



# Erickson & Associates, S.C.

*Certified Public Accountants*

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255 South Main Street • Fond du Lac, Wisconsin 54935 • (920) 921-4189 • FAX (920) 923-1149  
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## MANAGEMENT LETTER

May 4, 2020

To the Commissioners of  
Heart of the Valley Metropolitan Sewerage District  
Kaukauna, Wisconsin

In planning and performing our audit of the financial statements of Heart of the Valley Metropolitan Sewerage District (District) for the year ended December 31, 2019, in accordance with the auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the District's internal control to be a significant deficiency.

### **Financial Statement Preparation:**

The District has historically relied upon its auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the District's internal controls. However, the additional costs of hiring staff experienced in preparing financial statements, along with additional training time, outweigh the derived benefits. We recommend that the District continues to evaluate the cost/benefit of outsourcing the task of preparing the financial statements to the external auditors.

**Conclusion**

This communication is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Erickson & Associates, S.C.*

ERICKSON & ASSOCIATES, S.C.  
Certified Public Accountants  
Appleton, Wisconsin



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## **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

May 4, 2020

To the Commissioners of  
Heart of the Valley Metropolitan Sewerage District  
Kaukauna, Wisconsin

We have audited the financial statements of Heart of the Valley Metropolitan Sewerage District (District) for the year ended December 31, 2019, and have issued our report dated May 4, 2020. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated April 1, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The fixed asset accounting system was changed from Workhorse to TEAMS, beginning January 1, 2019. The two systems had run in parallel for some time. TEAMS currently does not have the ability to track changes in estimated useful life and, as such, has some limitations for fixed asset accounting. The two programs were reconciled to be close at the end of last year, but not in complete agreement. As a result, an entry of \$41,679 was made to increase the loss on disposal of capital assets to get the two programs in agreement.

The financial statement disclosures are neutral, consistent, and clear.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing the audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, as per the attached schedule. The majority of the entries were made to adjust your budget-basis financials to accrual-basis financials. None were material.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 4, 2020.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters**

We applied certain limited procedures to the management's discussion and analysis and the pension related required supplementary information (RSI) from WRS - schedule of the District's proportionate share of the net pension liability (asset), schedule of the District's contributions and notes to required WRS schedules. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on 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, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Conclusion**

This information is intended solely for the use of the Commissioners and management of the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*Ericksen & Associates, S.C.*

ERICKSON & ASSOCIATES, S.C.  
Certified Public Accountants  
Appleton, Wisconsin

YEAR END ADJUSTING ENTRIES  
 December 31, 2019

| Entry | Account / Description                                      | Acct #    | Debit      | Credit     | Inc Effect          |
|-------|--|-----------|------------|------------|---------------------|
|       | Income before adjustments.....                             |           |            |            | <u>2,258,734.40</u> |
| 1     | Accrued interest   | 22150.00  | 8,372.00   |            |                     |
|       | Interest expense   | 42700.00  |            | 8,372.00   | 8,372.00            |
|       | to adjust accrued interest expense                         |           |            |            |                     |
| 2     | Acc'd int rec, equip replcmnt                              | 19150.156 | 1,130.00   |            | 1,130.00            |
|       | Interest income, equip replc                               | 41950.00  |            | 771.00     |                     |
|       | Interest income, genrl checking                            | 41910.00  |            | 359.00     |                     |
|       | to adjust accrued interest receivable on CDs               |           |            |            |                     |
| 3     | A/R, Connection fees                                       | 16149.00  | 5,156.00   |            |                     |
|       | Connection fees  | 41120.00  |            | 5,156.00   | 5,156.00            |
|       | to adjust connection fees receivable                       |           |            |            |                     |
| 4     | Provision for replacement                                  | 43403.00  |            | 500.00     |                     |
|       | Non-equipment depreciation                                 | 43404.00  | 248.71     |            |                     |
|       | Gain/loss on disposal of f/a                               | 41050.00  | 41,678.64  |            |                     |
|       | Accum provision for depreciation                           | 14892.00  |            | 41,427.35  | (41,427.35)         |
|       | to adjust to revised reports                               |           |            |            |                     |
| 5     | Salary   | 56010.00  | 3,752.87   |            |                     |
|       | Wages, regular   | 56020.00  | 3,284.29   |            |                     |
|       | Salary   | 57010.00  | 2,935.24   |            |                     |
|       | Wages, regular   | 57020.00  | 3,406.23   |            |                     |
|       | Salary   | 58010.00  | 548.77     |            |                     |
|       | Salary   | 59010.00  | 7,062.28   |            |                     |
|       | Acc'd payroll  | 24386.00  |            | 3,810.86   | (3,810.86)          |
|       | Sick leave & vacation pay res                              | 26200.00  |            | 17,178.82  | (17,178.82)         |
|       | to adjust accrued vacation & sick pay<br>and accrued wages |           |            |            |                     |
| 6     | WI retirement fund   | 59120.00  | 66,365.29  |            |                     |
|       | Deferred pension assets                                    | 18200.00  |            | 66,365.29  | (66,365.29)         |
|       | to record CY pension adjustment                            |           |            |            |                     |
| 7     | Interest income, genrl checking                            | 41910.00  | 6,196.05   |            |                     |
|       | Interest income, equip replc                               | 41950.00  |            | 6,196.05   |                     |
|       | to adjust equip replc int to CMAR calc                     |           |            |            |                     |
| 8     | Retained earnings, general fund                            | 20216.00  | 312,350.03 |            |                     |
|       | Retained earnings, debt fund                               | 20217.00  | 644.97     |            |                     |
|       | Retained earnings, replacement                             | 20220.00  |            | 312,995.00 |                     |
|       | to adj debt/replacement funds to calc                      |           |            |            |                     |
|       | Subtotal, numbered entries                                 |           | 463,131.37 | 463,131.37 | -114,124.32         |

| Entry                                 | Account / Description   | Acct #   | Debit               | Credit              | Inc Effect          |
|---------------------------------------|---|----------|---------------------|---------------------|---------------------|
| <u>Reclass Entries (do not post):</u> |   |          |                     |                     |                     |
| A                                     | Alloc pyrl taxes, benefits,wages  | 56xxx.xx | 179,404.87          |                     |                     |
|                                       | Alloc pyrl taxes, benefits,wages  | 57xxx.xx | 154,311.34          |                     |                     |
|                                       | Alloc pyrl taxes, benefits,wages  | 58xxx.xx | 40,895.75           |                     |                     |
|                                       | SS  | 48408.00 |                     | 46,223.14           |                     |
|                                       | Medi care   | 48409.00 |                     | 10,810.69           |                     |
|                                       | Alloc pyrl taxes, benefits,wages<br>to allocate pyrl taxes, benefits, wages | 59xxx.xx |                     | 317,578.13          |                     |
| B                                     | A/R, Connection fees  | 16149.00 | 7,894.00            |                     |                     |
|                                       | A/R, Other  | 16148.00 |                     | 7,894.00            |                     |
|                                       | to consolidate into connection fees A/R                                     |          |                     |                     |                     |
| C                                     | Deferred pension outflows   | 18200.00 | 726,605.47          |                     |                     |
|                                       | Deferred pension assets   | 18200.00 |                     | 55,858.47           |                     |
|                                       | Deferred pension liabilities  | 18200.00 |                     | 171,925.00          |                     |
|                                       | Deferred pension inflows  | 18200.00 |                     | 498,822.00          |                     |
|                                       | to reclassify deferred pension inflows/outflows                             |          |                     |                     |                     |
| Total, all entries                    |   |          | <u>1,572,242.80</u> | <u>1,572,242.80</u> | <u>(114,124.32)</u> |
|                                       |   |          |                     |                     | <u>2,144,610.08</u> |
|                                       |   |          |                     |                     | = WTB               |

**HEART OF THE VALLEY  
METROPOLITAN SEWERAGE DISTRICT  
KAUKAUNA, WISCONSIN  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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**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

### **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, 2019 and 2018, 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, 2019 and 2018, 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.

*Ericksen & Associates, S.C.*

ERICKSON & ASSOCIATES, S.C.

Appleton, Wisconsin

May 4, 2020

**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, 2019 and 2018. 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 2019, the assets of the District exceeded liabilities by \$27.96 million. Of this amount, \$4.41 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 \$2.14 million during 2019 compared to an increase of \$1.77 million in 2018.

**Operating Revenue** - Operating revenue increased \$374,606 with user fees increasing \$369,569.

**Operating Expenses** - Operating expenses increased in 2019 by \$27,454.

**Investment Income** - The District's investment income (interest income) increased by \$64,109.

**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 2019 revenue recognized was \$153,719.

**Interest Expense** - Interest expense decreased \$50,283 as a result of principal payments made.

**Loss on Disposal of Fixed Assets** - Assets with a book value of \$166,028 were disposed of during 2019. There were no proceeds on these disposals.

**Debt** - The District's total debt obligation decreased \$2.28 million during 2019. 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, \$862,426, is classified as: current, \$164,515, and long-term, \$697,911. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$691,731, is considered to be a deferred inflow of resources.

**Utility Plant** - The District's net utility plant decreased \$1.44 million during 2019. Depreciation (and removals) exceeded current additions of \$576,738.

**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**

|  | 2019                 | 2018                 |
|--|----------------------|----------------------|
| Current assets                             | \$ 4,865,684         | \$ 3,731,521         |
| Restricted assets                          | 9,521,154            | 9,208,804            |
| Capital assets                             | 29,295,275           | 30,731,172           |
| Other assets                               | 697,911              | 1,004,151            |
| Total assets                               | <u>44,380,024</u>    | <u>44,675,648</u>    |
| Deferred outflows of resources             | 726,605              | 412,495              |
| Current liabilities                        | 455,443              | 367,219              |
| Liabilities payable from restricted assets | 2,411,990            | 2,373,707            |
| Long-term debt                             | 13,089,431           | 15,255,169           |
| Total liabilities                          | <u>15,956,864</u>    | <u>17,996,095</u>    |
| Deferred inflows of resources              | 1,190,553            | 1,277,447            |
| Total net position                         | <u>\$ 27,959,212</u> | <u>\$ 25,814,601</u> |

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

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

*Net Position*

As noted earlier, net position may serve, over time, as a useful indicator of a District's financial position. In the case of Heart of the Valley Metropolitan Sewerage District, net position totaled \$27.96 million at the close of the fiscal year ending December 31, 2019. This is an increase of \$2.14 million or 8.31% from the previous year.

A significant portion of the District's net position, 50.18%, is invested in capital assets. An additional 34.05% 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**

|                                  | 2019          | 2018          |
|----------------------------------|---------------|---------------|
| Operating revenue                | \$ 6,822,591  | \$ 6,447,985  |
| Operating expenses               | 4,574,347     | 4,546,893     |
| Total operating income           | 2,248,244     | 1,901,092     |
| Non-operating income (expense):  |               |               |
| Interest income                  | 290,585       | 226,476       |
| Clean water fund contribution    | 153,719       | 153,719       |
| Interest expense                 | ( 381,909)    | ( 432,192)    |
| Loss on disposal of fixed assets | ( 166,028)    | ( 76,117)     |
| Total other expense              | ( 103,633)    | ( 128,114)    |
| Change in net position           | 2,144,611     | 1,772,978     |
| Net position, beginning          | 25,814,601    | 24,041,623    |
| Net position, ending             | \$ 27,959,212 | \$ 25,814,601 |

*Changes in Net Position*

The District's net position increased \$2.14 million during the year.

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

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

**SIGNIFICANT EVENTS**

Our budget for 2019 included expenditures of \$6,542,230 - a decrease of 3.23% from the 2018 budgeted expenditures. Actual expenditures (on a budgetary basis) were \$6,291,150 which is \$251,080 (3.84%) less than budgeted. Operating expenses for 2019 totaled \$4,574,347 - an increase of \$27,454 from 2018 which totaled \$4,546,893 (0.60%).

Our budget for 2019 included revenue of \$6,025,166 with the \$517,064 difference made up by the application of unrestricted assets. Actual revenue (on a budgetary basis) was \$7,583,091 (including application of unrestricted assets) which is \$1,040,861 (17.28%) more than budgeted. Operating revenue for 2019 totaled \$6,822,591 - an increase of \$374,606 from 2018 which totaled \$6,447,985 (5.81%).

User fees make up the largest portion of operating revenue. Budgeted user fees for 2019 were \$5,265,467, 3.31% less than the prior year budget. Actual user fees in 2019 were \$6,202,825. Actual user fees were 6.34% higher than the prior year. The District's sewage revenue was just over \$939,000 more than it projected for sewer revenues during the budget process. The primary reasons for the increase in revenue were: record precipitation resulting in higher than projected sewage flow and continued increases in ammonia and BOD loadings discharged to the treatment facility. The method used for calculating budget projections is being reviewed in light of the purchase of new metering equipment and the consistent increases in observed flow and organic loadings entering the treatment facility.

Heart of the Valley remained in compliance with its NPDES permit issued on 12/12/18 and expiring on 12/31/23. In 2019, the District completed its first required Operational Evaluation Report with its findings showing that phosphorus compliance will prove problematic under a full effluent discharge scenario. These findings align with previous analysis of suspended solids data and suggest that additional tertiary plant processes will likely be needed in the future.

The implementation of the TMDL requirements, along with consistent increases in organic loadings prompted the District to begin looking at future master planning efforts in 2019. On September 13th the District entered into a professional services agreement titled Master Planning - Step 1 with Donohue and Associates. The engineering study focuses on past District and member community loadings and reviews existing treatment plant equipment and processes to verify rated capacities and compare them against projections of future loadings. The results of the study will assist the District in determining when and what District actions can be anticipated in the future to maximize the existing infrastructure and meet its permit obligations. This study is scheduled to be completed late in 2020 as the District is analyzing samples and collecting data for parameters that have not previously been tested.

Heart of the Valley, in its role as control authority for the pretreatment program, monitors 17 sites whose discharge could pose a threat to the structures, equipment, or biology used for treatment of member community wastewater. One new permit was issued for a food production facility with the District.

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

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

The District staff developed the Districts first 5-Year Capital Improvements Plan in 2016. The District continues to use the CIP as a guide during the yearly budget process. The plan is reviewed and changes are made to account for situations where equipment may have failed unexpectedly requiring immediate attention or where repairs are made that prolong replacement and extend the useful life of equipment.

The District continues its study of microbial induced corrosion in the Interceptor and further honed in on the causes and the condition of the concrete interceptor piping. At the recommendation of its consultant, the District implemented an air monitoring and wet chemistry testing program at key locations along within the interceptor. The study purpose was to identify anomalies and establish cause and effect relationships that once identified, could be mitigated to protect the Interceptor. The early results of District efforts did not produce data that would support the level of observed decay and so a month's long biofilm analysis test was conducted that when completed, identified ammonia as the main driver of the concrete corrosion. Additionally, the District began televising affected stretches of the Interceptor to assess the current condition of the interceptor to compare against the last televising done in 2016. Unprecedented precipitation and cold weather in the fall hampered efforts to complete the televising with the remaining sections of the Interceptor will be completed in the spring of 2020. The study of the Interceptor will likely conclude in 2020 after which a project scope and maintenance plan will be developed. The District still anticipates that maintenance and repairs will rise to a level where a Clean Water Fund loan will likely be necessary.

Late in 2019, the District began the process of replacing aging ultrasonic flowmeters used throughout the District with laser flow metering technology. The new laser meters measure sewage flow similarly to the ultrasonic meters but with an added flow velocity component that increases accuracy in low and high flow situations. The meters are now installed with the District anticipating implementation of the laser meters for DNR reporting and member community billing in 2020.

Staffing remained stable and unchanged in 2019. There were no changes in the number of positions or the budgeted staffing levels for 2019. There were no retirements or resignations among the 11 staff that were employed by the District in 2019.

**RATE HISTORY**

|                              | 2020  | 2019  | 2018  | 2017  | 2016  |
|------------------------------|-------|-------|-------|-------|-------|
| Flow (per 1,000 gallons)     | 0.696 | 0.735 | 0.796 | 0.837 | 0.790 |
| B.O.D. (per pound)           | 0.220 | 0.238 | 0.262 | 0.265 | 0.254 |
| Suspended Solids (per pound) | 0.254 | 0.255 | 0.266 | 0.261 | 0.219 |
| Phosphorus (per pound)       | 6.321 | 6.239 | 6.290 | 6.136 | 5.722 |
| Ammonia-N (per pound)        | 1.320 | 1.324 | 1.499 | 1.625 | 1.696 |
| Chloride (per pound)         | 0.003 | 0.004 | 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 Thilmay Road, Kaukauna, WI 54130, or contact by phone at 920-766-5731 or by e-mail at [brian.helminger@hvmsd.org](mailto:brian.helminger@hvmsd.org).



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

**STATEMENTS OF NET POSITION**

December 31,

**ASSETS**

|                                      | <u>2019</u>       | <u>2018</u>       |
|--------------------------------------|-------------------|-------------------|
| Current assets:                      |                   |                   |
| Cash and cash equivalents            | \$ 4,031,675      | \$ 3,014,238      |
| Accounts receivable                  |                   |                   |
| Users                                | 580,741           | 504,416           |
| Others                               | 40,498            | 23,356            |
| Accrued interest receivable          | 2,345             | 1,215             |
| Notes receivable                     | 164,515           | 160,712           |
| Prepaid expenses                     | 45,910            | 27,584            |
| Total current assets                 | <u>4,865,684</u>  | <u>3,731,521</u>  |
| Restricted assets:                   |                   |                   |
| Cash and cash equivalents            | <u>9,521,154</u>  | <u>9,208,804</u>  |
| Utility plant:                       |                   |                   |
| Utility plant in service             | 64,518,691        | 64,272,074        |
| Less accumulated depreciation        | <u>35,223,416</u> | <u>33,540,902</u> |
| Total utility plant                  | <u>29,295,275</u> | <u>30,731,172</u> |
| Noncurrent assets:                   |                   |                   |
| Notes receivable                     | 697,911           | 862,425           |
| Net pension asset - WRS pension plan | <u>- -</u>        | <u>141,726</u>    |
| Total noncurrent assets              | <u>697,911</u>    | <u>1,004,151</u>  |
| Total assets                         | <u>44,380,024</u> | <u>44,675,648</u> |
| Deferred outflows of resources:      |                   |                   |
| WRS pension plan                     | <u>726,605</u>    | <u>412,495</u>    |

## LIABILITIES AND NET POSITION

|  | 2019          | 2018          |
|--|---------------|---------------|
| <b>Current liabilities:</b>                              |               |               |
| Accounts payable - operating                             | \$ 213,822    | \$ 134,174    |
| Accounts payable - construction                          | --            | 12,604        |
| Accrued liabilities                                      | 241,621       | 220,441       |
| Total current liabilities                                | 455,443       | 367,219       |
| <b>Liabilities payable from restricted assets:</b>       |               |               |
| Current portion of long-term debt                        | 2,337,663     | 2,283,397     |
| Accrued interest   | 63,675        | 72,047        |
| Accounts payable, equipment reserve                      | 10,652        | 18,263        |
| Total current liabilities payable from restricted assets | 2,411,990     | 2,373,707     |
| <b>Long-term liabilities:</b>                            |               |               |
| Long-term debt   | 12,917,506    | 15,255,169    |
| Net pension liability - WRS pension plan                 | 171,925       | --            |
| Total long-term liabilities                              | 13,089,431    | 15,255,169    |
| Total liabilities  | 15,956,864    | 17,996,095    |
| <b>Deferred inflows of resources:</b>                    |               |               |
| Deferred revenue   | 691,731       | 845,450       |
| WRS pension plan   | 498,822       | 431,997       |
| Total deferred inflows of resources                      | 1,190,553     | 1,277,447     |
| <b>Net position:</b>                                     |               |               |
| Invested in capital assets, net of related debt          | 14,029,454    | 13,161,739    |
| Restricted for plant replacement                         | 6,848,121     | 6,535,126     |
| Restricted for debt service                              | 2,673,033     | 2,673,678     |
| Unrestricted   | 4,408,604     | 3,444,058     |
| Total net position                                       | \$ 27,959,212 | \$ 25,814,601 |

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>2019</u>          | <u>2018</u>          |
|-------------------------------------|----------------------|----------------------|
| Operating revenues:                 |                      |                      |
| User fees                           | \$ 6,202,825         | \$ 5,833,256         |
| Connection fees                     | 348,007              | 374,361              |
| Effluent sales                      | 147,316              | 124,673              |
| Outside haulers income              | 64,900               | 58,547               |
| Farmland rental income              | 52,900               | 51,728               |
| Other revenue                       | <u>6,643</u>         | <u>5,420</u>         |
| Total operating revenues            | <u>6,822,591</u>     | <u>6,447,985</u>     |
| Operating expenses:                 |                      |                      |
| Plant operations                    | 1,535,998            | 1,540,166            |
| Plant maintenance                   | 460,116              | 456,332              |
| Quality control and pretreatment    | 125,196              | 128,726              |
| Administrative and general          | 606,430              | 544,114              |
| Depreciation                        | <u>1,846,607</u>     | <u>1,877,555</u>     |
| Total operating expenses            | <u>4,574,347</u>     | <u>4,546,893</u>     |
| Operating income                    | <u>2,248,244</u>     | <u>1,901,092</u>     |
| Non-operating revenue (expenses):   |                      |                      |
| Interest income                     | 290,585              | 226,476              |
| Clean water fund contribution       | 153,719              | 153,719              |
| Interest expense                    | ( 381,909)           | ( 432,192)           |
| Loss on disposal of fixed assets    | <u>( 166,028)</u>    | <u>( 76,117)</u>     |
| Net non-operating expenses          | <u>( 103,633)</u>    | <u>( 128,114)</u>    |
| Change in net position              | 2,144,611            | 1,772,978            |
| Net position, beginning of the year | <u>25,814,601</u>    | <u>24,041,623</u>    |
| Net position, ending of year        | <u>\$ 27,959,212</u> | <u>\$ 25,814,601</u> |

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

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

**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31,

|   | <u>2019</u>          | <u>2018</u>          |
|---|----------------------|----------------------|
| Cash flows from operating activities:                     |                      |                      |
| Cash received from operating revenue                      | \$ 6,729,124         | \$ 6,355,662         |
| Cash paid for operating expenses                          | <u>( 2,578,872)</u>  | <u>( 2,606,319)</u>  |
| Net cash provided by operating activities                 | <u>4,150,252</u>     | <u>3,749,343</u>     |
| Cash flows from capital and related financing activities: |                      |                      |
| Purchases of property and equipment                       | ( 596,953)           | ( 358,588)           |
| Payments of interest on debt                              | ( 390,281)           | ( 443,918)           |
| Payment of principal on debt                              | ( 2,283,397)         | ( 2,230,390)         |
| Principal payments received on notes receivable           | <u>160,711</u>       | <u>156,999</u>       |
| Net cash used in capital and related financing activities | <u>( 3,109,920)</u>  | <u>( 2,875,897)</u>  |
| Cash flows from investing activities:                     |                      |                      |
| Interest received   | <u>289,455</u>       | <u>226,231</u>       |
| Net change in cash and cash equivalents                   | 1,329,787            | 1,099,677            |
| Cash and cash equivalents, beginning of year              | <u>12,223,042</u>    | <u>11,123,365</u>    |
| Cash and cash equivalents, end of year                    | <u>\$ 13,552,829</u> | <u>\$ 12,223,042</u> |

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

For the Years Ended December 31,

|   | 2019         | 2018         |
|---|--------------|--------------|
| Operating income  | \$ 2,248,244 | \$ 1,901,092 |
| Adjustments to reconcile net income to net cash provided by operating activities: |              |              |
| Depreciation  | 1,846,607    | 1,877,555    |
| (Increase) decrease in:   |              |              |
| Accounts receivable - users   | ( 76,325)    | ( 93,712)    |
| Accounts receivable - other   | ( 17,142)    | 1,389        |
| Prepaid expenses  | ( 18,326)    | ( 4,505)     |
| Pension assets and deferred pension outflows                                      | ( 172,384)   | ( 204,207)   |
| Increase (decrease) in:   |              |              |
| Accounts payable - operating  | 79,648       | 23,276       |
| Accrued liabilities   | 21,180       | 26,608       |
| Pension liability and deferred pension inflows                                    | 238,750      | 221,847      |
| Net cash provided by operating activities   | \$ 4,150,252 | \$ 3,749,343 |

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

**Reporting Entity**

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

**Basis of Financial Statement Presentation**

*Proprietary Fund Statements*

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

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

**Accounts Receivable**

*Users*

Accounts receivable from users consist of monthly charges for treatment services plus, if applicable, monthly billings for FOG services. All receivables are expected to be paid during the month following services.

*Others*

Other receivables consist of connection fees receivable remitted by the user communities as well as amounts due for sale of effluent, treatment fees from outside haulers and pretreatment fees.

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

**Inventories**

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

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**Utility Plant in Service**

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

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



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

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

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

|   | 2019             | 2018             |
|---|------------------|------------------|
| Checking accounts                               | \$ 423,284       | \$ 533,287       |
| Money market account                            | 3,850            | -                |
| Certificates of deposit                         | 1,543,234        | 1,519,468        |
| Total in commercial banks and credit unions     | 1,970,368        | 2,052,755        |
| <br>Wisconsin State Treasurer's Investment Pool | <br>11,582,461   | <br>10,170,287   |
| Total cash and cash equivalents                 | \$ 13,552,829    | \$ 12,223,042    |
| <br>Cash and cash equivalents, unrestricted     | <br>\$ 4,031,675 | <br>\$ 3,014,238 |
| Cash and cash equivalents, restricted           | 9,521,154        | 9,208,804        |
| Totals  | \$ 13,552,829    | \$ 12,223,042    |

*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, 2019. 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 \$1,970,368 and the financial institutions balance was \$1,990,841. Of the financial institutions balance, \$1,557,848 was covered by FDIC/NCUA insurance. Deposits with commercial financial institutions were \$432,993 more than federal or state 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, 2019, the District was in compliance with this policy.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

*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.

FDIC insurance coverage pertains to the proportionate public unit share of accounts. Additionally, the Wisconsin Public Deposit Guarantee Fund offers limited protection against potential losses.

*Restricted Cash*

Cash is restricted for the following purposes at year end:

|                                  | 2019         | 2018         |
|----------------------------------|--------------|--------------|
| Restricted for plant replacement | \$ 6,848,121 | \$ 6,535,126 |
| Restricted for debt              | 2,673,033    | 2,673,678    |
| Totals                           | \$ 9,521,154 | \$ 9,208,804 |

**Note 3. Notes Receivable:**

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

|                           | 2019       | 2018         |
|---------------------------|------------|--------------|
| Village of Combined Locks | \$ 162,915 | \$ 193,274   |
| Darboy Sanitary District  | 699,511    | 829,863      |
| Totals                    | \$ 862,426 | \$ 1,023,137 |
| Current                   | \$ 164,515 | \$ 160,712   |
| Non-current               | 697,911    | 862,425      |
| Totals                    | \$ 862,426 | \$ 1,023,137 |

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.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 4. Utility Plant:**

Utility plant activity for the years ended December 31, 2019 and 2018, was as follows:

| <u>2019</u>              | <u>Beginning<br/>Balance</u> | <u>Additions &amp;<br/>Transfers</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|--------------------------|------------------------------|--------------------------------------|-------------------|---------------------------|
| Land and improvements    | \$ 3,105,180                 | \$ --                                | \$ 1,733          | \$ 3,103,447              |
| Buildings and structures | 31,402,169                   | 112,016                              | 716               | 31,513,469                |
| Sewerage collection      | 15,608,128                   | ( 64,265)                            | --                | 15,543,863                |
| Equipment                | 14,091,425                   | 537,737                              | 327,672           | 14,301,490                |
| Vehicles                 | 65,172                       | ( 8,750)                             | --                | 56,422                    |
| Totals                   | 64,272,074                   | 576,738                              | 330,121           | 64,518,691                |
| Accumulated depreciation | 33,540,902                   | 1,846,607                            | 164,093           | 35,223,416                |
| Net totals               | <u>\$30,731,172</u>          | <u>\$( 1,269,869)</u>                | <u>\$ 166,028</u> | <u>\$29,295,275</u>       |

During 2019, there were no proceeds from disposals of capital assets.

| <u>2018</u>              | <u>Beginning<br/>Balance</u> | <u>Additions &amp;<br/>Transfers</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|--------------------------|------------------------------|--------------------------------------|-------------------|---------------------------|
| Land and improvements    | \$ 3,040,566                 | \$ 64,614                            | \$ --             | \$ 3,105,180              |
| Buildings and structures | 31,374,084                   | 33,275                               | 5,190             | 31,402,169                |
| Sewerage collection      | 15,627,134                   | --                                   | 19,006            | 15,608,128                |
| Equipment                | 14,024,557                   | 284,459                              | 217,591           | 14,091,425                |
| Vehicles                 | 71,720                       | 7,107                                | 13,655            | 65,172                    |
| Totals                   | 64,138,061                   | 389,455                              | 255,442           | 64,272,074                |
| Accumulated depreciation | 31,842,672                   | 1,877,555                            | 179,325           | 33,540,902                |
| Net totals               | <u>\$32,295,389</u>          | <u>\$( 1,488,100)</u>                | <u>\$ 76,117</u>  | <u>\$30,731,172</u>       |

During 2018, there were no proceeds from disposals of capital assets.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 5. Long-term Debt:**

Long-term obligations of the District are as follows:

|   | 2019          | 2018          |
|---|---------------|---------------|
| \$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.  | \$ 970,707    | \$ 1,151,602  |
| \$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. | 12,136,164    | 13,998,483    |
| \$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.   | 2,148,298     | 2,388,481     |
| Totals  | 15,255,169    | 17,538,566    |
| Less current portion  | 2,337,663     | 2,283,397     |
| Total long-term debt  | \$ 12,917,506 | \$ 15,255,169 |

Future maturities of long-term debt are as follows:

| Year ending<br><i>December 31,</i> |               |
|------------------------------------|---------------|
| 2020                               | \$ 2,337,663  |
| 2021                               | 2,393,220     |
| 2022                               | 2,450,097     |
| 2023                               | 2,508,326     |
| 2024                               | 2,567,939     |
| 2025-2027                          | 2,997,924     |
| Total                              | \$ 15,255,169 |

**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 and 62 for elected officials and executive service retirement plan participants, if hired on or before 12/31/2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupation employees) and receive an actuarially-reduced benefits. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

The WRS also provides death and disability benefits for employees.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**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.

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

| <u>Year</u> | <u>Core Fund<br/>Adjustment</u> | <u>Variable Fund<br/>Adjustment</u> |
|-------------|---------------------------------|-------------------------------------|
| 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        | 0.5                             | (5)                                 |
| 2017        | 2.0                             | 4                                   |
| 2018        | 2.4                             | 17                                  |

**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. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting periods, the WRS recognized \$49,136 and \$48,285 in contributions from the employer for 2019 and 2018, respectively.

Contribution rates as of December 31, 2019 were 6.7% each for employees and employers. Contribution rates as of December 31, 2018 were 6.8% each for employees and employer.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

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

At December 31, 2019, the District reported a liability of \$171,925 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2018, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017, rolled forward to December 31, 2018. 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, 2018, the District's proportion was 0.00483251%, which was an increase of 0.00005916% from its proportion measured as of December 31, 2017.

At December 31, 2018, the District reported an asset of \$141,726 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016, rolled forward to December 31, 2017. 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, 2017, the District's proportion was 0.00477335%, which was a decrease of 0.00014324% from its proportion measured as of December 31, 2016.

The District recognized pension expense of \$115,913 and \$66,777 for 2019 and 2018, 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>2019</u>   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 133,903                                | \$ 236,693                               |
| Net differences between projected and actual earnings on pension plan investments                             | 511,709                                   | 260,624                                  |
| Changes in assumptions  | 28,979                                    | --                                       |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 2,467                                     | 1,505                                    |
| Employer contributions subsequent to the measurement date   | 49,547                                    | --                                       |
| Totals  | <u>\$ 726,605</u>                         | <u>\$ 498,822</u>                        |

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

| <u>2018</u>   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 180,065                                | \$ 84,229                                |
| Net differences between projected and actual earnings on pension plan investments                             | 151,687                                   | 346,477                                  |
| Changes in assumptions  | 28,002                                    | --                                       |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 3,604                                     | 1,291                                    |
| Employer contributions subsequent to the measurement date   | 49,137                                    | --                                       |
| Totals  | <u>\$ 412,495</u>                         | <u>\$ 431,997</u>                        |

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| <u>Year ending<br/>December 31,</u> | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|-------------------------------------|---|--|
| 2019                                | \$ 244,085                                | \$ 179,471                               |
| 2020                                | 161,113                                   | 144,406                                  |
| 2021                                | 157,685                                   | 129,300                                  |
| 2022                                | 114,175                                   | 45,645                                   |

**Actuarial Assumptions**

The total pension liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|   |                                |
|---|--------------------------------|
| Actuarial valuation date                  | December 31, 2017              |
| Measurement date of net pension liability | December 31, 2018              |
| Actuarial cost method                     | Entry age                      |
| Asset valuation method                    | Fair market value              |
| Long-term expected rate of return         | 7.0%                           |
| Discount rate                             | 7.0%                           |
| Salary increases:                         |                                |
| Inflation                                 | 3.0%                           |
| Seniority/Merit                           | 0.1% - 5.6%                    |
| Mortality                                 | Wisconsin 2018 Mortality Table |
| Post-retirement adjustments*              | 1.9%                           |



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% 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 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience, actuarial assumptions used to measure the total pension liability changed from the prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality and separation rates. The total pension liability for December 31, 2018, is based upon a roll-forward of the liability calculated from the December 31, 2017, actuarial valuation.

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

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

**Asset Allocation Targets and  
Expected Returns  
As of December 31, 2018**

| <u>Core Fund Asset Class</u>     | <u>Asset Allocation %</u> | <u>Long-Term<br/>Expected Nominal<br/>Rate of Return%</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return %</u> |
|----------------------------------|---------------------------|---|---|
| Global equities                  | 49                        | 8.1   | 5.5   |
| Fixed income                     | 24.5                      | 4.0   | 1.5   |
| Inflation sensitive assets       | 15.5                      | 3.8   | 1.3   |
| Real estate                      | 9                         | 6.5   | 3.9   |
| Private equity/debt              | 8                         | 9.4   | 6.7   |
| Multi-asset                      | 4                         | 6.7   | 4.1   |
| Total Core Fund                  | 110                       | 7.3   | 4.7   |
| <u>Variable Fund Asset Class</u> |                           |   |   |
| U.S. equities                    | 70                        | 7.6   | 5.0   |
| International equities           | 30                        | 8.5   | 5.9   |
| Total Variable Fund              | 100                       | 8.0   | 5.4   |

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.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**Single Discount Rate**

A single discount rate of 7.0% was used to measure the total pension liability, as opposed to a discount rate of 7.2% for the prior year. This single discount rate was based on the expected rate of return on pension plan investments of 7.0% and a municipal bond rate of 3.71%. Because of the unique structure of WRS, the 7.0% expected rate of return implies that a dividend of approximately 1.9% 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 municipal bond rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

|  | 1% Decrease to<br>Discount Rate<br>(6.0%) | Current<br>Discount Rate<br>(7.0%) | 1% Increase to<br>Discount Rate<br>(8.0%) |
|--|---|------------------------------------|---|
| District's proportionate share of<br>the net pension liability (asset) | \$ 683,250                                | \$ 171,925                         | \$( 208,283)                              |

**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:

|                        | 2019      | 2018      |
|------------------------|-----------|-----------|
| Beginning balance      | \$ 18,489 | \$ 31,366 |
| Plan earnings          | 372       | 423       |
| Withdrawals            | ( 367)    | ( 13,300) |
| Balance at end of year | \$ 18,494 | \$ 18,489 |

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**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, 2019.

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

Uncompleted contracts - The District routinely contracts for various construction and other services. Certain projects, especially capital construction projects, require signed contracts. At December 31, 2019, contracts totaling \$586,100 had been issued, but the related work had not yet been performed. These are for future services up to 2022.

The District has signed a contract to rent farmland in future years, through 2022. Expected future rental income is \$165,600.

**Note 9. Subsequent Events:**

The District has evaluated all subsequent events through May 4, 2020, the date on which these financial statements were available to be issued. There are no events subsequent to December 31, 2019, 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>Proportionate 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%  |
| 12/31/18                  | 0.00477335%  | ( 141,726)  | 710,083                         | 19.96%   | 102.93%   |
| 12/31/19                  | 0.00483251%  | 171,925   | 733,387                         | 23.44%   | 96.45%  |

\* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

2015 was the first year that this information was made available due to implementation of GASB 68.

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

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

Wisconsin Retirement System

Last 10 Fiscal Years\*

| <u>Fiscal<br/>Year<br/>Ending</u> | <u>Contractually<br/>Required<br/>Contributions</u> | <u>Contributions in<br/>Relation to the<br/>Contractually<br/>Required<br/>Contributions</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered<br/>Employee<br/>Payroll</u> | <u>Contributions as<br/>a Percentage<br/>of Covered<br/>Employee<br/>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%  |
| 12/31/18                          | 48,285  | 48,285   | --  | 710,083                                 | 6.80%  |
| 12/31/19                          | 49,136  | 49,136   | --  | 733,387                                 | 6.70%  |

\* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

2015 was the first year that this information was made available due to implementation of GASB 68.

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

**NOTES TO REQUIRED WRS SCHEDULES  
For the Year Ended December 31, 2019**

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

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

**Note 2. Change of Assumptions:**

There were no changes in the assumptions.

**OTHER SUPPLEMENTARY INFORMATION**



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

**SCHEDULES OF USER FEES REVENUE  
For the Years Ended December 31,**

|                                   | <u>2019</u>         | <u>2018</u>         |
|-----------------------------------|---------------------|---------------------|
| City of Kaukauna                  | \$ 2,013,746        | \$ 1,881,825        |
| Village of Little Chute           | 1,863,923           | 1,708,475           |
| Village of Kimberly               | 723,807             | 744,077             |
| Village of Combined Locks         | 391,353             | 347,524             |
| Darboy Joint Sanitary District #1 | <u>1,209,996</u>    | <u>1,151,355</u>    |
| Total user fees revenue           | <u>\$ 6,202,825</u> | <u>\$ 5,833,256</u> |

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

**SCHEDULES OF OPERATING EXPENSES**

For the Years Ended December 31,

|  | 2019                | 2018                |
|--|---------------------|---------------------|
| <b>Plant operation expenses:</b>                       |                     |                     |
| Salaries and wages                                     | \$ 227,807          | \$ 225,719          |
| Payroll taxes and benefits                             | 179,405             | 159,927             |
| Health and safety                                      | 13,101              | 12,329              |
| Support - meter stations                               | 7,738               | 8,063               |
| Water utility bills                                    | 24,438              | 22,655              |
| Natural gas and auxiliary fuel                         | 42,815              | 47,503              |
| Gasoline and lubricants                                | 4,852               | 4,176               |
| Electricity  | 496,656             | 508,330             |
| Chemicals  | 473,128             | 392,152             |
| Solids disposal fees                                   | 3,474               | 6,310               |
| Sludge disposal  | 36,875              | 121,364             |
| Other operating expenses                               | 285                 | 3,577               |
| Environmental fees                                     | 25,424              | 28,061              |
| <b>Total plant operation expenses</b>                  | <b>\$ 1,535,998</b> | <b>\$ 1,540,166</b> |
| <b>Plant maintenance expenses:</b>                     |                     |                     |
| Salaries and wages                                     | \$ 196,233          | \$ 192,736          |
| Payroll taxes and employee benefits                    | 154,311             | 134,819             |
| Other repairs and maintenance                          | 74,267              | 91,164              |
| Outside maintenance contracts                          | 35,305              | 37,613              |
| <b>Total plant maintenance expenses</b>                | <b>\$ 460,116</b>   | <b>\$ 456,332</b>   |
| <b>Quality control and pretreatment expenses:</b>      |                     |                     |
| Salaries and wages                                     | \$ 50,874           | \$ 56,133           |
| Payroll taxes and employee benefits                    | 40,896              | 36,435              |
| Laboratory expenses                                    | 21,263              | 25,052              |
| Outside testing  | 10,794              | 10,159              |
| Miscellaneous  | 1,369               | 947                 |
| <b>Total quality control and pretreatment expenses</b> | <b>\$ 125,196</b>   | <b>\$ 128,726</b>   |

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

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

|   | 2019       | 2018       |
|---|------------|------------|
| Administrative and general expenses:      |            |            |
| Administrative salaries and wages         | \$ 173,178 | \$ 163,895 |
| Commissioners' compensation and expense   | 17,921     | 25,344     |
| Payroll taxes and employee benefits       | 134,991    | 116,040    |
| Telephone                                 | 4,022      | 3,755      |
| Office equipment rent and repair          | 13,549     | 17,353     |
| Office supplies                           | 3,152      | 4,289      |
| Education and training                    | 4,846      | 9,941      |
| Membership and subscriptions              | 365        | 465        |
| Travel reimbursement                      | 827        | 771        |
| Insurance                                 | 89,093     | 89,864     |
| Engineering outside services              | 10,690     | 1,001      |
| Accounting and auditing fees              | 14,900     | 14,700     |
| Legal fees                                | 675        | 955        |
| Inflow reduction                          | 25,871     | 39,340     |
| Interceptor/manhole rehab study           | 108,074    | 53,687     |
| FOG control program                       | 851        | 162        |
| Miscellaneous administrative expenses     | 3,425      | 2,552      |
| Total administrative and general expenses | \$ 606,430 | \$ 544,114 |

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

**BUDGET COMPARISON  
For the Year Ended December 31, 2019**

|  | Original<br>& Final<br>Budget | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|--|-------------------------------|---------------------|--|
| <b>Receipts:</b>                         |                               |                     |  |
| User fees                                | \$ 5,265,467                  | \$ 6,202,825        | \$ 937,358                             |
| Bank interest income                     | 75,000                        | 122,487             | 47,487                                 |
| ICA payments                             | 183,076                       | 183,076             | --                                     |
| Pretreatment                             | 2,458                         | 6,080               | 3,622                                  |
| Outside haulers                          | 52,320                        | 64,900              | 12,580                                 |
| Effluent income                          | 122,239                       | 147,316             | 25,077                                 |
| Connection fees                          | 272,406                       | 348,007             | 75,601                                 |
| Farmland rental                          | 52,200                        | 52,900              | 700                                    |
| Miscellaneous income                     | --                            | 563                 | 563                                    |
| Unrestricted assets applied              | 517,064                       | 517,064             | --                                     |
| <b>Total receipts</b>                    | <u>6,542,230</u>              | <u>7,645,218</u>    | <u>1,102,988</u>                       |
| <b>Expenditures:</b>                     |                               |                     |  |
| Payroll                                  | 687,500                       | 648,092             | 39,408                                 |
| Benefits                                 | 409,395                       | 509,603             | ( 100,208)                             |
| Administration                           | 65,100                        | 30,186              | 34,914                                 |
| Environmental fees                       | 32,000                        | 25,424              | 6,576                                  |
| Insurance                                | 90,578                        | 89,093              | 1,485                                  |
| Professional contract services           | 288,250                       | 207,445             | 80,805                                 |
| Sludge disposal                          | 130,000                       | 36,875              | 93,125                                 |
| Utilities                                | 608,900                       | 568,761             | 40,139                                 |
| Chemicals                                | 494,250                       | 473,128             | 21,122                                 |
| Operation, maintenance, lab, QC          | 144,100                       | 139,133             | 4,967                                  |
| <b>Total expenditures</b>                | <u>2,950,073</u>              | <u>2,727,740</u>    | <u>222,333</u>                         |
| Capital budget expenses                  | 148,000                       | 79,626              | 68,374                                 |
| Provision for equipment replacement fund | 770,480                       | 810,107             | ( 39,627)                              |
| Provision for debt service fund          | 2,673,677                     | 2,673,677           | --                                     |
| <b>Total expenditures</b>                | <u>6,542,230</u>              | <u>6,291,150</u>    | <u>251,080</u>                         |
| <b>Net receipts over expenditures</b>    | <u>\$ --</u>                  | <u>\$ 1,354,068</u> | <u>\$ 1,354,068</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, 2019

Change in net position \$ 2,144,611

Amounts reported for budgetary basis are different because:

Unrestricted assets applied 517,064

The budget includes ICA 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

|                                      |                   |       |
|--------------------------------------|-------------------|-------|
| ICA principal payments received      | 160,711           |       |
| Non-cash deferred revenue recognized | <u>( 153,719)</u> | 6,992 |

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                                   | 1,846,607         |         |
| Provision for equipment replacement and capital budget | ( 889,733)        |         |
| Interest income earned on equipment replacement fund   | <u>( 145,733)</u> | 811,141 |

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. 166,028

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               | 381,909            |                     |
| Provision to debt service fund | <u>(2,673,677)</u> | <u>(2,291,768)</u>  |
| Net receipts over expenditures |                    | <u>\$ 1,354,068</u> |