



Erickson & Associates, S.C.

Certified Public Accountants

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MANAGEMENT LETTER

May 10, 2021

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, 2020, 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.

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Appleton, Wisconsin



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

May 10, 2021

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, 2020, and have issued our report dated May 10, 2021. 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 January 12, 2021. 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 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 10, 2021.

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,

Erickson & Associates, S.C.

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

YEAR END ADJUSTING ENTRIES
December 31, 2020

Entry	Account / Description	Acct #	Debit	Credit	Inc Effect
	Income before adjustments.....				<u>1,654,138.79</u>
1	Accrued interest	22150.00	8,899.00		
	Interest expense	42700.00		8,899.00	8,899.00
	to adjust accrued interest expense				
2	Interest income, equip replc	41950.00	2,026.08		
	BLD 2.00% 1/19/21	15600.182		2,026.08	(2,026.08)
	to reduce CD value to bank confirmed amount rather than renewal amount				
3	Acc'd int rec, equip replcmnt	19150.156	282.00		282.00
	Interest income, equip replc	41950.00	7,545.80		
	Interest income, genrl checking	41910.00		7,827.80	
	to adjust accrued interest receivable on CDs				
4	Gain/loss on disposal of f/a	41050.00	22,382.53		(22,382.53)
	Accum provision for depreciation	14892.00		22,382.53	
	to adjust to revised reports				
5	Salary	56010.00	1,099.04		
	Wages, regular	56020.00		985.14	
	Salary	57010.00	3,109.89		
	Wages, regular	57020.00	5,813.31		
	Salary	58010.00	2,227.83		
	Salary	59010.00	10,547.46		
	Acc'd payroll	24386.00		8,511.80	(8,511.80)
	Sick leave & vacation pay res	26200.00		13,300.59	(13,300.59)
	to adjust accrued vacation & sick pay and accrued wages				
6	Misc income	41100.00	52,436.91		
	Farmland rental	41140.00		52,436.91	
	to separate farmland rental income				
7	WI retirement fund	59120.00	5,920.35		(5,920.35)
	Deferred pension outflows	18201.00		5,920.35	
	to record FASB adj difference on pension				
8	Retained earnings, general fund	20216.00	401,865.71		
	Retained earnings, debt fund	20217.00	660.29		
	Retained earnings, replacement	20220.00		402,526.00	
	to adj debt/replacement funds to calc				
	Subtotal, numbered entries		524,816.20	524,816.20	-42,960.35

24

Entry	Account / Description	Acct #	Debit	Credit	Inc Effect
<u>Reclass Entries (do not post):</u>					
A	Alloc pyrl taxes, benefits, wages	56099.00	150,461.44		
	Alloc pyrl taxes, benefits, wages	57099.00	138,325.04		
	Alloc pyrl taxes, benefits, wages	58099.00	38,066.48		
	SS	48408.00		47,923.52	
	Medi care	48409.00		11,208.18	
	Alloc pyrl taxes, benefits, wages to allocate pyrl taxes, benefits, wages	59299.00		267,721.26	
B	Deferred pension outflows	18201.00	633,429.00		
	Deferred pension assets	18200.00	153,435.00		
	Deferred pension inflows to reclassify deferred pension inflows/outflows	18202.00		786,864.00	
	Total, all entries		<u>1,638,533.16</u>	<u>1,638,533.16</u>	<u>(42,960.35)</u>
					<u>1,611,178.44</u>
					= WTB

**HEART OF THE VALLEY
METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

**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, 2020 and 2019, 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, 2020 and 2019, and the changes in the financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Heart of the Valley Metropolitan Sewerage District's financial statements as a whole. The schedules of user fees revenue, schedules of operating expenses, budget comparison and reconciliation of the statement of revenue, expenses, and changes in fund net position to the budget (other supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Erickson & Associates, S.C.

ERICKSON & ASSOCIATES, S.C.

Appleton, Wisconsin

May 10, 2021

**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, 2020 and 2019. 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 2020, the assets of the District exceeded liabilities by \$29.57 million. Of this amount, \$4.90 million was reported as "unrestricted net position," which may be used to meet our on-going obligations.

Changes in Net Position - The District's "total net position" increased by \$1.61 million during 2020 compared to an increase of \$2.14 million in 2019.

Operating Revenue - Operating revenue decreased \$371,272 with user fees decreasing \$541,926. Rates were reduced effective July 1, 2020. Increasing connections and users permitted us to reduce rates and decrease the projected surplus at year end.

Operating Expenses - Operating expenses increased in 2020 by \$187,557.

Investment Income - The District's investment income (interest income) decreased by \$177,828 due to lower interest rates.

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 2020 revenue recognized was \$153,719.

Interest Expense - Interest expense decreased \$55,438 as a result of principal payments made.

Loss on Disposal of Fixed Assets - Assets with a book value of \$131,263 were disposed of during 2020. Proceeds from insurance coverage and sales totaled \$113,021, resulting in a net loss on disposal of fixed assets of \$18,242.

Debt - The District's total debt obligation decreased \$2.34 million during 2020. 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, \$697,911, is classified as: current, \$168,407, and long-term, \$529,504. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$538,012, is considered to be a deferred inflow of resources.

Utility Plant - The District's net utility plant decreased \$1.55 million during 2020. Depreciation (and removals) exceeded current additions of \$443,395.

**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

	2020	2019
Current assets	\$ 5,297,602	\$ 4,865,684
Restricted assets	9,923,020	9,521,154
Capital assets	27,742,021	29,295,275
Other assets	682,939	697,911
Total assets	<u>43,645,582</u>	<u>44,380,024</u>
Deferred outflows of resources	683,367	726,605
Current liabilities	383,629	455,443
Liabilities payable from restricted assets	2,525,768	2,411,990
Long-term debt	10,524,286	13,089,431
Total liabilities	<u>13,433,683</u>	<u>15,956,864</u>
Deferred inflows of resources	1,324,876	1,190,553
Total net position	<u>\$ 29,570,390</u>	<u>\$ 27,959,212</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 \$29.57 million at the close of the fiscal year ending December 31, 2020. This is an increase of \$1.61 million or 5.76% from the previous year.

A significant portion of the District's net position, 49.87%, is invested in capital assets. An additional 33.56% 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

	<u>2020</u>	<u>2019</u>
Operating revenue	\$ 6,451,319	\$ 6,822,591
Operating expenses	<u>4,761,904</u>	<u>4,574,347</u>
Total operating income	<u>1,689,415</u>	<u>2,248,244</u>
Non-operating income (expense):		
Interest income	112,757	290,585
Clean water fund contribution	153,719	153,719
Interest expense	(326,471)	(381,909)
Loss on disposal of fixed assets	<u>(18,242)</u>	<u>(166,028)</u>
Total other expense	<u>(78,237)</u>	<u>(103,633)</u>
Change in net position	1,611,178	2,144,611
Net position, beginning	<u>27,959,212</u>	<u>25,814,601</u>
Net position, ending	<u>\$ 29,570,390</u>	<u>\$ 27,959,212</u>

Changes in Net Position

The District's net position increased \$1.61 million during the year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

SIGNIFICANT EVENTS

The HOVMSD Commission approved the 2020 budget with anticipated expenditures and revenues of \$6,499,872. Community treatment fees of \$5,265,467 provided the bulk of the District's revenue with the remainder of revenue coming from various other revenue streams detailed in the budget. Those fees were budgeted at the same amount as they were in the 2019 budget. A total of \$331,368 in unrestricted assets was allocated as unrestricted assets applied to balance the 2020 budget.

Growth and development within the areas served by the District remained vibrant in 2020. A total of 365 new connections were added to member community sewerage systems in 2020. The new connection total was the highest on record since the plant was upgraded in 2007. Influent flow averaged 5.946 million gallons per day (MGD) and dropped from 6.703 MGD in 2019. The daily flow total is strongly influenced by annual precipitation which also dropped from 2019. The loadings for both ammonia and Biochemical Oxygen Demand (BOD) increased in 2020 as has been the trend since 2015.

During 2020, the District's sewage invoices totaled \$544k over the budgeted estimate due to actual loadings surpassing the estimated calculated loadings with the budget. The District implemented a rate reduction as of July 1, 2020 and revised the methodology of calculating loadings estimates. The consistent growth in loadings to the treatment plant had been skewing loadings estimates low due to the use of a 3-year rolling average for budgeting purposes. Consistent growth within the District, along with the implementation of a new flow metering technology, has made estimating loadings far more difficult than in a steady state slow growth environment.

Heart of the Valley remained in compliance with its Wisconsin Pollution Discharge Elimination System (WPDES) permit issued on 12/12/18 and expiring on 12/31/23. In 2020, the District entered into consulting agreements for two major projects that include designs and all necessary bidding documents. Agreements for construction related services will be necessary after bids are accepted and prior to beginning construction. The agreement with Strategic Municipal Services is the culmination of several years of study and will reline the mainline interceptor and provide acid resistant coatings to the concrete structures. It is anticipated that the scope of this project will require two construction seasons to complete. The second consulting agreement was made with Donohue for the design and installation of Cloth Media Disk Filters (CMDf) for tertiary treatment of the District's effluent. The filtration of the effluent will remove phosphorus and suspended solids to very low levels and provide compliance with the District's Total Maximum Daily Load (TMDL) allocations for those parameters. The filter project is planned for completion prior to the expiration of the current District WPDES permit on 12/31/23. The CMDf will allow the District to be in full compliance with the TMDL allocations contained in its successor permit that would begin 1/1/24. The Department of Natural Resources approved the effluent filtration compliance alternative by formal letter to the District dated 2/22/21. Both of the projects rise to the level where Clean Water Fund loans will be required to fund the projects. The repayment of the loans will have significant impacts on the District's sewage rate structures once the loan repayments begin.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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. There were no new discharge permits or significant changes to the program in 2020.

The District completed its flowmeter replacement purchase and installs in early 2020. The long used ultrasonic flowmeters were replaced with laser flowmeters in the member community metering stations and in the treatment plant headworks. Once installed and calibrated, several of the new meters tabulated daily flows that were either higher and lower than the old meter that it replaced. The District ran both meters concurrently to monitor meter agreement and track performance in high and low flow conditions. 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 ultra-sonic meters have since been removed from service with the District moving to the laser flowmeters for billing and DNR reporting on 1/1/21.

HOVMSD staffing remained at 11 FTE employees in 2020. There was one retirement within the process control technician position group that was recruited for and filled shortly after the long time District employee retired and vacated his position.

RATE HISTORY

	<u>7/1/2020 - 12/31/2021</u>	<u>1/1/2020 - 6/30/2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Flow (per 1,000 gallons)	0.628	0.696	0.735	0.796	0.837
B.O.D. (per pound)	0.189	0.220	0.238	0.262	0.265
Suspended Solids (per pound)	0.238	0.254	0.255	0.266	0.261
Phosphorus (per pound)	6.253	6.321	6.239	6.290	6.136
Ammonia-N (per pound)	1.236	1.320	1.324	1.499	1.625
Chloride (per pound)	0.003	0.003	0.004	0.005	0.005

CONTACT INFORMATION

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

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

**STATEMENTS OF NET POSITION
December 31,**

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 4,527,342	\$ 4,031,675
Accounts receivable:		
Users	465,846	580,741
Others	84,491	40,498
Accrued interest receivable	2,627	2,345
Notes receivable	168,407	164,515
Prepaid expenses	48,889	45,910
Total current assets	<u>5,297,602</u>	<u>4,865,684</u>
Restricted assets:		
Cash and cash equivalents	<u>9,923,020</u>	<u>9,521,154</u>
Utility plant:		
Utility plant in service	64,610,703	64,518,691
Less accumulated depreciation	<u>36,868,682</u>	<u>35,223,416</u>
Total utility plant	<u>27,742,021</u>	<u>29,295,275</u>
Noncurrent assets:		
Notes receivable	529,504	697,911
Net pension asset - WRS pension plan	<u>153,435</u>	<u>- -</u>
Total noncurrent assets	<u>682,939</u>	<u>697,911</u>
Total assets	<u>43,645,582</u>	<u>44,380,024</u>
Deferred outflows of resources:		
WRS pension plan	<u>683,367</u>	<u>726,605</u>

LIABILITIES AND NET POSITION

	2020	2019
Current liabilities:		
Accounts payable - operating	\$ 141,979	\$ 213,822
Accrued liabilities	241,650	241,621
Total current liabilities	383,629	455,443
Liabilities payable from restricted assets:		
Current portion of long-term debt	2,393,220	2,337,663
Accrued interest	54,776	63,675
Accounts payable, equipment reserve	77,772	10,652
Total current liabilities payable from restricted assets	2,525,768	2,411,990
Long-term liabilities:		
Long-term debt	10,524,286	12,917,506
Net pension liability - WRS pension plan	--	171,925
Total long-term liabilities	10,524,286	13,089,431
Total liabilities	13,433,683	15,956,864
Deferred inflows of resources:		
Deferred revenue	538,012	691,731
WRS pension plan	786,864	498,822
Total deferred inflows of resources	1,324,876	1,190,553
Net position:		
Invested in capital assets, net of related debt	14,746,743	14,029,454
Restricted for plant replacement	7,250,647	6,848,121
Restricted for debt service	2,672,373	2,673,033
Unrestricted	4,900,627	4,408,604
Total net position	\$ 29,570,390	\$ 27,959,212

**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>2020</u>	<u>2019</u>
Operating revenues:		
User fees	\$ 5,660,899	\$ 6,202,825
Connection fees	528,394	348,007
Effluent sales	166,678	147,316
Outside haulers income	35,524	64,900
Farmland rental income	52,437	52,900
Other revenue	<u>7,387</u>	<u>6,643</u>
Total operating revenues	<u>6,451,319</u>	<u>6,822,591</u>
Operating expenses:		
Plant operations	1,659,263	1,535,998
Plant maintenance	466,117	460,116
Quality control and pretreatment	134,702	125,196
Administrative and general	636,436	606,430
Depreciation	<u>1,865,386</u>	<u>1,846,607</u>
Total operating expenses	<u>4,761,904</u>	<u>4,574,347</u>
Operating income	<u>1,689,415</u>	<u>2,248,244</u>
Non-operating revenue (expenses):		
Interest income	112,757	290,585
Clean water fund contribution	153,719	153,719
Interest expense	(326,471)	(381,909)
Loss on disposal of fixed assets	<u>(18,242)</u>	<u>(166,028)</u>
Net non-operating expenses	<u>(78,237)</u>	<u>(103,633)</u>
Change in net position	1,611,178	2,144,611
Net position, beginning of the year	<u>27,959,212</u>	<u>25,814,601</u>
Net position, ending of year	<u>\$ 29,570,390</u>	<u>\$ 27,959,212</u>

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from operating revenue	\$ 6,522,221	\$ 6,729,124
Cash paid for operating expenses	<u>(2,965,391)</u>	<u>(2,578,872)</u>
Net cash provided by operating activities	<u>3,556,830</u>	<u>4,150,252</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(376,275)	(596,953)
Payments of interest on debt	(335,370)	(390,281)
Payment of principal on debt	(2,337,663)	(2,283,397)
Principal payments received on notes receivable	164,515	160,711
Proceeds from disposal of equipment	<u>113,021</u>	<u>--</u>
Net cash used in capital and related financing activities	<u>(2,771,772)</u>	<u>(3,109,920)</u>
Cash flows from investing activities:		
Interest received	<u>112,475</u>	<u>289,455</u>
Net change in cash and cash equivalents	897,533	1,329,787
Cash and cash equivalents, beginning of year	<u>13,552,829</u>	<u>12,223,042</u>
Cash and cash equivalents, end of year	<u>\$ 14,450,362</u>	<u>\$ 13,552,829</u>

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

For the Years Ended December 31,

	2020	2019
Operating income	\$ 1,689,415	\$ 2,248,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,865,386	1,846,607
(Increase) decrease in:		
Accounts receivable - users	114,895	(76,325)
Accounts receivable - other	(43,993)	(17,142)
Prepaid expenses	(2,979)	(18,326)
Pension assets and deferred pension outflows	(110,197)	(172,384)
Increase (decrease) in:		
Accounts payable - operating	(71,843)	79,648
Accrued liabilities	29	21,180
Pension liability and deferred pension inflows	116,117	238,750
Net cash provided by operating activities	\$ 3,556,830	\$ 4,150,252

**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 expended as incurred. The District follows the policy of not capitalizing assets with a cost of less than \$2,500.

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

	2020	2019
Checking accounts	\$ 10,057	\$ 10,284
FDIC insured investment accounts	559,898	416,850
Certificates of deposit	1,697,714	1,543,234
Total in commercial banks and credit unions	2,267,669	1,970,368
Wisconsin State Treasurer's Investment Pool	12,182,693	11,582,461
Total cash and cash equivalents	\$ 14,450,362	\$ 13,552,829
Cash and cash equivalents, unrestricted	\$ 4,527,342	\$ 4,031,675
Cash and cash equivalents, restricted	9,923,020	9,521,154
Totals	\$ 14,450,362	\$ 13,552,829

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, 2020. In addition, the State of Wisconsin has a Public Deposit Guarantee Fund, which provides a maximum of \$400,000 per entity above the amount provided by the FDIC or NCUA. However, due to the relatively small size of the Guarantee Fund in relation to the total coverage, total recovery of losses may not be available.

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

At year-end, the carrying amount of the District's deposits was \$2,267,668 and the financial institutions balance was \$2,292,290. Of the financial institutions balance, \$1,642,190 was covered by FDIC/NCUA insurance. Deposits with commercial financial institutions were \$650,100 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, 2020, 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:

	2020	2019
Restricted for plant replacement	\$ 7,250,647	\$ 6,848,121
Restricted for debt service	2,672,373	2,673,033
Totals	\$ 9,923,020	\$ 9,521,154

Note 3. Notes Receivable:

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

	2020	2019
Village of Combined Locks	\$ 131,838	\$ 162,915
Darboy Sanitary District	566,073	699,511
Totals	\$ 697,911	\$ 862,426
Current	\$ 168,407	\$ 164,515
Non-current	529,504	697,911
Totals	\$ 697,911	\$ 862,426

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, 2020 and 2019, was as follows:

<u>2020</u>	<u>Beginning Balance</u>	<u>Additions & Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 3,103,447	\$ --	\$ 21,696	\$ 3,081,751
Buildings and structures	31,513,469	54,530	20,830	31,547,169
Sewerage collection	15,543,863	--	--	15,543,863
Equipment	14,301,490	388,865	308,857	14,381,498
Vehicles	56,422	--	--	56,422
Totals	64,518,691	443,395	351,383	64,610,703
Accumulated depreciation	35,223,416	1,865,386	220,120	36,868,682
Net totals	<u>\$29,295,275</u>	<u>\$(1,421,991)</u>	<u>\$ 131,263</u>	<u>\$27,742,021</u>

During 2020, proceeds from disposals of capital assets totaled \$113,021.

<u>2019</u>	<u>Beginning Balance</u>	<u>Additions & Transfers</u>	<u>Reductions</u>	<u>Ending 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5. Long-term Debt:

Long-term obligations of the District are as follows:

	<u>2020</u>	<u>2019</u>
\$3,327,297 general obligation sewerage system promissory note, series 2004, dated October 13, 2004, with interest at 2.365%, payable semi-annually and maturing through 2024.	\$ 785,534	\$ 970,707
\$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.	10,229,802	12,136,164
\$5,012,248 general obligation sewerage system promissory note, series 2007, dated August 28, 2007, with interest at 2.475%, payable semi-annually and maturing through 2027.	<u>1,902,170</u>	<u>2,148,298</u>
Totals	12,917,506	15,255,169
Less current portion	<u>2,393,220</u>	<u>2,337,663</u>
Total long-term debt	<u>\$ 10,524,286</u>	<u>\$ 12,917,506</u>

Future maturities of long-term debt are as follows:

Year ending <i>December 31,</i>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	\$ 2,393,220	\$ 279,153	\$ 2,672,373
2022	2,450,097	221,600	2,671,697
2023	2,508,326	162,679	2,671,005
2024	2,567,939	102,357	2,670,296
2025	2,420,840	43,062	2,463,902
2026-2028	<u>577,084</u>	<u>14,370</u>	<u>591,454</u>
Total	<u>\$ 12,917,506</u>	<u>\$ 823,221</u>	<u>\$ 13,740,727</u>

Long-term debt activity for the year ended December 31, 2020, was as follows:

	<u>Balance January 1, 2020</u>	<u>Reductions</u>	<u>Balance December 31, 2020</u>	<u>Amounts Due in One Year</u>
Notes from direct borrowings:				
Clean water fund	<u>\$15,255,169</u>	<u>\$2,337,663</u>	<u>\$ 12,917,506</u>	<u>\$2,393,220</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5. Long-term Debt - Continued:

Long-term debt activity for the year ended December 31, 2019, was as follows:

	Balance January 1, 2019	Reductions	Balance December 31, 2019	Amounts Due in One Year
Notes from direct borrowings:				
Clean water fund	<u>\$17,538,566</u>	<u>\$2,283,397</u>	<u>\$ 15,255,169</u>	<u>\$2,337,663</u>

The 2020 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$4,504,619,642. The legal debt limit and margin of indebtedness as of December 31, 2020, in accordance with Section 67.03 of the Wisconsin Statutes is as follows:

Debt limit (5% of \$4,504,619,642)	\$ 225,230,982
Deduct long-term debt applicable to debt margin	<u>12,917,506</u>
Legal margin for new debt	<u>\$ 212,313,476</u>

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

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.

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 Adjustment</u>	<u>Variable Fund Adjustment</u>
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
2019	0.0	(10)

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

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 \$52,319 and \$49,136 in contributions from the employer for 2020 and 2019, respectively.

Contribution rates as of December 31, 2020 were 6.55% each for employees and employers. Contribution rates as of December 31, 2019 were 6.70% each for employees and employer.

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

At December 31, 2020, the District reported an asset of \$153,435 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2019, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018, rolled forward to December 31, 2019. 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 asset was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2019, the District's proportion was 0.00475850%, which was a decrease of 0.00007401% from its proportion measured as of December 31, 2018.

At December 31, 2019, the District reported a liability of \$171,925 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability 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.

The District recognized pension expense of \$58,239 and \$115,913 for 2020 and 2019, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

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

<u>2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 291,255	\$ 145,754
Net differences between projected and actual earnings on pension plan investments	326,508	640,183
Changes in assumptions	11,955	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,330	927
Employer contributions subsequent to the measurement date	52,319	--
Totals	<u>\$ 683,367</u>	<u>\$ 786,864</u>
<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows 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>

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:

Year ending <i>December 31,</i>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2020	\$ 214,421	\$ 260,298
2021	211,041	245,424
2022	168,193	163,051
2023	37,393	118,091

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

Actuarial Assumptions

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

Actuarial valuation date	December 31, 2018
Measurement date of net pension liability	December 31, 2019
Actuarial cost method	Entry age normal
Asset valuation method	Fair 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%

* 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, 2019, is based upon a roll-forward of the liability calculated from the December 31, 2018, actuarial valuation.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

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, 2019**

<u>Core Fund Asset Class</u>	<u>Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return%</u>	<u>Long-Term Expected Real Rate of Return %</u>
Global equities	49	8.0	5.1
Fixed income	24.5	4.9	2.1
Inflation sensitive assets	15.5	4.0	1.2
Real estate	9	6.3	3.5
Private equity/debt	8	10.6	7.6
Multi-asset	4	6.9	4.0
Total Core Fund	110	7.5	4.6
<u>Variable Fund Asset Class</u>			
U.S. equities	70	7.5	4.6
International equities	30	8.2	5.3
Total Variable Fund	100	7.8	4.9

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

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

Single Discount Rate

A single discount rate of 7.0% 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

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

The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0%, 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 Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase to Discount Rate (8.0%)
District's proportionate share of the net pension liability (asset)	\$ 395,124	\$ (153,435)	\$ (563,547)

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:

	2020	2019
Beginning balance	\$ 18,494	\$ 18,489
Contributions	21,598	--
Plan earnings	253	372
Withdrawals	(2,077)	(367)
Balance at end of year	\$ 38,268	\$ 18,494

**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, 2020.

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, 2020, contracts totaling \$959,200 had been issued, but the related work had not yet been performed. These are for future services up to 2023.

The District has signed a contract to rent farmland in future years, through 2022. Expected future rental income is \$108,300.

Note 9. Subsequent Events:

On March 9, 2021, the District signed a contract for services not to exceed \$622,550 for interceptor design through bidding contract. It is expected that subsequent to completion of this process, the District will begin significant interceptor repairs with the relining of the mainline interceptor and acid resistant coatings to the concrete structures. Additionally, one of the significant contracts entered into on October 15, 2020, included services for a filtration design through bidding contract. It is expected that subsequent to completion of this process, the District will begin construction of a tertiary treatment system. The cost of these projects cannot currently be determined, however, they are expected to be significant. The District is anticipating that these projects will be funded by Clean Water Fund loans and that they will have significant impacts on the District's sewage rates once the loan repayments begin.

The District has evaluated all subsequent events through May 10, 2021, the date on which these financial statements were available to be issued. There are no other events subsequent to December 31, 2020, 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%
12/31/20	0.47585000%	(153,435)	756,450	20.28%	102.96%

* 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 Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
12/31/15	\$ 51,003	\$ 51,003	\$ --	\$ 728,599	7.00%
12/31/16	44,312	44,312	--	651,643	6.80%
12/31/17	47,262	47,262	--	716,091	6.60%
12/31/18	48,285	48,285	--	710,083	6.80%
12/31/19	49,136	49,136	--	733,387	6.70%
12/31/20	49,547	49,547	--	756,450	6.55%

* 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, 2020**

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>2020</u>	<u>2019</u>
City of Kaukauna	\$ 1,764,018	\$ 2,013,746
Village of Little Chute	1,777,659	1,863,923
Village of Kimberly	618,013	723,807
Village of Combined Locks	343,205	391,353
Darboy Joint Sanitary District #1	<u>1,158,004</u>	<u>1,209,996</u>
Total user fees revenue	<u>\$ 5,660,899</u>	<u>\$ 6,202,825</u>

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

SCHEDULES OF OPERATING EXPENSES

For the Years Ended December 31,

	2020	2019
Plant operation expenses:		
Salaries and wages	\$ 213,772	\$ 227,807
Payroll taxes and benefits	150,461	179,405
Health and safety	13,412	13,101
Support - meter stations	6,964	7,738
Water utility bills	23,857	24,438
Natural gas and auxiliary fuel	36,414	42,815
Gasoline and lubricants	4,474	4,852
Electricity	488,419	496,656
Chemicals	540,600	473,128
Solids disposal fees	6,074	3,474
Sludge disposal	145,953	36,875
Other operating expenses	449	285
Environmental fees	28,414	25,424
Total plant operation expenses	\$ 1,659,263	\$ 1,535,998
Plant maintenance expenses:		
Salaries and wages	\$ 205,347	\$ 196,233
Payroll taxes and employee benefits	138,325	154,311
Other repairs and maintenance	90,867	74,267
Outside maintenance contracts	31,578	35,305
Total plant maintenance expenses	\$ 466,117	\$ 460,116
Quality control and pretreatment expenses:		
Salaries and wages	\$ 56,283	\$ 50,874
Payroll taxes and employee benefits	38,066	40,896
Laboratory expenses	27,176	21,263
Outside testing	11,230	10,794
Miscellaneous	1,947	1,369
Total quality control and pretreatment expenses	\$ 134,702	\$ 125,196

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

SCHEDULES OF OPERATING EXPENSES - CONTINUED

For the Years Ended December 31,

	2020	2019
Administrative and general expenses:		
Administrative salaries and wages	\$ 191,703	\$ 173,178
Commissioners' compensation and expense	18,079	17,921
Payroll taxes and employee benefits	127,573	134,991
Telephone	4,481	4,022
Office equipment rent and repair	17,152	13,549
Office supplies	4,493	3,152
Education and training	2,533	4,846
Membership and subscriptions	535	365
Travel reimbursement	598	827
Insurance	92,296	89,093
Engineering outside services	61,782	10,690
Accounting and auditing fees	15,000	14,900
Legal fees	4,567	675
Inflow reduction	44,501	25,871
Interceptor/manhole rehab study	40,836	108,074
FOG control program	892	851
Miscellaneous administrative expenses	9,415	3,425
Total administrative and general expenses	\$ 636,436	\$ 606,430

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

**BUDGET COMPARISON
For the Year Ended December 31, 2020**

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Receipts:			
User fees	\$ 5,265,467	\$ 5,660,899	\$ 395,432
Bank interest income	140,000	59,999	(80,001)
ICA payments	183,031	183,032	1
Pretreatment	2,458	6,080	3,622
Outside haulers	61,185	35,524	(25,661)
Effluent income	137,719	166,678	28,959
Connection fees	324,124	528,394	204,270
Farmland rental	54,520	52,437	(2,083)
Miscellaneous income	--	1,307	1,307
Unrestricted assets applied	331,368	331,368	--
Total receipts	<u>6,499,872</u>	<u>7,025,718</u>	<u>525,846</u>
Expenditures:			
Payroll	723,900	667,105	56,795
Benefits	442,600	454,425	(11,825)
Administration	62,060	39,207	22,853
Environmental fees	30,000	28,414	1,586
Insurance	92,150	92,296	(146)
Professional contract services	282,400	210,835	71,565
Sludge disposal	135,000	145,953	(10,953)
Utilities	619,550	553,164	66,386
Chemicals	504,050	540,600	(36,550)
Operation, maintenance, lab, QC	173,900	164,519	9,381
Totals	<u>3,065,610</u>	<u>2,896,518</u>	<u>169,092</u>
Capital budget expenses	102,600	120,270	(17,670)
Provision for equipment replacement fund	658,629	725,651	(67,022)
Provision for debt service fund	<u>2,673,033</u>	<u>2,673,033</u>	--
Total expenditures	<u>6,499,872</u>	<u>6,415,472</u>	<u>84,400</u>
Net receipts over expenditures	<u>\$ --</u>	<u>\$ 610,246</u>	<u>\$ 610,246</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, 2020

Change in net position \$ 1,611,178

Amounts reported for budgetary basis are different because:

Unrestricted assets applied 331,368

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	164,515	
Non-cash deferred revenue recognized	<u>(153,719)</u>	10,796

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	1,865,386	
Provision for equipment replacement and capital budget	(845,921)	
Interest income earned on equipment replacement fund	<u>(34,241)</u>	985,224

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.

18,242

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	326,471	
Provision to debt service fund	<u>(2,673,033)</u>	<u>(2,346,562)</u>
Net receipts over expenditures		<u>\$ 610,246</u>