

**HEART OF THE VALLEY
METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

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Erickson & Associates, S.C.

Certified Public Accountants

1000 West College Avenue • Appleton, Wisconsin 54914 • (920) 733-4957 • FAX (920) 733-6221
255 South Main Street • Fond du Lac, Wisconsin 54935 • (920) 921-4189 • FAX (920) 923-1149
www.erickson-cpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2017 and 2016, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Heart of the Valley Metropolitan Sewerage District as of December 31, 2017 and 2016, and the changes in the financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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
May 23, 2018

**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, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Net Position - In 2017, the assets of the District exceeded liabilities by \$24.04 million. Of this amount, \$2.79 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 \$1.26 million during 2017 compared to an increase of \$0.67 million in 2016.

Operating Revenue - Operating revenue increased \$445,442 with user fees increasing \$438,958.
Operating Expenses - Operating expenses decreased in 2017 by \$49,235.

Investment Income - The District's investment income (interest income) increased by \$39,050.

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 2017 revenue recognized was \$153,719.

Interest Expense - Interest expense decreased \$54,252 as a result of principal payments made.

Loss on Disposal of Fixed Assets - Assets with a book value of \$101,271 were disposed of during 2017. There were no proceeds on these disposals.

Debt - The District's total debt obligation decreased \$2.18 million during 2017. 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, \$1,180,136, is classified as: current, \$156,998, and long-term, \$1,023,138. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$999,169, is considered to be a deferred inflow of resources.

Utility Plant - The District's net utility plant decreased \$1.75 million during 2017. Depreciation (and removals) exceeded current additions of \$338,799.

**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, 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

	2017	2016
Current assets	\$ 3,011,310	\$ 2,709,298
Restricted assets	8,728,551	8,260,149
Capital assets	32,295,389	34,041,044
Other assets	1,023,138	1,180,136
Total assets	45,058,388	46,190,627
Deferred outflows of resources	350,014	447,935
Current liabilities	304,731	379,961
Liabilities payable from restricted assets	2,314,163	2,302,169
Long-term debt	17,579,091	19,849,376
Total liabilities	20,197,985	22,531,506
Deferred inflows of resources	1,168,794	1,325,286
Total net position	\$ 24,041,623	\$ 22,781,770

**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 \$24.04 million at the close of the fiscal year ending December 31, 2017. This is an increase of \$1.26 million or 5.53% from the previous year.

A significant portion of the District's net position, 52.10%, is invested in capital assets. An additional 36.31% 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

	2017	2016
Operating revenue	\$ 6,116,056	\$ 5,670,614
Operating expenses	<u>4,539,151</u>	<u>4,588,386</u>
Total operating income	<u>1,576,905</u>	<u>1,082,228</u>
Non-operating income (expense):		
Interest income	116,157	77,107
Clean water fund contribution	153,719	153,719
Interest expense	(485,657)	(539,909)
Loss on disposal of fixed assets	<u>(101,271)</u>	<u>(101,744)</u>
Total other expense	<u>(317,052)</u>	<u>(410,827)</u>
Change in net position	1,259,853	671,401
Net position, beginning	<u>22,781,770</u>	<u>22,110,369</u>
Net position, ending	<u><u>\$ 24,041,623</u></u>	<u><u>\$ 22,781,770</u></u>
Net position:		
Invested in capital assets, net of related debt	\$ 12,526,433	\$ 12,044,626
Restricted for plant replacement and debt service	8,728,551	8,260,149
Unrestricted net position	<u>2,786,639</u>	<u>2,476,995</u>
Net position, ending	<u><u>\$ 24,041,623</u></u>	<u><u>\$ 22,781,770</u></u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

SIGNIFICANT EVENTS

Our budget for 2017 included expenditures of \$6,496,404 - an increase of 3.19% from the 2016 budgeted expenditures. Actual expenditures (on a budgetary basis) were \$6,030,857 - \$465,547 (7.17%) less than budgeted. Operating expenses for 2017 totaled \$4,539,151 - a decrease of \$49,235 from 2016 which totaled \$4,588,386 (1.07%).

Our budget for 2017 included revenue of \$6,242,205 with the \$254,199 difference made up by the application of unrestricted assets. Actual revenue (on a budgetary basis) was \$6,639,782 (including application of unrestricted assets) - \$143,378 more than budgeted. Operating revenue for 2017 totaled \$6,116,056 - an increase of \$445,442 from 2016 which totaled \$5,670,614 (7.86%).

User fees make up the largest portion of operating revenue. Budgeted user fees for 2017 were \$5,330,265, an increase of 3.40%. Actual user fees in 2017 were \$5,613,330. Actual user fees were 5.31% higher than budget and 8.48% higher than prior year. User fees were higher than budget due to increased flow, BOD and AMM-N. Rate parameters are based upon the preceding three years average volume.

Our budget for 2018 includes expenditures of \$6,337,607 - a decrease of 2.44% from the 2017 budgeted expenditures. Revenue is budgeted at \$6,154,805, with the \$182,802 difference made up by the application of unrestricted assets. The 2018 user fees revenue is budgeted at \$5,445,991 - which is an increase of 2.17% from the 2017 budget. A methodology was determined in 2011 as to how much of the unrestricted fund balance can be safely utilized in reducing the required revenue.

Heart of the Valley continues to operate under an expired WPDES permit that dates back to September 2015. The District does expect a successor permit to be issued in 2018 and to include TMDL limits for both suspended solids and phosphorus. The phosphorus limits will include a compliance schedule while the suspended solids mass limits will take effect upon issuance.

The District was able to complete a sedimentation basin on agricultural land owned by the District and has registered the practice and submitted a Water Quality Trade plan to aid in suspended solids compliance. The Water Quality Trade agreement allows Heart of the Valley credits at the treatment facility for the suspended solids removed in the sedimentation basin. When officially approved this will be the first in Water Quality Trade agreement for suspended solids in the State of Wisconsin.

Heart of the Valley continues to act as the control authority for the mandated industrial pretreatment program, which limits the amount and type of pollutants that industries can discharge into the sanitary system. There are 18 permitted industries that are required to sample and analyze their discharge for metals and other containments that have potential to harm the structures, equipment, or the bacteria used in the treatment process.

As in previous years, HOVMSD and all five of its member communities complied with the State of Wisconsin Administrative Code NR 210.23 which mandates a CMOM for O&M of sewerage systems. The program intent is to mitigate the frequency and intensity of sewerage overflows into the waters of the State. HOVMSD maintains, on file, annually updated copies of HOV's and each Community's CMOM report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Each April the District holds its Annual Member Community meeting to review the results of the I/I Sustainability Program and discuss District initiatives and projects that were completed. The Districts' contracted Engineering Consultant firm, Donohue Associates, presents model evaluations and a summary of results and trend as shown in the antecedent moisture modeling for the past year. The model predicts each member communities' collection system response to rain events versus the actual measured sewerage flows at the meter stations. The information can then be used to evaluate community progress and future level of efforts that will be necessary to continue reducing I/I from entering the sewers.

The District staff developed the Districts first 5-Year Capital Improvements Plan in 2016. The Capital Improvement Plan is adjusted annually to account for equipment and projects along with available funding for that budget year. Changes in the plan are made to account for situations where equipment may have failed unexpectedly requiring immediate attention or where repairs are made to extend the useful life of equipment.

The District utilized a consultant to view 2016 Interceptor televising footage and perform physical inspections of the land and marine structures that make up the Interceptor. A priority action plan has been developed for rehabilitation of the Interceptor. That plan continues to be evaluated and options for repair are still being investigated. Overall the Interceptor is in good condition but does show some deterioration from microbial induced corrosion. The District anticipates that the final project scope will require a Clean Water Fund loan in order to be completed. The District has submitted the required Intent to Apply and Priority Evaluation and Ranking Form in anticipation of this project.

District staffing and funded positions did not change in 2017. There were no retirements or resignations among the 11 staff that were employed by the District in 2017.

RATE HISTORY

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Flow (per 1,000 gallons)	0.796	0.837	0.790	0.725	0.703
B.O.D. (per pound)	0.262	0.265	0.254	0.239	0.242
Suspended Solids (per pound)	0.266	0.261	0.219	0.197	0.196
Phosphorus (per pound)	6.290	6.136	5.722	5.247	5.410
Ammonia-N (per pound)	1.499	1.625	1.696	1.635	1.662
Chloride (per pound)	0.005	0.005	0.005	0.005	0.005

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

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 2,394,814	\$ 2,077,426
Accounts receivable		
Users	410,704	412,704
Others	24,745	42,313
Accrued interest receivable	970	893
Notes receivable	156,998	153,370
Prepaid expenses	<u>23,079</u>	<u>22,592</u>
Total current assets	<u>3,011,310</u>	<u>2,709,298</u>
Restricted assets:		
Cash and cash equivalents	<u>8,728,551</u>	<u>8,260,149</u>
Utility plant:		
Utility plant in service	64,138,061	64,236,835
Less accumulated depreciation	<u>31,842,672</u>	<u>30,195,791</u>
Total utility plant	<u>32,295,389</u>	<u>34,041,044</u>
Noncurrent assets:		
Notes receivable	<u>1,023,138</u>	<u>1,180,136</u>
Total assets	<u>45,058,388</u>	<u>46,190,627</u>
Deferred outflows of resources:		
WRS pension plan	<u>350,014</u>	<u>447,935</u>

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable - operating	\$ 110,898	\$ 180,636
Accounts payable - construction	--	19,718
Accrued liabilities	<u>193,833</u>	<u>179,607</u>
Total current liabilities	<u>304,731</u>	<u>379,961</u>
Liabilities payable from restricted assets:		
Current portion of long-term debt	2,230,390	2,178,614
Accrued interest	83,773	94,425
Accounts payable, equipment reserve	<u>--</u>	<u>29,130</u>
Total current liabilities payable from restricted assets	<u>2,314,163</u>	<u>2,302,169</u>
Long-term liabilities:		
Net pension liability - WRS pension plan	40,525	80,420
Long-term debt	<u>17,538,566</u>	<u>19,768,956</u>
Total long-term liabilities	<u>17,579,091</u>	<u>19,849,376</u>
Total liabilities	<u>20,197,985</u>	<u>22,531,506</u>
Deferred inflows of resources:		
Deferred revenue	999,169	1,152,888
WRS pension plan	<u>169,625</u>	<u>172,398</u>
Total deferred inflows of resources	<u>1,168,794</u>	<u>1,325,286</u>
Net position:		
Invested in capital assets, net of related debt	12,526,433	12,044,626
Restricted for plant replacement	6,054,243	5,585,226
Restricted for debt service	2,674,308	2,674,923
Unrestricted	<u>2,786,639</u>	<u>2,476,995</u>
Total net position	<u>\$ 24,041,623</u>	<u>\$ 22,781,770</u>

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

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

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Operating revenues:		
User fees	\$ 5,613,330	\$ 5,174,372
Connection fees	272,406	281,619
Other	<u>230,320</u>	<u>214,623</u>
Total operating revenues	<u>6,116,056</u>	<u>5,670,614</u>
Operating expenses:		
Plant operations	1,527,934	1,506,613
Plant maintenance	415,290	479,889
Quality control and pretreatment	128,224	143,368
Administrative and general	484,520	456,946
Depreciation	<u>1,983,183</u>	<u>2,001,570</u>
Total operating expenses	<u>4,539,151</u>	<u>4,588,386</u>
Operating income	<u>1,576,905</u>	<u>1,082,228</u>
Non-operating revenue (expenses):		
Interest income	116,157	77,107
Clean water fund contribution	153,719	153,719
Interest expense	(485,657)	(539,909)
Loss on disposal of fixed assets	<u>(101,271)</u>	<u>(101,744)</u>
Total non-operating expenses	<u>(317,052)</u>	<u>(410,827)</u>
Change in net position	<u>1,259,853</u>	<u>671,401</u>
Net position, beginning of the year	<u>22,781,770</u>	<u>22,110,369</u>
Net position, ending of year	<u><u>\$ 24,041,623</u></u>	<u><u>\$ 22,781,770</u></u>

HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from operating revenue	\$ 6,135,624	\$ 5,873,216
Cash paid for operating expenses	<u>(2,556,714)</u>	<u>(2,536,570)</u>
Net cash provided by operating activities	<u>3,578,910</u>	<u>3,336,646</u>
 Cash flows from capital and related financing activities:		
Purchases of property and equipment	(387,647)	(211,195)
Payments of interest on debt	(496,309)	(547,484)
Payment of principal on debt	(2,178,614)	(2,128,041)
Principal payments received on notes receivable	153,370	149,824
Proceeds from disposal of equipment	<u>- -</u>	<u>20,625</u>
Net cash used in capital and related financing activities	<u>(2,909,200)</u>	<u>(2,716,271)</u>
 Cash flows from investing activities:		
Interest received	<u>116,080</u>	<u>76,933</u>
 Net change in cash and cash equivalents	785,790	697,308
 Cash and cash equivalents, beginning of year	<u>10,337,575</u>	<u>9,640,267</u>
 Cash and cash equivalents, end of year	<u><u>\$ 11,123,365</u></u>	<u><u>\$ 10,337,575</u></u>

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

For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Operating income	\$ 1,576,905	\$ 1,082,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,983,183	2,001,570
(Increase) decrease in:		
Accounts receivable - users	2,000	184,109
Accounts receivable - other	17,568	18,493
Prepaid expenses	(487)	19,159
Pension assets and deferred pension outflows	97,921	(200,079)
Increase (decrease) in:		
Accounts payable - operating	(69,738)	52,958
Accrued liabilities	14,226	(70,523)
Pension liability and deferred pension inflows	(42,668)	248,731
Net cash provided by operating activities	<u>\$ 3,578,910</u>	<u>\$ 3,336,646</u>

**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.

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.

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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 expensed 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.

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 Wisconsin Local Government Investment Pool is insured against defaults in principal payments by Financial Security Assurance Incorporated.

	2017	2016
Checking accounts	\$ 294,574	\$ 754,897
Bank money market accounts	170,422	630,609
Certificates of deposit	1,682,557	1,268,710
Total in commercial financial institutions	2,147,553	2,654,216
Wisconsin Local Government Investment Pool	8,975,812	7,683,359
Total cash and cash equivalents	<u>\$ 11,123,365</u>	<u>\$ 10,337,575</u>
 Cash and cash equivalents, unrestricted	 \$ 2,394,814	 \$ 2,077,426
Cash and cash equivalents, restricted	8,728,551	8,260,149
Totals	<u>\$ 11,123,365</u>	<u>\$ 10,337,575</u>

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 \$2,147,553 and the financial institutions balance was \$2,159,445. Of the financial institutions balance, \$1,531,560 was covered by FDIC/NCUA insurance. Deposits with commercial financial institutions were \$627,885 more than federal insurance. 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, 2017, the District was in compliance with policy.

Investment in Wisconsin Local Government Investment Pool

The Heart of the Valley Metropolitan Sewerage District has investments in the Wisconsin local government investment pool (LGIP). LGIP is part of the State Investment Fund (SIF) and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on a day's notice. The fair value of the District's share of the LGIP's assets was substantially equal to their carrying value. LGIP invests primarily in U.S. Government and sponsored agencies and repurchase agreements with these same agencies.

**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:

	2017	2016
Village of Combined Locks	\$ 222,932	\$ 251,904
Darboy Sanitary District	957,204	1,081,602
Totals	<u>\$ 1,180,136</u>	<u>\$ 1,333,506</u>
Current	\$ 156,998	\$ 153,370
Non-current	1,023,138	1,180,136
Totals	<u>\$ 1,180,136</u>	<u>\$ 1,333,506</u>

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

Note 4. Changes in Utility Plant:

Utility plant activity for the year ended December 31, 2017 and 2016, was as follows:

<u>2017</u>	Beginning Balance	Additions & Transfers	Reductions	Ending Balance
Land and improvements	\$ 3,032,026	\$ 8,540	\$ - -	\$ 3,040,566
Buildings and structures	31,357,145	20,933	3,994	31,374,084
Sewerage collection	15,609,545	31,875	14,286	15,627,134
Equipment	14,166,399	277,451	419,293	14,024,557
Vehicles	71,720	- -	- -	71,720
Totals	64,236,835	338,799	437,573	64,138,061
Accumulated depreciation	30,195,791	1,983,183	336,302	31,842,672
Net totals	<u>\$34,041,044</u>	<u>\$(1,644,384)</u>	<u>\$ 101,271</u>	<u>\$32,295,389</u>

During 2017, there were no proceeds from disposals of capital assets.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 4. Changes in Utility Plant - Continued:

<u>2016</u>	<u>Beginning Balance</u>	<u>Additions & Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
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
Totals	64,227,729	249,559	240,453	64,236,835
Accumulated depreciation	28,312,305	2,001,570	118,084	30,195,791
Net totals	<u>\$35,915,424</u>	<u>\$(1,752,011)</u>	<u>\$ 122,369</u>	<u>\$34,041,044</u>

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:

	<u>2017</u>	<u>2016</u>
\$3,327,297 general obligation sewerage system promissory note, series 2004, dated October 13, 2004, with interest at 2.365%, payable semi-annually and maturing through 2024.	\$ 1,328,317	\$ 1,500,950
\$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.	15,817,776	17,595,036
\$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.	2,622,863	2,851,584
Totals	19,768,956	21,947,570
Less current portion	2,230,390	2,178,614
Total long-term debt	<u>\$ 17,538,566</u>	<u>\$ 19,768,956</u>

Future maturities of long-term debt are as follows:

Year ending <i>December 31,</i>	
2018	\$ 2,230,390
2019	2,283,397
2020	2,337,663
2021	2,393,220
2022	2,450,097
2023-2027	8,074,189
Total	<u>\$ 19,768,956</u>

**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 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.

**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
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
2016	2.9	(5)

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 2017 and 2016, respectively.

Contribution rates as of December 31, 2017 were 6.6% for employees and employers. Contribution rates as of December 31, 2016 were 6.8% for employees and employer.

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

At December 31, 2017, the District reported a liability of \$40,525 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, rolled forward to December 31, 2016. 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 0.00491659%, which was a decrease of 0.00003239% from its proportion measured as of December 31, 2015.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

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, 2015, the District's proportion was 0.00494898%, which was a decrease of 0.00013733% from its proportion measured as of December 31, 2014.

The District recognized pension expense of \$103,539 and \$95,913 for 2017 and 2016, respectively.

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

<u>2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,452	\$ 127,446
Net differences between projected and actual earnings on pension plan investments	241,674	39,956
Changes in assumptions	42,370	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,233	2,223
Employer contributions subsequent to the measurement date	48,285	--
Totals	<u>\$ 350,014</u>	<u>\$ 169,625</u>
<u>2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	<u>\$ 447,935</u>	<u>\$ 172,398</u>

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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 <i>December 31,</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 105,052	\$ 51,610
2018	105,052	51,610
2019	87,976	51,038
2020	3,564	15,368
2021	83	--

Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2015
Measurement date of net pension liability	December 31, 2016
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 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2016, is based upon a roll-forward of the liability calculated from the December 31, 2015, 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.

**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 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**

Core Fund Asset Class	Asset Allocation %		Rate of Return %	
	Current	Destination Target	Long-Term Expected Nominal	Long-Term Expected Real
Global equities	50	45	8.3	5.4
Fixed income	24.5	37	4.2	1.4
Inflation sensitive assets	15.5	20	4.3	1.5
Real estate	8	7	6.5	3.6
Private equity/debt	8	7	9.4	6.5
Multi-asset	4	4	6.6	3.7
Total Core Fund	110	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 3.78%. 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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)	\$ 533,125	\$ 40,524	\$(338,800)

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://etf.wi.gov/publications/cafr.htm>.

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:

	2017	2016
Beginning balance	\$ 72,661	\$ 22,844
Contribution	--	67,275
Plan earnings	1,142	560
Withdrawals	(42,437)	(18,018)
Ending balance	\$ 31,366	\$ 72,661

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, 2017.

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.

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

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, 2017, contracts totaling \$82,151 had been issued, but the related work had not yet been performed. These are for future engineering services.

Note 9. Subsequent Events:

The District has evaluated all subsequent events through May 23, 2018, the date on which these financial statements were available to be issued. There are no events subsequent to December 31, 2017, 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 LIABILITY (ASSET)**

Wisconsin Retirement System

Last 10 Fiscal Years*

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportion Share of the Net Pension Liability (Asset)</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
12/31/15	0.00508631%	\$ (124,934)	\$ 728,599	17.15%	102.74%
12/31/16	0.00494898%	80,420	651,643	12.34%	98.20%
12/31/17	0.00491659%	40,525	716,091	5.66%	99.12%

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

Wisconsin Retirement System

Last 10 Fiscal Years*

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
12/31/15	\$ 51,003	\$ 51,003	\$ --	\$ 728,599	7.00%
12/31/16	44,312	44,312	--	651,643	6.80%
12/31/17	47,262	47,262	--	716,091	6.60%

NOTES TO REQUIRED WRS SCHEDULES

The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. Heart of the Valley Metropolitan Sewerage District is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

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

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>2017</u>	<u>2016</u>
City of Kaukauna	\$ 1,791,387	\$ 1,652,122
Village of Little Chute	1,634,530	1,449,491
Village of Kimberly	673,046	695,076
Village of Combined Locks	362,901	323,813
Darboy Joint Sanitary District #1	<u>1,151,466</u>	<u>1,053,870</u>
	<u><u>\$ 5,613,330</u></u>	<u><u>\$ 5,174,372</u></u>

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

SCHEDULES OF OPERATING EXPENSES

For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Plant operation expenses:		
Salaries and wages	\$ 220,530	\$ 209,721
Payroll taxes and benefits	161,538	182,431
Health and safety	13,053	12,098
Support - meter stations	7,695	8,303
Water utility bills	22,279	22,183
Natural gas and auxiliary fuel	44,584	38,836
Gasoline and lubricants	3,979	3,836
Electricity	509,871	499,300
Chemicals	393,363	439,380
Solids disposal fees	6,156	5,470
Sludge disposal	114,734	53,121
Other operating expenses	2,417	1,233
Environmental fees	<u>27,735</u>	<u>30,701</u>
Total plant operation expenses	<u><u>\$ 1,527,934</u></u>	<u><u>\$ 1,506,613</u></u>
Plant maintenance expenses:		
Salaries and wages	\$ 180,610	\$ 167,593
Payroll taxes and employee benefits	132,485	131,393
Other repairs and maintenance	63,321	54,215
Outside maintenance contracts	<u>38,874</u>	<u>126,688</u>
Total plant maintenance expenses	<u><u>\$ 415,290</u></u>	<u><u>\$ 479,889</u></u>
Quality control and pretreatment expenses:		
Salaries and wages	\$ 51,625	\$ 63,044
Payroll taxes and employee benefits	37,228	39,750
Laboratory expenses	25,859	28,545
Outside testing	13,118	10,155
Miscellaneous	<u>394</u>	<u>1,874</u>
Total quality control and pretreatment expenses	<u><u>\$ 128,224</u></u>	<u><u>\$ 143,368</u></u>

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

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

	<u>2017</u>	<u>2016</u>
Administrative and general expenses:		
Administrative salaries and wages	\$ 165,530	\$ 164,965
Commissioners' compensation and expense	9,234	11,571
Payroll taxes and employee benefits	120,551	126,081
Telephone	3,910	3,882
Office equipment rent and repair	13,718	16,594
Office supplies	4,098	6,987
Education and training	5,700	6,310
Membership and subscriptions	763	186
Travel reimbursement	672	1,100
Insurance	87,733	73,819
Engineering outside services	262	1,144
Accounting and auditing fees	14,500	14,500
Legal fees	1,286	2,810
Inflow reduction	31,469	20,902
Special projects support	400	--
Interceptor/manhole rehab study	21,362	--
FOG control program	75	100
Miscellaneous administrative expenses	<u>3,257</u>	<u>5,995</u>
Total administrative and general expenses	<u>\$ 484,520</u>	<u>\$ 456,946</u>

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

BUDGET COMPARISON
For the Year Ended December 31, 2017

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Receipts:			
User fees	\$ 5,330,265	\$ 5,613,330	\$ 283,065
Bank interest income	39,000	86,368	47,368
ICA payments	183,160	183,159	(1)
Pretreatment	2,458	4,370	1,912
Outside haulers	45,000	62,672	17,672
Effluent income	120,000	104,894	(15,106)
Connection fees	471,817	272,406	(199,411)
Farmland rental	29,880	29,618	(262)
Miscellaneous income	20,625	28,766	8,141
Unrestricted assets applied	254,199	254,199	- -
Total receipts	<u>6,496,404</u>	<u>6,639,782</u>	<u>143,378</u>
Expenditures:			
Payroll	634,100	618,295	15,805
Benefits	405,215	451,802	(46,587)
Administration	66,225	32,118	34,107
Environmental fees	35,400	27,735	7,665
Insurance	88,725	87,733	992
Professional contract services	227,450	123,763	103,687
Sludge disposal	112,000	114,734	(2,734)
Utilities	643,050	580,713	62,337
Chemicals	484,950	393,363	91,587
Operation, maintenance, lab, QC	129,700	125,712	3,988
	<u>2,826,815</u>	<u>2,555,968</u>	<u>270,847</u>
Capital budget expenses	194,700	- -	194,700
Provision for equipment replacement fund	799,965	799,965	- -
Provision for debt service fund	2,674,924	2,674,924	- -
Total expenditures	<u>6,496,404</u>	<u>6,030,857</u>	<u>465,547</u>
Net receipts over expenditures	<u>\$ - -</u>	<u>\$ 608,925</u>	<u>\$ 608,925</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 THE STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN FUND NET POSITION TO THE BUDGET**

For the Year Ended December 31, 2017

Change in net position	\$ 1,259,853
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Amounts reported for budgetary basis are different because:

Unrestricted assets applied	254,199
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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	\$ 153,370	
Non-cash deferred revenue recognized	<u>(153,719)</u>	(349)

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	1,983,183	
Provision for equipment replacement and capital budget	<u>(799,965)</u>	1,183,218

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.

101,271

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	485,657	
Provision to debt service fund	<u>(2,674,924)</u>	<u>(2,189,267)</u>

Net receipts over expenditures	<u>\$ 608,925</u>
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