HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT

KAUKAUNA, WISCONSIN

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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

The District has implemented GASB Statement No. 82, *Pension Issues, an amendment of GASB No. 67, No. 68, and No. 73* for the WRS pension plan for the year ended December 31, 2016. 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 the 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 5, 2017

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, 2016 and 2015. 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 2016, the assets of the District exceeded liabilities by $22.78 million. Of this amount, $2.48 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 $0.67 million during 2016 compared to an increase of $0.33 million in 2015.

Operating Revenue - Operating revenue increased $375,346 with user fees increasing $680,556.
Operating Expenses - Operating expenses in 2016 increased by $110,223.

Investment Income - The District's investment income (interest income) increased by $25,229.

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 2016 revenue recognized was $153,719.

Interest Expense - Interest expense decreased $50,468 as a result of principal payments made.

Loss on Disposal of Fixed Assets - Assets with a book value of $122,369 were disposed of during 2016. The proceeds on these disposals was $20,625, resulting in a loss on disposal of fixed assets of $101,744. Portions of five parcels of land were sold to allow improvements on County Highway ZZ.

Debt - The District's total debt obligation decreased $2.13 million during 2016. 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, $1,333,506, is classified as: current, $153,370, and long-term, $1,180,136. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, $1,152,888, is considered to be a deferred inflow of resources.

Utility Plant - The District's net utility plant decreased $1.87 million during 2016. Depreciation (and removals) exceeded current additions of $249,559.

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, liabilities and deferred outflows and inflows of resources. 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

	2016	2015
Current assets	$ 2,709,298	$ 2,799,045
Restricted assets	8,260,149	7,691,136
Capital assets	34,041,044	35,915,424
Other assets	1,180,136	1,458,439
Total assets	46,190,627	47,864,044
Deferred outflows of resources	447,935	122,922
Current liabilities	379,961	377,808
Liabilities payable from restricted assets	2,302,169	2,240,525
Long-term debt	19,849,376	21,947,570
Total liabilities	22,531,506	24,565,903
Deferred inflows of resources	1,325,286	1,310,694
Total net position	$ 22,781,770	$ 22,110,369

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 $22.78 million at the close of the fiscal year ending December 31, 2016. This is an increase of $0.67 million or 3.04% from the previous year.

A significant portion of the District's net position, 52.87%, is invested in capital assets. An additional 36.26% 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

	2016	2015
Operating revenue	$ 5,670,614	$ 5,295,268
Operating expenses	4,588,386	4,478,163
Total operating income	1,082,228	817,105
Non-operating income (expense):		
Interest income	77,107	51,878
Clean water fund contribution	153,719	153,719
Interest expense	(539,909)	(590,377)
Loss on disposal of fixed assets	(101,744)	(99,500)
Total other expense	(410,827)	(484,280)
Change in net position	671,401	332,825
Net position, beginning	22,110,369	21,539,029
Prior period adjustment	- -	238,515
Net position, ending	$ 22,781,770	$ 22,110,369
Net position:		
Invested in capital assets, net of related debt	$ 12,044,626	$ 11,829,329
Restricted for plant replacement and debt service	8,260,149	7,691,136
Unrestricted net position	2,476,995	2,589,904
Net position, ending	$ 22,781,770	$ 22,110,369

SIGNIFICANT EVENTS

Our budget for 2017 included expenditures of $6,496,404 - an increase of 3.19% from the 2016 budgeted expenditures. Revenue was budgeted at $6,242,205, with the $254,199 difference made up by the application of unrestricted assets. The 2017 user fees revenue is budgeted at $5,330,265 - which is an increase of 3.04% from the 2016 budget.

During 2016, actual revenue was $75,108 less than projected revenue. The primary reason for the reduced revenue was connection fees revenue. Connection fees revenue of $281,619 was $167,051 less than the budgeted amount of $448,670. Connection fees were $471,817 and $448,670 in 2015 and 2014, respectively.

Rate parameters are based upon the preceding three years average volume. During 2016, the actual user fees were 0.37% higher than budget.

HOVMSD and all five of its member communities complied with the State of Wisconsin Administrative Code NR 210.23. This code requires that all owners of sewer collection systems develop and implement a "Capacity, Management, Operation and Maintenance" (CMOM) program by August 1, 2016. The programs must mitigate the impact of sewerage overflows into the waters of the State. HOVMSD maintains, on file, annually updated copies of HOV's and each communities CMOM report.

The State of Wisconsin is set to issue a new "Water Pollution Discharge Elimination System" (WPDES) Permit to the Heart of the Valley MSD in April, 2017. The District has been operating under an expired Permit since September, 2015. The District negotiated with the WDNR on language and permit limit changes proposed for the new permit. "Total Maximum Daily Loadings" (TMDL) and "Water Quality-Based Effluent Limitations (WQBEL) are part of the new permit, with some requirements taking effect immediately, and other requirements phased in over time, as negotiated. District staff are working with the Fox Wolf Watershed Alliance, Outagamie County Land Conservation and Fox Energy on water quality trading and other options, in an effort to meet compliance with the new WDNR permit.

In 2016, the District did a review of its Sewer Use Ordinance. Additions, corrections and modification of Ordinance language were approved by the Commission.

The East Central Wisconsin Regional Planning Commission performed a GIS mapping project for the District in 2016. The project involved GIS mapping of all District sewer collection system manhole locations.

In April, the District held its Annual Member Community - Sustainability Program meeting. The District's contracted engineering consultant firm, Donohue Associates, presents various model evaluations and a summary of results and trends as shown in the antecedent moisture modeling for the past year and for three year cycles for each Community's sewer system. Each Community also reports on its efforts toward maintaining their sewer systems and removing infiltration and inflow from their collections systems.

The District staff developed the District's first 5-Year Capital Improvements Plan in 2016. The plan presents a planning tool for projecting future significant capital costs facing the District.

The University of Milwaukee Engineering Department performed an energy assessment of the Districts' facilities in 2016. This assessment was performed, at no charge to the District, under the Industrial Assessment Program through Focus on Energy. Their findings and report will assist the District in developing a program for energy efficiency improvement project at the District facilities.

The District began use of an Employee Performance Evaluation Program in 2016. The computer generated NEO-GOV program is being used by District management for employee evaluations on a 6-month schedule.

The Heart of the Valley MSD is pursuing a research project with the Electric Power Research Institute (EPRI) and other interested parties, for a Flue Gas Desulfurization (FGD) gypsum test project on District farmland. The research will measure the effect of FGD gypsum addition to farmland and address the issue of soluble phosphorus and other nutrients loss from agricultural field runoff to drainage ways and streams.

The entire interceptor sewer system of the District was cleaned and televised in 2016. From this work, the District can evaluate the physical condition of the sewer collection system and prepare for the repair and maintenance work necessary on the system.

District Pre-treatment Manager, John Johnson, retired from the District in 2016 after 38 years of service. Chad Giackino was promoted from Laboratory Chemist to fill the position. District Director Glen Geurts retired at the end of 2016 after 33 years of service, and the District hired Brian Helminger to replace Glen.

RATE HISTORY

	2017	2016	2015	2014	2013
Flow (per 1,000 gallons)	0.837	0.790	0.725	0.703	0.629
B.O.D. (per pound)	0.265	0.254	0.239	0.242	0.248
Suspended Solids (per pound)	0.261	0.219	0.197	0.196	0.215
Phosphorus (per pound)	6.136	5.722	5.247	5.410	5.480
Ammonia-N (per pound)	1.625	1.696	1.635	1.662	1.566
Chloride (per pound)	0.005	0.005	0.005	0.005	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 Brian Helminger, 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 brian.helminger@hvmsd.org.

HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN

STATEMENTS OF NET POSITION

December 31,

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	$ 2,077,426	$ 1,949,131
Accounts receivable		
Users	412,704	596,813
Others	42,313	60,806
Accrued interest receivable	893	719
Notes receivable	153,370	149,825
Prepaid expenses	22,592	41,751
Total current assets	2,709,298	2,799,045
Restricted assets:		
Cash and cash equivalents	8,260,149	7,691,136
Utility plant:		
Utility plant in service	64,236,835	64,227,729
Less accumulated depreciation	30,195,791	28,312,305
Total utility plant	34,041,044	35,915,424
Noncurrent assets:		
Notes receivable	1,180,136	1,333,505
Net pension asset - WRS pension plan	- -	124,934
Total noncurrent assets	1,180,136	1,458,439
Total assets	46,190,627	47,864,044
Deferred outflows of resources:		
WRS pension plan - expected vs. actual experience	13,605	18,111
WRS pension plan - expected vs. actual investment income	329,262	60,499
WRS pension plan - changes of acturial assumptions	56,265	- -
WRS pension plan - change in proportional share and other	1,541	- -
WRS pension plan - contributions made after measurement date	47,262	44,312
Total deferred outflows of resources	447,935	122,922

LIABILITIES AND NET POSITION

	2016	2015
Current liabilities:		
Accounts payable - operating	$ 180,636	$ 127,678
Accounts payable - construction	19,718	- -
Accrued liabilities	179,607	250,130
Total current liabilities	379,961	377,808
Liabilities payable from restricted assets:		
Current portion of long-term debt	2,178,614	2,128,041
Accrued interest	94,425	102,000
Accounts payable, equipment reserve	29,130	10,484
Total current liabilities payable from restricted assets	2,302,169	2,240,525
Long-term liabilities:		
Net pension liability - WRS pension plan	80,420	- -
Long-term debt	19,768,956	21,947,570
Total long-term liabilities	19,849,376	21,947,570
Total liabilities	22,531,506	24,565,903
Deferred inflows of resources:		
Deferred revenue	1,152,888	1,306,607
WRS pension plan - expected vs. actual experience	169,243	- -
WRS pension plan - change in proportional share and other	3,155	4,087
Total deferred inflows of resources	1,325,286	1,310,694
Net position:		
Invested in capital assets, net of related debt	12,044,626	11,829,329
Restricted for plant replacement	5,585,226	5,015,612
Restricted for debt service	2,674,923	2,675,524
Unrestricted	2,476,995	2,589,904
Total net position	$ 22,781,770	$ 22,110,369

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,

	2016	2015
Operating revenues:		
User fees	$ 5,174,372	$ 4,493,816
Connection fees	281,619	471,817
Other	214,623	329,635
Total operating revenues	5,670,614	5,295,268
Operating expenses:		
Plant operations	1,575,132	1,581,221
Plant maintenance	500,791	401,092
Quality control and pretreatment	143,368	125,197
Administrative and general	367,525	336,964
Depreciation	2,001,570	2,033,689
Total operating expenses	4,588,386	4,478,163
Operating income	1,082,228	817,105
Non-operating revenue (expenses):		
Interest income	77,107	51,878
Clean water fund contribution	153,719	153,719
Interest expense	(539,909)	(590,377)
Loss on disposal of fixed assets	(101,744)	(99,500)
Total non-operating expenses	(410,827)	(484,280)
Change in net position	671,401	332,825
Net position, beginning of the year, as previously reported	22,110,369	21,539,029
Prior period adjustment	- -	238,515
Net position, beginning of year, as restated	22,110,369	21,777,544
Net position, ending of year	$ 22,781,770	$ 22,110,369

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,

	2016	2015
Cash flows from operating activities:		
Cash received from operating revenue	$ 5,873,216	$ 5,130,187
Cash paid for operating expenses	(2,536,570)	(2,459,073)
Net cash provided by operating activities	3,336,646	2,671,114
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(211,195)	(734,923)
Payments of interest on debt	(547,484)	(597,470)
Payment of principal on debt	(2,128,041)	(2,078,641)
Principal payments received on notes receivable	149,824	146,363
Proceeds from disposal of equipment	20,625	- -
Net cash used in capital and related financing activities	(2,716,271)	(3,264,671)
Cash flows from investing activities:		
Interest received	76,933	51,705
Net change in cash and cash equivalents	697,308	(541,852)
Cash and cash equivalents, beginning of year	9,640,267	10,182,119
Cash and cash equivalents, end of year	$ 10,337,575	$ 9,640,267

RECONCILIATIONS OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

For the Years Ended December 31,

	2016	2015
Operating income	$ 1,082,228	$ 817,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,001,570	2,033,689
(Increase) decrease in:		
Accounts receivable - users	184,109	(163,426)
Accounts receivable - other	18,493	(1,655)
Prepaid expenses	19,159	(21,607)
Pension assets and deferred pension outflows	(200,079)	(9,341)
Increase (decrease) in:		
Accounts payable - operating	52,958	(11,415)
Accrued liabilities	(70,523)	23,677
Pension liability and deferred pension inflows	248,731	4,087
Net cash provided by operating activities	$ 3,336,646	$ 2,671,114

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

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.

Accounting Change

The WRS adopted GASB Statement No. 82, *Pension Issues, an amendment of GASB No. 67. 68, and No. 73*, during the year ended December 31, 2015. Statement No. 82 addresses the presentation of payroll-related measures in the Required Supplementary Information, the selection of assumptions used in determining the total pension liability and related measures, and the classification of employer-paid member contributions. This affected the District's reporting as of December 31, 2016.

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 as of January 1, 2015, see Note 9.

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.

Note 1. Summary of Significant Accounting Policies - Continued:

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 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.

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.

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

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	$ 754,897	$ 773,325
Bank money market accounts	630,609	630,609
Certificates of deposit	1,268,710	1,268,710
Total in commercial banks	2,654,216	2,672,644
Wisconsin State Treasurer's Investment Pool	7,683,359	7,683,359
Total cash and cash equivalents	$ 10,337,575	$ 10,356,003

	2016
Cash and cash equivalents, unrestricted	$ 2,077,426
Cash and cash equivalents, restricted	8,260,149
Total	$ 10,337,575

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, 2016. 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 $2,654,216 and the bank balance was $2,672,644. Of the bank balance, $1,557,500 was covered by FDIC/NCUA insurance and $400,000 was covered by the Public Deposit Guarantee Fund. This left $715,144 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, 2016, one of the seven commercial banks or credit unions exceeded the sum of federal coverage plus Public Deposit Guarantee Fund coverage. Subsequent to year end, funds were transferred to get back into compliance with District policy.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 3. Notes Receivable:

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

	2016	2015
Village of Combined Locks	$ 251,904	$ 280,206
Darboy Sanitary District	1,081,602	1,203,124
Total	$ 1,333,506	$ 1,483,330
Current	$ 153,370	$ 149,825
Non-current	1,180,136	1,333,505
Total	$ 1,333,506	$ 1,483,330

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, 2016, was as follows:

	Beginning Balance	Additions & Transfers	Reductions	Ending Balance
Land and improvements	$ 3,050,270	$ - -	$ 18,244	$ 3,032,026
Buildings and structures	31,342,800	35,593	21,248	31,357,145
Sewerage collection	15,671,326	- -	61,781	15,609,545
Equipment	14,091,613	213,966	139,180	14,166,399
Vehicles	71,720	- -	- -	71,720
Total	64,227,729	249,559	240,453	64,236,835
Accumulated depreciation	28,312,305	2,001,570	118,084	30,195,791
Net total	$35,915,424	$(1,752,011)	$ 122,369	$34,041,044

During 2016, proceeds from the sale of land was $20,625. These properties had a historical cost of $18,244. All other reductions were the result of disposals.

Note 5. Long-term Debt:

Long-term obligations of the District are as follows:

	2016	2015
$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.	$ 1,500,950	$ 1,669,595
$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.	17,595,036	19,331,235
$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.	2,851,584	3,074,781
Totals	21,947,570	24,075,611
Less current portion	2,178,614	2,128,041
Total long-term debt	$ 19,768,956	$ 21,947,570

Future maturities of long-term debt are as follows:

Year ending *December 31,*	
2017	$ 2,178,614
2018	2,230,390
2019	2,283,397
2020	2,337,663
2021	2,393,220
2022-2026	10,232,217
2027-2031	292,069
	$ 21,947,570

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 1,200 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.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at http://etf.wi.gov/publications/cafr.htm.

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.

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
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
2015	2.9	2

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.

WRS recognized contributions of $47,262 and $44,312 in contributions from the employer for 2016 and 2015, respectively.

Contribution rates as of December 31, 2016 and 2015 were both 6.8% for employees and 6.8% for employer.

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

At December 31, 2016, the District reported a liability of $80,420 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, rolled forward to December 31, 2015. 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 was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the District's proportion was 0.00494898%, which was a decrease of 0.00013733% from its proportion measured as of December 31, 2015.

At December 31, 2015, the District reported an asset of $124,934 for its proportionate share of the net pension asset.

The District recognized pension expense of $95,913 and $(5,254) for 2016 and 2015, respectively.

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

The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of December 31,

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,605	$ 169,243
Net differences between projected and actual earnings on pension plan investments	329,262	- -
Changes in assumptions	56,265	- -
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,541	3,155
Employer contributions subsequent to the measurement date	47,262	- -
Totals	$ 447,935	$ 172,398

2015	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 assumptions	- -	- -
Changes in proportion and differences between employer contributions and proportionate share of contributions	- -	4,087
Employer contributions subsequent to the measurement date	44,312	
Totals	$ 122,922	$ 4,087

Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset (liability) in the following year.

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

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 ending *December 31,*	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	$ 104,003	$ 41,889
2017	104,003	41,889
2018	104,003	41,889
2019	86,814	41,317
Thereafter	1,849	5,414

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, 2014
Measurement date of net pension liability	December 31, 2015
Actuarial cost method	Entry age
Asset valuation method	Fair market value
Long-term expected rate of return	7.2%
Discount rate	7.2%
Salary increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.1%

* 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, 2015, is based upon a roll-forward of the liability calculated from the December 31, 2014, 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.

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

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

**Retirement Funds
Asset Allocation Targets
and Expected Returns**

	Asset Allocation %		Rate of Return %	
Core Fund Asset Class	Current	Destination Target	Long-Term Expected Nominal	Long-Term Expected Real
U.S. equities	27	23	7.6	4.7
International equities	24.5	22	8.5	5.6
Fixed income	27.5	37	4.4	1.6
Inflation sensitive assets	10	20	4.2	1.4
Real estate	7	7	6.5	3.6
Private equity/debt	7	7	9.4	6.5
Multi-asset	4	4	6.7	3.8
Total Core Fund	107	120	7.4	4.5
Variable Fund Asset Class				
U.S. equities	70	70	7.6	4.7
International equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%

Asset allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

Single Discount Rate

A single discount rate of 7.2% 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 7.2% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.2% 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.

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

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 7.2%, 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 (6.2%) or 1-percentage-point higher (8.2%) than the current rate:

	1% Decrease to Discount Rate (6.2%)	Current Discount Rate (7.2%)	1% Increase to Discount Rate (8.2%)
District's proportionate share of the net pension liability (asset)	$ 564,067	$ 564,067	$(297,317)

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.

Note 7. Post-Employment Health Plan:

The District created a Post-Employment Health Plan (PEHP) which 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:

	2016	2015
Beginning balance	$ 22,844	$ 38,678
Contribution	67,275	- -
Plan earnings	560	748
Withdrawals	(18,018)	(16,582)
Ending balance	$ 72,661	$ 22,844

Note 8. 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, 2016.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 8. Contingencies and Commitments - Continued:

Uncompleted contracts - The District routinely contracts for various construction and other services. Certain projects, especially capital construction projects, require signed contracts. At December 31, 2016, contracts totaling $33,425 had been issued, but the related work had not yet been performed. These are for future engineering services.

Note 9. 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 established 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 as of January 1, 2015 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	44,312
Net position, January 1, 2015, as restated	$ 21,777,544

Note 10. Subsequent Events:

The District has evaluated all subsequent events through June 5, 2017, the date on which these financial statements were available to be issued. There are no events subsequent to December 31, 2016, that require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY)

Wisconsin Retirement System
Last 10 Fiscal Years*

	2016	2015
District's proportion of the net pension asset (liability)	0.00494898%	0.00508631%
District's proportionate share of the net pension asset (liability)	$ (80,420)	$ 124,934
District's covered employee payroll	$ 651,643	$ 728,599
Plan fiduciary net position as a percentage of the total pension asset (liability)	98.20%	102.74%

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

Wisconsin Retirement System
Last 10 Fiscal Years*

	2016	2015
Contractually required contributions	$ 44,312	$ 51,003
Contributions in relation to the contractually required contributions	(44,312)	(51,003)
Contribution deficiency (excess)	$ - -	$ - -
The District's covered employee payroll	$ 651,643	$ 728,599
Contributions as a percentage of covered employee payroll	6.80%	7.00%

*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, 2016

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 due to the implementation of GASB No. 82.

OTHER SUPPLEMENTARY INFORMATION

HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN

SCHEDULES OF USER FEES REVENUE

For the Years Ended December 31,

	2016	2015
City of Kaukauna	$ 1,652,122	$ 1,470,128
Village of Little Chute	1,449,491	1,121,938
Village of Kimberly	695,076	579,160
Village of Combined Locks	323,813	308,003
Darboy Joint Sanitary District #1	1,053,870	1,014,587
	$ 5,174,372	$ 4,493,816

HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN

SCHEDULES OF OPERATING EXPENSES

For the Years Ended December 31,

	2016	2015
Plant operation expenses:		
Salaries and wages	$ 209,721	$ 194,360
Payroll taxes and benefits	182,431	145,212
Health and safety	12,098	11,469
Support - meter stations	8,303	9,582
Water utility bills	22,183	18,481
Natural gas and auxiliary fuel	38,836	51,738
Gasoline and lubricants	3,836	3,795
Electricity	499,300	534,006
Chemicals	439,380	402,814
Solids disposal fees	5,470	5,835
Sludge disposal	53,814	102,743
Other operating expenses	540	77
Environmental fees	30,701	33,417
Insurance	68,519	67,692
Total plant operation expenses	$ 1,575,132	$ 1,581,221
Plant maintenance expenses:		
Salaries and wages	$ 167,593	$ 148,716
Payroll taxes and employee benefits	131,393	103,052
Other repairs and maintenance	54,215	50,807
Inflow reduction	20,902	44,465
Outside maintenance contracts	126,688	54,052
Total plant maintenance expenses	$ 500,791	$ 401,092
Quality control and pretreatment expenses:		
Salaries and wages	$ 63,044	$ 50,243
Payroll taxes and employee benefits	39,750	36,020
Laboratory expenses	28,545	25,168
Outside testing	10,155	11,602
Miscellaneous	1,874	2,164
Total quality control and pretreatment expenses	$ 143,368	$ 125,197

SCHEDULES OF OPERATING EXPENSES - CONTINUED

For the Years Ended December 31,

	2016	2015
Administrative and general expenses:		
Administrative salaries and wages	$ 164,965	$ 162,839
Commissioners' compensation and expense	11,571	6,957
Payroll taxes and employee benefits	126,081	105,140
Telephone	3,882	3,418
Office equipment rent and repair	16,594	13,773
Office supplies	6,987	7,349
Education and training	6,310	6,061
Membership and subscriptions	186	584
Travel reimbursement	1,100	1,915
Engineering outside services	1,144	2,960
Accounting and auditing fees	14,500	14,000
Legal fees	2,810	3,166
Miscellaneous administrative expenses	11,395	8,802
Total administrative and general expenses	$ 367,525	$ 336,964

HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN

BUDGET COMPARISON
For the Year Ended December 31, 2016

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Receipts:			
User fees	$ 5,155,125	$ 5,174,372	$ 19,247
Bank interest income	16,000	43,731	27,731
ICA payments	183,200	183,200	- -
Pretreatment	2,458	4,554	2,096
Outside haulers	60,000	52,934	(7,066)
Effluent income	80,000	128,798	48,798
Connection fees	448,670	281,619	(167,051)
Farmland rental	27,200	27,390	190
Miscellaneous income	- -	947	947
Unrestricted assets applied	322,993	322,993	- -
Total receipts	6,295,646	6,220,538	(75,108)
Expenditures:			
Payroll	626,225	605,323	20,902
Benefits	384,050	479,655	(95,605)
Administration	62,225	76,479	(14,254)
Environmental fees	35,400	30,701	4,699
Insurance	89,160	68,519	20,641
Professional contract services	153,350	20,902	132,448
Sludge disposal	112,000	53,814	58,186
Utilities	675,250	564,155	111,095
Chemicals	479,650	439,380	40,270
Operation, maintenance, lab, QC	121,200	247,888	(126,688)
	2,738,510	2,586,816	151,694
Capital budget expenses	89,600	14,968	74,632
Provision for equipment replacement fund	792,011	783,580	8,431
Provision for debt service fund	2,675,525	2,675,525	- -
Total expenditures	6,295,646	6,060,889	234,757
Net receipts over expenditures	$ - -	$ 159,649	$ 159,649

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

For the Year Ended December 31, 2016

Change in net position		$ 671,401
Amounts reported for budgetary basis are different because:		
Unrestricted assets applied		322,993
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	$ 149,824	
Non-cash deferred revenue recognized	(153,719)	(3,895)
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 or 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	2,001,570	
Provision for equipment replacement and capital budget	(798,548)	1,203,022
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.		101,744
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	539,909	
Provision to debt service fund	(2,675,525)	(2,135,616)
Net receipts over expenditures		$ 159,649