

**HEART OF THE VALLEY  
METROPOLITAN SEWERAGE DISTRICT**

**KAUKAUNA, WISCONSIN**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

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

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis .....	3-8
Statements of Net Position .....	9
Statements of Revenue, Expenses, and Changes in Fund Net Position .....	10
Statements of Cash Flows .....	11
Notes to Financial Statements .....	12-24

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of District's Proportionate Share of the Net Pension Asset .....	25
Schedule of the District's Contributions .....	25
Notes to Required WRS Schedules .....	25

**OTHER SUPPLEMENTARY INFORMATION**

Schedules of User Fees Revenue .....	26
Schedules of Operating Expenses .....	27-28
Budget Comparison .....	29
Reconciliation of Statement of Revenue, Expenses, and Changes in Fund Net Position to the Budget.....	30



## **Erickson & Associates, S.C.**

*Certified Public Accountants and Financial Consultants*

1000 West College Avenue • P.O. Box 1116 • Appleton, Wisconsin 54912  
(920) 733-4957 • FAX (920) 733-6221 • [www.erickson-cpas.com](http://www.erickson-cpas.com)

### **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, 2015 and 2014, 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, 2015 and 2014, 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.

## Emphasis of Matter

As discussed in Note 10 to the financial statements, the District has adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective January 1, 2015. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information 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 Supplementary 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, schedules of operating expenses, budget comparison and reconciliation of statement of revenue, expenses, and changes in fund net position to the budget (other supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was 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 2, 2016

**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, 2015 and 2014. 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. Please note that the financials have been restated, effective January 1, 2015, due to the implementation of GASB Statement No. 68 and GASB Statement No. 71. This increased noncurrent assets and unrestricted net assets by \$238,515.

**FINANCIAL HIGHLIGHTS**

**Net Position** - In 2015, the assets of the District exceeded liabilities by \$22.11 million. Of this amount, \$2.59 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 \$0.57 million during 2015 compared to an increase of \$.65 million in 2014.

**Operating Revenue** - Operating revenue decreased \$511,314 with user fees decreasing \$622,479.

**Operating Expenses** - Operating expenses in 2015 decreased by \$157,978.

**Investment Income** - The District's investment income in 2015 increased \$292.

**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 2015 revenue recognized was \$153,719.

**Interest Expense** - Interest expense decreased \$47,459 as a result of principal payments made.

**Loss on Disposal of Fixed Assets** - Assets with a book value of \$99,500 were disposed of during 2015. There were no proceeds on these disposals.

**Debt** - The District's total debt obligation decreased \$2.08 million during 2015. There were no borrowings, only 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, \$1,483,330, is classified as: current, \$149,825, and long-term, \$1,333,505. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$1,306,607, is considered to be a deferred inflow of resources.

**Utility Plant** - The District's net utility plant decreased \$1.64 million during 2015. Depreciation (and removals) exceeded current additions of \$491,026.

**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>2015</u>	<u>2014</u>
Current assets	\$ 2,799,045	\$ 3,751,401
Restricted assets	7,691,136	7,090,309
Capital assets	35,915,424	37,557,587
Other assets	<u>1,458,439</u>	<u>1,483,330</u>
Total assets	47,864,044	49,882,627
Deferred outflows of resources	122,922	--
Current liabilities	377,808	593,639
Liabilities payable from restricted assets	2,240,525	2,214,022
Long-term debt	<u>21,947,570</u>	<u>24,075,611</u>
Total liabilities	24,565,903	26,883,272
Deferred inflows of resources	<u>1,310,694</u>	<u>1,460,326</u>
Total net position	<u>\$ 22,110,369</u>	<u>\$ 21,539,029</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 \$22.11 million at the close of the fiscal year ending December 31, 2015. This is an increase of \$.57 million or 2.65% from the previous year.

A significant portion of the District's net position, 53.50%, is invested in capital assets. An additional 34.79% 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**

	2015	2014
Operating revenue	\$ 5,295,268	\$ 5,806,582
Operating expenses	4,478,163	4,636,141
Total operating income	817,105	1,170,441
Non-operating income (expense):		
Interest income	51,878	51,586
Clean water fund contribution	153,719	153,719
Interest expense	( 590,377)	( 637,836)
Loss on disposal of fixed assets	( 99,500)	( 90,164)
Total other expense	( 484,280)	( 522,695)
Change in net position	332,825	647,746
Net assets, beginning	21,539,029	20,891,283
Prior period adjustment	238,515	--
Net assets, ending	\$ 22,110,369	\$ 21,539,029

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**SIGNIFICANT EVENTS**

Our budget for 2015 included expenditures of \$6,134,492 - a decrease of 2.70% from the 2014 budget. Budgeted receipts were \$5,764,304, with the \$370,188 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.

Actual receipts (on a budgetary basis) were \$5,863,697 - 1.72% above budget. Actual expenditures for 2015 (on a budgetary basis) were \$6,212,439 - 1.27% above budget. Overall net receipts (including unrestricted assets applied) were less than expenditures by \$348,743 or 6.05% of budgeted expenditures.

User fees for 2015 were 9.77% less than budget. User fees were budgeted for a decrease of 7.72%. Actual results were 12.17% less than last year's actual results. The budget decrease in user fees was partially made up with other revenue, primarily connection fees.

The 2016 budget was approved with expenditures of \$6,295,646 – an increase of 2.63% over the 2015 budgeted expenditures. Revenue was budgeted at \$5,972,653, with the \$322,993 difference made up by the application of unrestricted assets. The 2016 user fees revenue is budgeted at \$5,155,125 - which is an increase of 3.51% from the 2015 budget.

During 2015, actual revenue was less than projected revenue. The primary reasons for the reduced revenue were:

- 1) Slightly below average precipitation during the past few years, combined with diligent maintenance by District Communities in their collection systems contributed to reduced volume revenues.
- 2) Rate parameters are based upon the preceding three years average volume. Lower projections of the volume parameter and subsequent increases in the rate charge will result in decreased negative volume projections in future years.

In 2015 HOVMSD updated its' "Capacity, Management, Operations and Maintenance" (CMOM) plan to include an emergency response plan and other updates. The CMOM plan and program is mandated in the State of Wisconsin Administrative Code NR 210.23. It requires that all owners of sewer collection systems develop and implement a CMOM program by August 1, 2016. The program must mitigate the impact of overflows on the waters of the State. The District also obtained, and reviewed, copies of each member Community's satellite sewer system CMOM report.

Great Lakes TV & Seal preformed an interceptor sewer, manhole, and odor control system rehabilitation project for the District. The Project started in 2014 and was completed in 2015, at a cost of \$734,487.

The HOVMSD Commission adopted a Fats, Oils, Grease (FOG) policy and program in 2014. Administration and enforcement of the FOG program was fully implemented in 2015, with Stoeger and Associates contracted by the District for this purpose. All sources identified as potential contributors of FOG to the sewer systems, and covered by the Policy, have been brought into compliance. Invoices for monthly services are added to the Communities monthly billing from HOVMSD.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Donohue Associates continued administration of the District's self-regulated sustainability program. Donohue used plant flow observations and the antecedent moisture modeling program to analyze the clear water components of flow to the treatment facility. Overall, the 2014/15 analysis shows significant reductions in flow to the plant and total volume of diverted flow. Of the \$50,000 approved in the 2014 engineering agreement with Donohue, \$44,466 was expended in 2015 for the administration, analysis, and reporting on the 2014 sustainability program.

The State of Wisconsin issues a "Water Pollution Discharge Elimination System" (WPDES) Permit for the operations of the Heart of the Valley wastewater treatment facility. This Permit expired in September 2015. The facility continues to operate under the expired permit until a new one is issued. A Permit Renewal Application was prepared and submitted to the Wisconsin Department of Natural Resources in summer, 2015. The new Permit, when issued, will require compliance with the newly proposed "Total Maximum Daily Loadings" (TMDL) limits. These limits will present a significant, and potentially expensive, challenge to the District. HOVMSD staff met with members of the "Lower Fox River Dischargers Association" for the purpose of discussing common issues and concerns with the proposed effluent discharge limits anticipated to be included in the new permit when issued. The District staff is participating in discussions with the Outagamie County Land Conservation Office and WDNR staff on the opportunity for water quality trading, utilizing the District's agricultural lands.

Construction on a bridge replacement project in the Village of Little Chute got underway in 2015, with completion expected in midyear 2016. Once completed, the District will again have direct access to the number two monitoring station on the island in the Village.

An asset management program has been in development at the District for the past several years. The asset management program is approximately 75% developed and functioning.

Funds were appropriated in the 2016 budget preparation process for Great Lakes TV & Seal to perform interceptor sewer and manhole system cleaning and televising. This project was underway in late 2015, with completion expected in 2016, at a cost of \$30,000.

District Manager, Mark Surwillo, retired at the end of 2014 after 17 years with the District. In 2015, Glen Geurts was promoted from Superintendent to the District Director position. Also at that time, Kevin Skogman was promoted from foreman to the Director of Operations & Maintenance position (formerly the Superintendent position). The District also hired John Guadagni to the Maintenance Mechanic position.

The District had a long time Commissioner, Steven Giebel, retire from the Commission in 2015. Mr. Giebel had served on the Commission for 20 years. He was replaced on the Commission by John Sundelius.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**RATE HISTORY**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Flow (per 1,000 gallons)	0.790	0.725	0.703	0.629	0.652
B.O.D. (per pound)	0.254	0.239	0.242	0.248	0.251
Suspended Solids (per pound)	0.219	0.197	0.196	0.215	0.223
Phosphorus (per pound)	5.722	5.247	5.410	5.480	5.533
Ammonia-N (per pound)	1.696	1.635	1.662	1.566	1.541
Chloride (per pound)	0.005	0.005	0.005	0.004	0.004

**CONTACT INFORMATION**

This financial report is designed to provide its customers and creditors with a general overview of the Heart of the Valley Metropolitan Sewerage District's finances. Anyone having questions regarding this report or desiring additional information may contact Glen Geurts, District Director, Heart of the Valley Metropolitan Sewerage District, 801 Thilmany Road, Kaukauna, WI 54130, or contact by phone at 920-766-5731 or by e-mail at [glen.geurts@hvmsd.org](mailto:glen.geurts@hvmsd.org).

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

**STATEMENTS OF NET POSITION**

December 31,

ASSETS

	2015	2014
Current assets:		
Cash and cash equivalents	\$ 1,949,131	\$ 3,091,810
Accounts receivable		
Users	596,813	433,387
Others	60,806	59,151
Accrued interest receivable	719	546
Notes receivable	149,825	146,363
Prepaid expenses	41,751	20,144
Total current assets	2,799,045	3,751,401
Restricted assets:		
Cash and cash equivalents	7,691,136	7,090,309
Utility plant:		
Utility plant in service	64,227,729	63,522,791
Less accumulated depreciation	28,312,305	26,470,879
Net utility plant in service	35,915,424	37,051,912
Construction in progress	-	505,675
Total utility plant	35,915,424	37,557,587
Noncurrent assets:		
Notes receivable	1,333,505	1,483,330
Net pension asset, WRS pension plan	124,934	-
Total noncurrent assets	1,458,439	1,483,330
Total assets	47,864,044	49,882,627
Deferred Outflows of Resources:		
WRS pension plan - expected vs. actual experience	18,111	-
WRS pension plan - expected vs. actual investment income	60,499	-
WRS pension plan - contributions made after measurement date	44,312	-
Total deferred outflows of resources	122,922	-

## LIABILITIES AND NET POSITION

	2015	2014
Current liabilities:		
Accounts payable - operating	\$ 127,678	\$ 139,093
Accounts payable - construction	--	228,093
Accrued liabilities	250,130	226,453
Total current liabilities	377,808	593,639
Liabilities payable from restricted assets:		
Current portion of long-term debt	2,128,041	2,078,641
Accrued interest	102,000	109,093
Accounts payable, equipment reserve	10,484	26,288
Total current liabilities payable from restricted assets	2,240,525	2,214,022
Long-term liabilities:		
Long-term debt	21,947,570	24,075,611
Total liabilities	24,565,903	26,883,272
Deferred inflows of resources:		
Deferred revenue	1,306,607	1,460,326
WRS pension plan - change in proportional share and other	4,087	--
Total deferred inflows of resources	1,310,694	1,460,326
Net position:		
Invested in capital assets, net of related debt	11,829,329	11,148,954
Restricted for plant replacement	5,015,612	4,414,197
Restricted for debt service	2,675,524	2,676,112
Unrestricted	2,589,904	3,299,766
Total net position	\$ 22,110,369	\$ 21,539,029

**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,

	2015	2014
Operating revenues:		
User fees	\$ 4,493,816	\$ 5,116,295
Connection fees	471,817	448,670
Grants	--	55,021
Other	329,635	186,596
Total operating revenues	5,295,268	5,806,582
Operating expenses:		
Plant operations	1,581,221	1,604,872
Plant maintenance	401,092	468,882
Quality control and pretreatment	125,197	120,989
Administrative and general	336,964	359,356
Depreciation	2,033,689	2,082,042
Total operating expenses	4,478,163	4,636,141
Operating income	817,105	1,170,441
Non-operating revenue (expenses):		
Interest income	51,878	51,586
Clean water fund contribution	153,719	153,719
Interest expense	( 590,377)	( 637,836)
Loss on disposal of fixed assets	( 99,500)	( 90,164)
Total non-operating expenses	( 484,280)	( 522,695)
Change in net position	332,825	647,746
Net position, beginning of the year, as previously reported	21,539,029	20,891,283
Prior period adjustment	238,515	--
Net position, beginning of year, as restated	21,777,544	20,891,283
Net position, ending of year	\$ 22,110,369	\$ 21,539,029

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>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from operating revenue	\$ 5,130,187	\$ 5,907,639
Cash paid for operating expenses	<u>( 2,459,073)</u>	<u>( 2,572,424)</u>
Net cash provided by operating activities	<u>2,671,114</u>	<u>3,335,215</u>
 Cash flows from capital and related financing activities:		
Purchases of property and equipment	( 734,923)	( 592,894)
Payments of interest on debt	( 597,470)	( 646,296)
Payment of principal on debt	( 2,078,641)	( 2,030,389)
Principal payments received on notes receivable	<u>146,363</u>	<u>142,981</u>
Net cash used in capital and related financing activities	<u>( 3,264,671)</u>	<u>( 3,126,598)</u>
 Cash flows from investing activities:		
Interest received	<u>51,705</u>	<u>51,628</u>
Net change in cash and cash equivalents	( 541,852)	260,245
Cash and cash equivalents, beginning of year	<u>10,182,119</u>	<u>9,921,874</u>
Cash and cash equivalents, end of year	<u><u>\$ 9,640,267</u></u>	<u><u>\$ 10,182,119</u></u>

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

For the Years Ended December 31,

	2015	2014
Operating income	\$ 817,105	\$ 1,170,441
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,033,689	2,082,042
(Increase) decrease in:		
Accounts receivable - users	( 163,426)	57,123
Accounts receivable - other	( 1,655)	43,934
Prepaid expenses	( 21,607)	15,042
Pension assets and deferred outflows	( 9,341)	--
Increase (decrease) in:		
Accounts payable - operating	( 11,415)	19,177
Accrued liabilities	23,677	( 52,544)
Deferred pension inflows	4,087	--
Net cash provided by operating activities	\$ 2,671,114	\$ 3,335,215

**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.

The District adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and the related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, as of January 1, 2015. The standards revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. As a result of the implementation of these standards, the District reported a restatement for the change in accounting principle, see Note 10.

**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.



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 1. Summary of Significant Accounting Policies - Continued:**

**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 expended as incurred. The District follows the policy of not capitalizing assets with a cost of less than \$1,000.

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.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 1. Summary of Significant Accounting Policies - Continued:**

**Deferred Outflows / Inflows of Resources**

The District has adopted 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*. 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 deferred outflows relating to the WRS pension plan.

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 deferred inflows relating to deferred revenue and the WRS pension plan. These amounts will be recognized as an inflow of resources in the subsequent years when they are received.

**WRS Pension Plan**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This is primarily in the Statements of Net Position, Liabilities Payable from Restricted Assets.

**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

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 2. Cash and Cash Equivalents - Continued:**

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	\$ 479,765	\$ 511,823
Bank money market accounts	343,891	343,891
Certificates of deposit	1,258,063	1,258,063
Total in commercial financial institutions	2,081,719	2,113,777
Wisconsin State Treasurer's Investment Pool	7,558,548	7,558,548
Total cash and cash equivalents	\$ 9,640,267	\$ 9,672,325
2015		
Cash and cash equivalents, unrestricted	\$ 1,949,131	
Cash and cash equivalents, restricted	7,691,136	
Total	\$ 9,640,267	

Deposits: Deposits in banks and credit unions are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) [federal insurers] up to \$250,000 per institution, as of December 31, 2015. 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 or NCUA. However, due to the relatively small size of the Guarantee Fund in relation to the total coverage, total recovery of losses may not be available.

The District considers all checking and money market accounts to be cash. Because certificates of deposit are available with only loss of some interest, they are considered to be cash equivalents.

At year-end, the carrying amount of the District's deposits was \$2,081,719 and the bank balance was \$2,113,777. Of the bank balance, \$1,550,078 was covered by FDIC/NCUA insurance and \$400,000 was covered by the Public Deposit Guarantee Fund. This left \$163,699 uninsured. No amounts have been collateralized.

The District has adopted a policy that limits deposits with a public depository to the sum of the federal insurer plus Public Deposit Guarantee Fund coverage unless the depository provides collateral or meets a set of financial criteria. At December 31, 2015, none of the seven commercial banks or credit unions individually exceeded the sum of federal coverage plus 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:

	2015	2014
Village of Combined Locks	\$ 280,206	\$ 307,854
Darboy Sanitary District	1,203,124	1,321,839
Total	\$ 1,483,330	\$ 1,629,693
Current	\$ 149,825	\$ 146,363
Non-current	1,333,505	1,483,330
Total	\$ 1,483,330	\$ 1,629,693

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, 2015, was as follows:

	Beginning Balance	Additions & Transfers	Reductions	Ending Balance
Land and improvements	\$ 3,050,270	\$ --	\$ --	\$ 3,050,270
Buildings and structures	31,415,396	( 15,455)	57,141	31,342,800
Sewerage collection	15,028,719	643,081	474	15,671,326
Equipment	13,956,686	369,075	234,148	14,091,613
Vehicles	71,720	--	--	71,720
Construction in progress	505,675	( 505,675)	--	--
Total	64,028,466	491,026	291,763	64,227,729
Accumulated depreciation	26,470,879	2,033,689	192,263	28,312,305
Net total	\$37,557,587	\$( 1,542,663)	\$ 99,500	\$35,915,424

**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:

	2015	2014
\$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.	\$ 1,669,595	\$ 1,834,343
\$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.	19,331,235	21,027,321
\$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.	3,074,781	3,292,588
Totals	24,075,611	26,154,252
Less current portion	2,128,041	2,078,641
Total long-term debt	\$ 21,947,570	\$ 24,075,611

Future maturities of long-term debt are as follows:

Year ending December 31,	
2016	\$ 2,128,041
2017	2,178,614
2018	2,230,390
2019	2,283,397
2020	2,337,663
2021-2025	12,340,421
2026-2030	577,085
	\$ 24,075,611

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 6. General Information About the WRS Pension Plan:**

**Plan Description**

The WRS is a cost-sharing, multiple-employer, defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. 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.

**Vesting**

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.

**Benefits Provided**

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

**Post-Retirement Adjustments**

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 6. General Information About the WRS Pension Plan - Continued:**

The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2005	2.6%	7%
2006	0.8	3
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25

**Contributions**

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$44,312 in contributions from the employer.

Contribution rates as of December 31, 2015 are 6.80% for employees and 6.80% for employer.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2015, the District reported an asset of \$124,934 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2013, rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net pension liability (asset) was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the District's proportion was 0.00508631%, which was an increase of 0.00016042% from its proportion measured as of December 31, 2013.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 6. General Information About the WRS Pension Plan - Continued:**

For the year ended December 31, 2014, the District recognized pension expense of \$48,095.

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,111	\$ --
Net differences between projected and actual earnings on pension plan investments	60,499	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	--	4,087
Employer contributions subsequent to the measurement date	44,312	--
Total	\$ 122,922	\$ 4,087

\$44,312 reported as deferred outflows related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2015	\$ 15,462	\$ 759
2016	15,462	759
2017	15,462	759
2018	15,462	759
2019	15,462	759
Thereafter	1,299	293



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 6. General Information About the WRS Pension Plan - Continued:**

**Actuarial Assumptions**

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2013
Measurement date of net pension liability (asset)	December 31, 2014
Actuarial cost method	Entry age
Asset valuation method	Fair market value
Long-term expected rate of return	7.20%
Discount rate	7.20%
Salary increases:	
Inflation	3.20%
Seniority/Merit	0.2% - 5.8%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.10%

\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 - 2011. The total pension liability for December 31, 2014, is based upon a roll-forward of the liability calculated from the December 31, 2013 actuarial valuation.

**Long-term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Real Rate of Return</u>	<u>Target Allocation</u>
US equities	5.3%	21%
International equities	5.7%	23%
Fixed income	1.7%	36%
Inflation sensitive assets	2.3%	20%
Real estate	4.2%	7%
Private equity/debt	6.9%	7%
Multi-asset	3.9%	6%
Cash	0.9%	(20)%

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 6. General Information About the WRS Pension Plan - Continued:**

**Single Discount Rate**

A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%) or 1-percentage-point higher (8.20%) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
District's proportionate share of the net pension liability (asset)	\$ 352,459	\$( 124,934)	\$( 501,959)

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://legis.wisconsin.gov/lab/> and reference report number 15-11.

**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 years was:

	2015	2014
Beginning balance	\$ 38,678	\$ --
Contribution	--	38,657
Plan earnings	748	21
Withdrawals	( 16,582)	--
Ending balance	\$ 22,844	\$ 38,678

**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, 2015.

**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, 2015, contracts totaling \$39,800 had been issued, but the related work had not yet been performed. These are for future engineering services.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 10. Prior Period Adjustment:**

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68 as of January 1, 2015. The standards revised and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. As a result, the District's beginning of the year net position has been restated as follows:

Total net position as previously reported in the statement of activities as of December 31, 2014	\$ 21,539,029
Restatement to record net pension asset as of January 1, 2015	194,203
Restatement to record beginning of the year deferred outflow for contributions made after the measurement date	<u>44,312</u>
Net position, January 1, 2015, as restated	<u>\$ 21,777,544</u>

**Note 11. Subsequent Events:**

The District has evaluated all subsequent events through June 2, 2016, the date on which these financial statements were available to be issued. There are no events subsequent to December 31, 2015, that require disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET**

Wisconsin Retirement System

Last 10 Fiscal Years\*

	2015
District's proportion of the net pension asset	0.00508631%
District's proportionate share of the net pension asset	\$ 124,934
District's covered employee payroll	\$ 728,599
Plan fiduciary net position as a percentage of the total pension asset	102.74%

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

Wisconsin Retirement System

Last 10 Fiscal Years\*

Contractually required contributions	\$ 51,003
Contributions in relation to the contractually required contributions	( 51,003)
Contribution deficiency (excess)	\$ --
The District's covered employee payroll	\$ 728,599
Contributions as a percentage of covered employee payroll	7.00%

\* The amounts presented are as of the latest calendar year for which information is available, 2014. 2015 is the first year that this information has been made available due to implementation of GASB 68.

**NOTES TO REQUIRED WRS SCHEDULES**

For the Year Ended December 31, 2015

**Note 1. Changes of Benefit Terms:**

There were no changes of benefit terms for any participating employer in WRS.

**Note 2. Changes of Assumptions:**

There were no changes in the assumptions.

**OTHER SUPPLEMENTARY INFORMATION**

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

**SCHEDULES OF USER FEES REVENUE**

For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>
City of Kaukauna	\$ 1,470,128	\$ 1,636,239
Village of Little Chute	1,121,938	1,293,585
Village of Kimberly	579,160	656,308
Village of Combined Locks	308,003	342,261
Darboy Joint Sanitary District #1	<u>1,014,587</u>	<u>1,187,902</u>
	<u>\$ 4,493,816</u>	<u>\$ 5,116,295</u>



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

**SCHEDULES OF OPERATING EXPENSES**

For the Years Ended December 31,

	2015	2014
Plant operation expenses:		
Salaries and wages	\$ 194,360	\$ 194,677
Payroll taxes and benefits	145,212	150,606
Health and safety	11,469	10,716
Support - meter stations	9,582	10,138
Water utility bills	18,481	21,011
Natural gas and auxiliary fuel	51,738	90,580
Gasoline and lubricants	3,795	5,200
Electricity	534,006	527,632
Chemicals	402,814	432,408
Solids disposal fees	5,835	5,933
Sludge disposal	102,743	62,228
Other operating expenses	77	1,195
Environmental fees	33,417	34,237
Insurance	67,692	58,311
Total plant operation expenses	\$ 1,581,221	\$ 1,604,872
Plant maintenance expenses:		
Salaries and wages	\$ 148,716	\$ 186,017
Payroll taxes and employee benefits	103,052	135,650
Other repairs and maintenance	50,807	78,348
Inflow reduction	44,465	25,754
Outside maintenance contracts	54,052	43,113
Total plant maintenance expenses	\$ 401,092	\$ 468,882
Quality control and pretreatment expenses:		
Salaries and wages	\$ 50,243	\$ 51,984
Payroll taxes and employee benefits	36,020	39,294
Laboratory expenses	25,168	16,711
Outside testing	11,602	10,858
Miscellaneous	2,164	2,142
Total quality control and pretreatment expenses	\$ 125,197	\$ 120,989

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

**SCHEDULES OF OPERATING EXPENSES - CONTINUED**  
For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>
Administrative and general expenses:		
Administrative salaries and wages	\$ 162,839	\$ 150,704
Commissioners' compensation and expense	6,957	10,985
Payroll taxes and employee benefits	105,140	121,039
Telephone	3,418	3,592
Office equipment rent and repair	13,773	9,419
Office supplies	7,349	7,282
Education and training	6,061	9,682
Membership and subscriptions	584	569
Travel reimbursement	1,915	2,323
Engineering outside services	2,960	1,243
Accounting and auditing fees	14,000	14,000
Legal fees	3,166	19,459
Miscellaneous administrative expenses	<u>8,802</u>	<u>9,059</u>
Total administrative and general expenses	<u>\$ 336,964</u>	<u>\$ 359,356</u>

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

**BUDGET COMPARISON  
For the Year Ended December 31, 2015**

	<u>Original &amp; Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Receipts:			
User fees	\$ 4,980,282	\$ 4,493,816	\$ ( 486,466)
Bank interest income	15,000	15,000	--
ICA payments	183,240	183,239	( 1)
Pretreatment	2,458	4,285	1,827
Outside haulers	70,000	169,744	99,744
Effluent income	57,000	126,992	69,992
Connection fees	429,124	471,817	42,693
Farmland rental	27,200	27,390	190
Miscellaneous income	--	1,225	1,225
Unrestricted assets applied	370,188	370,188	--
Total receipts	<u>6,134,492</u>	<u>5,863,696</u>	<u>( 270,796)</u>
Expenditures:			
Payroll	626,100	556,158	69,942
Benefits	385,783	389,424	( 3,641)
Administration	62,100	68,985	( 6,885)
Environmental fees	35,000	33,417	1,583
Insurance	84,650	67,692	16,958
Professional contract services	131,545	44,465	87,080
Sludge disposal	112,000	102,743	9,257
Utilities	584,229	608,020	( 23,791)
Chemicals	499,650	402,814	96,836
Operation, maintenance, lab, QC	121,700	170,756	( 49,056)
	<u>2,642,757</u>	<u>2,444,474</u>	<u>198,283</u>
Capital budget expenses	85,100	292,476	( 207,376)
Provision for equipment replacement fund	730,523	799,965	( 69,442)
Provision for debt service fund	2,676,112	2,675,524	588
Total expenditures	<u>6,134,492</u>	<u>6,212,439</u>	<u>( 77,947)</u>
Net expenditures over receipts	<u>\$ --</u>	<u>\$ ( 348,743)</u>	<u>\$ ( 348,743)</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, 2015

Change in net position		\$ 332,825
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Amounts reported for budgetary basis are different because:

Unrestricted assets applied		370,188
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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	\$ 146,362	
Non-cash deferred revenue recognized	<u>( 153,719)</u>	( 7,357)

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	2,033,689	
Provision for equipment replacement and capital budget	<u>(1,092,441)</u>	941,248

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.

99,500

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	590,377	
Provision to debt service fund	<u>(2,675,524)</u>	<u>(2,085,147)</u>

Net receipts over (under) expenditures		<u><u>\$ ( 348,743)</u></u>
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