash equivalents, restricted	7,090,309	
Total	<u>\$ 10,182,119</u>	

Deposits: Deposits in banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank, as of December 31, 2014. In addition, the State of Wisconsin has a Public Deposit Guarantee Fund, which provides a maximum of \$400,000 per entity above the amount provided by the FDIC. However, due to the relatively small size of the fund in relation to the total coverage, total recovery of losses may not be available.

At year-end, the carrying amount of the District's deposits was \$1,543,982 and the bank balance was \$1,487,144. Of the bank balance, \$750,000 was covered by FDIC insurance and \$400,000 was covered by the Public Deposit Guarantee Fund. This left \$337,144 uninsured. No amounts have been collateralized.

The District has adopted a policy that limits deposits with a public depository to the sum of FDIC and State insurance coverage unless the depository provides collateral or meets a set of financial criteria. At December 31, 2014, none of the three commercial banks individually exceeded the sum of FDIC insurance and Public Deposit Guarantee Fund coverage.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 3. Notes Receivable:

The notes receivable from the Intermunicipal Cooperation Agreement are as follows:

	<u>2014</u>	<u>2013</u>
Village of Combined Locks	\$ 307,854	\$ 334,864
Darboy Sanitary District	<u>1,321,839</u>	<u>1,437,810</u>
Total	<u>\$ 1,629,693</u>	<u>\$ 1,772,674</u>
Current	\$ 146,363	\$ 142,980
Non-current	<u>1,483,330</u>	<u>1,629,694</u>
Total	<u>\$ 1,629,693</u>	<u>\$ 1,772,674</u>

These notes are intended as a cost recovery measure of certain capital improvements to the intercepting sewerage system. These notes are due over a 19 year period beginning April 1, 2005, with interest at 2.365%. The principal to be received within the next twelve months is considered current, the balance is non-current.

Note 4. Changes in Utility Plant:

Utility plant activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions & Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 3,064,710	\$(14,440)	\$ --	\$ 3,050,270
Buildings and structures	32,032,517	(476,387)	140,734	31,415,396
Sewerage collection	15,073,626	80,305	125,212	15,028,719
Equipment	13,290,189	739,826	73,329	13,956,686
Vehicles	71,720	--	--	71,720
Construction in progress	<u>75,146</u>	<u>430,529</u>	<u>--</u>	<u>505,675</u>
Total	63,607,908	759,833	339,275	64,028,466
Accumulated depreciation	<u>24,637,948</u>	<u>2,082,042</u>	<u>249,111</u>	<u>26,470,879</u>
Net Total	<u>\$ 38,969,960</u>	<u>\$(1,322,209)</u>	<u>\$ 90,164</u>	<u>\$ 37,557,587</u>

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5. Long-term Debt:

Long-term obligations of the District are as follows:

	<u>2014</u>	<u>2013</u>
\$3,327,297 general obligation sewerage system promissory note, series 2004, dated October 13, 2004, with interest at 2.365%, payable semi-annually and maturing through 2024.	\$ 1,834,343	\$ 1,995,285
\$32,544,618 general obligation sewerage system promissory note, series 2006, dated January 25, 2006, with interest at 2.365%, payable semi-annually and maturing through 2025.	21,027,321	22,684,222
\$5,012,248 general obligation sewerage system promissory note, series 2007, dated August 28, 2007, with interest at 2.475%, payable semi-annually and maturing through 2027.	<u>3,292,588</u>	<u>3,505,134</u>
Totals	26,154,252	28,184,641
Less current portion	<u>2,078,641</u>	<u>2,030,389</u>
Total long-term debt	<u><u>\$ 24,075,611</u></u>	<u><u>\$ 26,154,252</u></u>

Future maturities of long-term debt are as follows:

Year ending December 31,	
2015	\$ 2,078,641
2016	2,128,041
2017	2,178,614
2018	2,230,390
2019	2,283,397
2020-2024	12,257,245
2025-2029	<u>2,997,924</u>
	<u><u>\$ 26,154,252</u></u>

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 6. Retirement Plans:

All eligible Heart of the Valley Metropolitan Sewerage District (HOVMSD) employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Effective the first day of the first pay period on or after June 29, 2011, the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees, including Teachers, and Executives and Elected Officials. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. HOVMSD pays the employee required contribution for union employees because it is provided for in an existing collective bargaining agreement, through December 31, 2013.

Contribution rates for 2014 for general category employees, including teachers are: employee 7.00% and employer 7.00%, total 14.0%.

The payroll for Heart of the Valley Metropolitan Sewerage District employees covered by WRS for the year ended December 31, 2014, was \$728,599; the employer's total wages paid were \$738,757. The total required contribution for the year ended December 31, 2014, was \$102,004, which consisted of \$51,002 from the employer and \$51,002 from employees. Total contributions for the year ended December 31, 2013, were \$91,481 (13.3%), which consisted of \$68,525 from the employer and \$22,956 from employees. Total contributions for the year ended December 31, 2012, were \$78,553 (11.8%), which consisted of \$59,052 from the employer and \$19,501 from employees.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. A final average earning is the average of the employee's three highest year's earnings. Employees terminating covered employment and submitting application before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of the Wisconsin Statutes. The WRS issues an annual financial report that may be obtained by writing to: Department of Employee Trust Fund, P.O. Box 7931, Madison, WI 53707-7931.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 7. Post Employment Health Plan:

During 2014, the District created a Post Employment Health Plan (PEHP). This plan is funded through a voluntary employees' beneficiary association (VEBA), a tax-exempt trust authorized by IRC Section 501C(9), as a health reimbursement arrangement. Assets of this fiduciary plan are invested at Nationwide Retirement Solutions in a fixed income account. As a fiduciary account, plan assets are not part of the District's net position nor is activity a part of the District's change in net position. Activity during the year was:

Contribution	\$ 38,657
Plan earnings	<u>21</u>
Balance at end of year	<u><u>\$ 38,678</u></u>

Note 8. Grants Revenue:

During 2014, the District partnered with the Outagamie County Land Conservation Department in a grant program called the Great Lakes Restoration Initiative. The program provided cost-share funds to grant recipients in return for the installation, operation, and maintenance of best management practices designed to enhance water quality. The agreement commits the District for 15 years, and takes approximately 22 acres of farmland out of production with the installation of grassed waterways to reduce erosion. In exchange, the District received a payment of \$55,021.

Note 9. Contingencies and Commitments:

Risk management - The District is exposed to various risks of loss, including torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance coverage for most of these risks. There were no reductions in purchased coverage for the year ended December 31, 2014.

Litigation - From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management that the likelihood is remote that any other such claims or proceedings will have a material adverse effect on the District's financial position or results of operations, due in part to insurance coverage.

Uncompleted contracts - The District routinely contracts for various construction and other services. Certain projects, especially capital construction projects, require signed contracts. At December 31, 2014, contracts totaling approximately \$360,000 had been issued but the related work had not yet been performed. The majority of these contracts are for capital improvements.

Note 10. Subsequent Events:

The District has evaluated all subsequent events through June 24, 2015, the date on which these financial statements were available to be issued. There are no events subsequent to December 31, 2014, that require disclosure.

SUPPLEMENTARY INFORMATION

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

SCHEDULES OF USER FEES REVENUE

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
City of Kaukauna	\$ 1,636,239	\$ 1,537,849
Village of Little Chute	1,293,585	1,266,036
Village of Kimberly	656,308	631,342
Village of Combined Locks	342,261	333,476
Darboy Joint Sanitary District #1	<u>1,187,902</u>	<u>1,094,882</u>
	<u>\$ 5,116,295</u>	<u>\$ 4,863,585</u>

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

SCHEDULES OF OPERATING EXPENSES

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Plant operation expenses:		
Salaries and wages	\$ 194,677	\$ 159,345
Payroll taxes and benefits	150,606	122,733
Health and safety	10,716	10,559
Support - meter stations	10,138	10,471
Water utility bills	21,011	17,716
Natural gas and auxiliary fuel	90,580	60,248
Gasoline and lubricants	5,200	5,416
Electricity	527,632	489,531
Chemicals	432,408	476,702
Solids disposal fees	5,933	5,361
Sludge disposal	62,228	78,611
Other operating expenses	1,195	985
Environmental fees	34,237	33,483
Insurance	58,311	54,414
Total plant operation expenses	<u>\$ 1,604,872</u>	<u>\$ 1,525,575</u>
Plant maintenance expenses:		
Salaries and wages	\$ 186,017	\$ 174,015
Payroll taxes and employee benefits	135,650	136,865
Other repairs and maintenance	78,348	62,767
Inflow reduction	25,754	71,241
Outside maintenance contracts	43,113	50,063
Total plant maintenance expenses	<u>\$ 468,882</u>	<u>\$ 494,951</u>
Quality control and pretreatment expenses:		
Salaries and wages	\$ 51,984	\$ 89,084
Payroll taxes and employee benefits	39,294	70,641
Laboratory expenses	16,711	11,759
Outside testing	10,858	12,362
Miscellaneous	2,142	2,128
Total quality control and pretreatment expenses	<u>\$ 120,989</u>	<u>\$ 185,974</u>

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

SCHEDULES OF OPERATING EXPENSES - CONTINUED

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Administrative and general expenses:		
Administrative salaries and wages	\$ 150,704	\$ 158,386
Commissioners' compensation and expense	10,985	10,468
Payroll taxes and employee benefits	121,039	124,692
Telephone	3,592	3,616
Office equipment rent and repair	9,419	11,546
Office supplies	7,282	4,668
Education and training	9,682	11,231
Membership and subscriptions	569	2,389
Travel reimbursement	2,323	2,692
Engineering outside services	1,243	52,671
Accounting and auditing fees	14,000	14,000
Legal fees	19,459	9,286
Miscellaneous administrative expenses	<u>9,059</u>	<u>12,037</u>
Total administrative and general expenses	<u>\$ 359,356</u>	<u>\$ 417,682</u>

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

BUDGET COMPARISON
For the Year Ended December 31, 2014

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Receipts:			
User fees	\$ 5,396,981	\$ 5,116,295	\$ (280,686)
Bank interest income	20,000	11,287	(8,713)
ICA payments	183,279	183,280	1
Pretreatment	2,458	5,708	3,250
Outside haulers	70,000	92,283	22,283
Effluent income	65,000	62,439	(2,561)
Connection fees	151,865	448,670	296,805
Farmland rental	19,040	24,900	5,860
Miscellaneous income, including grants	--	56,287	56,287
Unrestricted assets applied	395,851	395,851	--
Total receipts	<u>6,304,474</u>	<u>6,397,000</u>	<u>92,526</u>
Expenditures:			
Payroll	618,478	583,382	35,096
Benefits	387,266	446,589	(59,323)
Administration	59,750	87,613	(27,863)
Environmental fees	35,100	34,237	863
Insurance	84,100	58,311	25,789
Professional contract services	193,650	25,754	167,896
Sludge disposal	115,000	62,228	52,772
Utilities	594,396	644,423	(50,027)
Chemicals	601,150	432,408	168,742
Operation, maintenance, lab, QC	134,900	179,154	(44,254)
	<u>2,823,790</u>	<u>2,554,099</u>	<u>269,691</u>
Capital budget expenses	56,400	505,675	(449,275)
Provision for equipment replacement fund	692,599	792,011	(99,412)
Provision for debt service fund	<u>2,731,685</u>	<u>2,676,111</u>	<u>55,574</u>
Total expenditures	<u>6,304,474</u>	<u>6,527,896</u>	<u>(223,422)</u>
Net expenditures over receipts	<u>\$ --</u>	<u>\$ (130,896)</u>	<u>\$ (130,896)</u>

The budget is prepared on an operating basis. It is primarily cash-basis with modifications for provisions to the equipment replacement fund and debt service fund. A separate reconciliation between the statement of activities (GAAP basis) and the budgetary basis details the differences between these two methods.

**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

**RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN FUND NET POSITION TO THE BUDGET**

For the Year Ended December 31, 2014

Change in net position		\$ 647,746
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Amounts reported for budgetary basis are different because:

Unrestricted assets applied		395,851
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The budget includes Intermunicipal Cooperative Agreement principal payments and interest payments. The statement of revenue, expenses, changes in fund net position includes only interest income. The statement of revenue expenses, and changes in fund net position included a recognition of income from deferred revenue. This is a non-cash source of income and is not included in the budget.

ICA principal payments received	\$ 142,981	
Non-cash deferred revenue recognized	<u>(153,719)</u>	(10,738)

The budget reports non-equipment capital outlays as expenditures (other than funded projects). Equipment outlays are paid from the equipment reserve account and are not included in either the budget or the statement of revenue, expenses, and changes in fund net position. In the statement of revenue, expenses, and changes in fund net position the cost of all capital items is allocated over their estimated useful lives and reported as depreciation expense. The budget includes a provision to the equipment replacement account for approximately the amount of the depreciation expense on equipment.

Depreciation expense	2,082,042	
Provision for equipment replacement and capital budget	<u>(1,297,686)</u>	784,356

In the statement of revenue, expenses, and changes in fund net position, only the gain/loss on the sale of capital assets is reported, whereas in the budget, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the budget by the book value of the capital assets disposed.

90,164

Interest expense on debt is included in the statement of revenue, expenses, and changes in fund net position. The budget includes a provision to the debt service fund for both interest and principal.

Interest expense	637,836	
Provision to debt service fund	<u>(2,676,111)</u>	<u>(2,038,275)</u>

Net receipts over (under) expenditures		<u><u>\$ (130,896)</u></u>
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