



# Erickson & Associates, S.C.

*Certified Public Accountants*

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## MANAGEMENT LETTER

May 6, 2022

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, 2021, 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 6, 2022

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, 2021, and have issued our report dated May 6, 2022. 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 20, 2022. 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. Immaterial entries, individually and in total, were made to adjust accrued wages, sick & vacation pay and accrued interest receivable and payable. Material entries were made to reclassify design costs for the filtration system and interceptor rehabilitation project from various expense accounts to construction in progress. The annual pension entry to record deferred inflows and outflows was a material entry this year.

### **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 6, 2022.

### **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, 2021

Entry	Account / Description	Acct #	Debit	Credit	Inc Effect
	Income before adjustments.....				863,017.43
1	Accrued interest	22150.00	9,441.00		
	Interest expense	42700.00		9,441.00	9,441.00
	to adjust accrued interest expense				
2	Gain/loss on disposal of f/a	41050.00	33.80		(33.80)
	Accum provision for depreciation	14892.00		33.80	
	to adjust to detail reports				
3	Interest income, genrl checking	41910.00	603.00		
	Interest income, equip replc	41950.00	1,466.00		
	Acc'd int rec, equip replcmnt	19150.156		2,069.00	(2,069.00)
	to adjust accrued interest receivable on CDs				
4	Salary	56010.00	1,022.63		
	Wages, regular	56020.00	5,319.57		
	Salary	57010.00	2,335.00		
	Wages, regular	57020.00	6,844.98		
	Salary	58010.00	1,868.28		
	Salary	59010.00	5,686.68		
	Acc'd payroll	24386.00		3,177.63	(3,177.63)
	Sick leave & vacation pay res	26200.00		19,899.51	(19,899.51)
	to adjust accrued vacation & sick pay and accrued wages				
5	CIP - Filtration design	13414.00	543,694.20		543,694.20
	CIP - Interceptor rehab	13415.00	2,340.00		2,340.00
	Prof & eng contr services	59900.00		426,316.12	
	Prof serv, legal	59920.00		3,016.00	
	Inflow reduction	59950.00		116,702.08	
	to reclassify filtration design costs, including \$3,597.50 & \$24,589.25 paid/acc'd in PY and \$676.00 from legal & \$2,340.00 for interceptor from legal				
6	CIP - Interceptor rehab	13415.00	294,260.86		294,260.86
	Interceptor/manhole rehab study	59960.00		294,260.86	
	to reclassify interceptor design costs				
7	Deferred pension assets	18200.00	86,416.69		
	WI retirement fund	59120.00		86,416.69	86,416.69
	to record FASB adj difference on pension				
8	Retained earnings, general fund	20216.00	472,688.98		
	Retained earnings, debt fund	20217.00	676.02		
	Retained earnings, replacement	20220.00		473,365.00	
	to adj debt/replacement funds to calc				
	Subtotal, numbered entries		1,434,697.69	1,434,697.69	910,972.81

Entry	Account / Description	Acct #	Debit	Credit	Inc Effect
<u>Reclass Entries (do not post):</u>					
A	Alloc pyrl taxes, benefits,wages	56099.00	124,795.85		
	Alloc pyrl taxes, benefits,wages	57099.00	116,860.79		
	Alloc pyrl taxes, benefits,wages	58099.00	29,969.06		
	SS	48408.00		49,779.21	
	Medi care	48409.00		11,642.07	
	Alloc pyrl taxes, benefits,wages	59299.00		210,204.42	
	to allocate pyrl taxes, benefits, wages				
B	Deferred pension outflows	18201.00	487,465.81		
	Deferred pension assets	18200.00	157,721.19		
	Deferred pension inflows	18202.00		645,187.00	
	to reclassify deferred pension inflows/outflows				
Total, all entries			<u>2,351,510.39</u>	<u>2,351,510.39</u>	<u>910,972.81</u>
					<u>1,773,990.24</u>
					= WTB

**HEART OF THE VALLEY  
METROPOLITAN SEWERAGE DISTRICT  
KAUKAUNA, WISCONSIN  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**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, 2021 and 2020, 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, 2021 and 2020, 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 6, 2022

**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, 2021 and 2020. 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 2021, the assets of the District exceeded liabilities by \$31.34 million. Of this amount, \$4.52 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 \$1.77 million during 2021 compared to an increase of \$1.61 million in 2020.

**Operating Revenue** - Operating revenue increased \$69,833 with user fees increasing \$267,542. Rates were unchanged since their reduction July 1, 2020.

**Operating Expenses** - Operating expenses decreased in 2021 by \$142,800.

**Investment Income** - The District's investment income (interest income) decreased by \$72,192 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 2021 revenue recognized was \$153,719.

**Interest Expense** - Interest expense decreased \$56,759 as a result of principal payments made.

**Loss on Disposal of Fixed Assets** - Assets with a book value of \$52,814 were disposed of during 2021, including one item that had a book value of \$184 that was traded in, resulting in a net loss of \$52,630.

**Debt** - The District's total debt obligation decreased \$2.39 million during 2021. 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, \$529,504, is classified as: current, \$171,391, and long-term, \$357,113. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$384,293, is considered to be a deferred inflow of resources.

**Utility Plant** - The District's net utility plant decreased \$0.68 million during 2021. Depreciation (and removals) exceeded current additions of \$1,245,397.

**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**

	2021	2020	Change
Current assets	\$ 4,857,234	\$ 5,297,602	\$ ( 440,368)
Restricted assets	10,395,708	9,923,020	472,688
Capital assets	27,059,948	27,742,021	( 682,073)
Other assets	651,189	682,939	( 31,750)
Total assets	42,964,079	43,645,582	( 681,503)
Deferred outflows of resources	487,466	683,367	( 195,901)
Current liabilities	494,052	383,629	110,423
Liabilities payable from restricted assets	2,509,444	2,525,768	( 16,324)
Long-term debt	8,074,189	10,524,286	( 2,450,097)
Total liabilities	11,077,685	13,433,683	( 2,355,998)
Deferred inflows of resources	1,029,480	1,324,876	( 295,396)
Total net position	\$ 31,344,380	\$ 29,570,390	\$ 1,773,990

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

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

**FINANCIAL 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 \$31.34 million at the close of the fiscal year ending December 31, 2021. This is an increase of \$1.77 million or 6.00% from the previous year.

A significant portion of the District's net position, 52.42%, is invested in capital assets. An additional 33.17% 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 ASSETS**

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Operating revenue	\$ 6,521,152	\$ 6,451,319	\$ 69,833
Operating expenses	<u>4,619,104</u>	<u>4,761,904</u>	<u>( 142,800)</u>
Total operating income	<u>1,902,048</u>	<u>1,689,415</u>	<u>212,633</u>
Non-operating income (expense):			
Interest income	40,565	112,757	( 72,192)
Clean water fund contribution	153,719	153,719	--
Interest expense	( 269,712)	( 326,471)	56,759
Loss on disposal of fixed assets	<u>( 52,630)</u>	<u>( 18,242)</u>	<u>( 34,388)</u>
Total other expense	<u>( 128,058)</u>	<u>( 78,237)</u>	<u>( 49,821)</u>
Change in net position	1,773,990	1,611,178	162,812
Net assets, beginning	<u>29,570,390</u>	<u>27,959,212</u>	<u>1,611,178</u>
Net assets, ending	<u>\$ 31,344,380</u>	<u>\$ 29,570,390</u>	<u>\$ 1,773,990</u>

*Changes in Net Position*

The District's net position increased \$1.77 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 2021 budget with anticipated expenditures and revenues of \$6,750,233. Community treatment fees of \$5,014,331 provides the majority of the District's revenue with the remaining revenue coming from various other revenue streams detailed in the District budget. The District utilized \$878,624 in existing unrestricted assets to balance the 2021 budget.

Growth and development in member communities remained consistent as it has historically been each year. There were 239 total new sewer connections were added to member community sewerage systems in 2021. Influent flow averaged 6.307 million gallons per day (MGD) representing a 361,000 gallon per day increase from 2020. Daily flow totals are strongly influenced by annual precipitation patterns and so year over year variation is to be expected. The District also placed new laser flow metering technology into service for both billing and compliance reporting in 2021.

The District continues to closely monitor organic loadings on a continuous basis. The Biochemical Oxygen Demand (BOD) load increased by 13.4% percent over 2020. The BOD parameter along with the ammonia loadings are critical to the District as the amount of plant capacity is finite and is nearing the nameplate organic plant rated capacity. The ammonia loads increased by 8.1% over 2020. When taken in conjunction with the new connection numbers, the District service area remains in a moderate to high growth trend.

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 2021, the District worked with its consultants to plan and produce project manuals and specifications for two major projects.

The first is the effluent filtration project being designed by Donohue and Associates. This project involves the installation of Kruger Hydrotech Disk Filters that will provide tertiary level treatment on the District's effluent. The filtration of the effluent will remove additional 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 disk filters will allow the District to be in full compliance with the TMDL allocations contained in its successor permit that would begin 1/1/24. This project will be completed utilizing a Clean Water Fund loan with a payback schedule incorporated into the District's annual budget. As with any major financial obligation, the District's sewage rate structures will increase once the loan repayments begin.

The Interceptor System Rehabilitation project planning and design work continued in 2021. The project should be ready for bidding in the 4<sup>th</sup> quarter of 2022 with construction anticipated to begin in spring of 2023. The past year was spent working out details on bypass pumping locations and coordinating with member communities and stakeholders in preparation for the project. Strategic Municipal Services has been working with the District for several years in its evaluation and now the rehabilitation of the interceptor.

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

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

**SIGNIFICANT EVENTS - CONTINUED**

Heart of the Valley, in its role as control authority for the pretreatment program, monitors 15 sites whose discharge could pose a threat to the structures, equipment, or biology used for treatment of member community wastewater. There were two locations removed from the program in 2021 as their discharge volume and concentrations are no longer a threat to the biological process.

HOVMSD staffing remained at 11 FTE employees in 2021. There were no retirements in 2021 and there was one process control technician vacancy that was refilled due to the incumbent employee vacating his position and accepting employment elsewhere.

**RATE HISTORY**

	<u>2022</u>	<u>7/1/2020 - 12/31/2021</u>	<u>1/1/2020 - 6/30/2020</u>	<u>2019</u>	<u>2018</u>
Flow (per 1,000 gallons)	0.763	0.628	0.696	0.735	0.796
B.O.D. (per pound)	0.193	0.189	0.220	0.238	0.262
Suspended Solids (per pound)	0.254	0.238	0.254	0.255	0.266
Phosphorus (per pound)	6.692	6.253	6.321	6.239	6.290
Ammonia-N (per pound)	1.247	1.236	1.320	1.324	1.499
Chloride (per pound)	0.004	0.003	0.003	0.004	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](mailto:brian.helminger@hvmsd.org).

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

**STATEMENTS OF NET POSITION**

December 31,

**ASSETS**

	2021	2020
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,077,151	\$ 4,527,342
Accounts receivable		
Users	522,439	465,846
Others	35,345	84,491
Accrued interest receivable	558	2,627
Notes receivable	172,391	168,407
Prepaid expenses	49,350	48,889
<b>Total current assets</b>	<b>4,857,234</b>	<b>5,297,602</b>
<b>Restricted assets:</b>		
Cash and cash equivalents	10,395,708	9,923,020
<b>Utility plant:</b>		
Utility plant in service	64,790,350	64,610,703
Less accumulated depreciation	38,570,697	36,868,682
<b>Net utility plant in service</b>	<b>26,219,653</b>	<b>27,742,021</b>
Construction in progress	840,295	--
<b>Total utility plant</b>	<b>27,059,948</b>	<b>27,742,021</b>
<b>Noncurrent assets:</b>		
Notes receivable	357,113	529,504
Net pension asset - WRS pension plan	294,076	153,435
<b>Total noncurrent assets</b>	<b>651,189</b>	<b>682,939</b>
<b>Total assets</b>	<b>42,964,079</b>	<b>43,645,582</b>
<b>Deferred outflows of resources:</b>		
WRS pension plan	487,466	683,367



## LIABILITIES AND NET POSITION

	2021	2020
<b>Current liabilities:</b>		
Accounts payable - operating	\$ 137,101	\$ 141,979
Accounts payable - construction	92,113	--
Accrued liabilities	264,838	241,650
Total current liabilities	494,052	383,629
<b>Liabilities payable from restricted assets:</b>		
Current portion of long-term debt	2,450,097	2,393,220
Accrued interest	45,335	54,776
Accounts payable, equipment reserve	14,012	77,772
Total current liabilities payable from restricted assets	2,509,444	2,525,768
<b>Long-term liabilities:</b>		
Long-term debt	8,074,189	10,524,286
Total liabilities	11,077,685	13,433,683
<b>Deferred inflows of resources:</b>		
Deferred revenue	384,293	538,012
WRS pension plan	645,187	786,864
Total deferred inflows of resources	1,029,480	1,324,876
<b>Net position:</b>		
Invested in capital assets, net of related debt	16,429,537	14,746,743
Restricted for plant replacement	7,724,012	7,250,647
Restricted for debt service	2,671,696	2,672,373
Unrestricted	4,519,135	4,900,627
Total net position	\$ 31,344,380	\$ 29,570,390

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>2021</u>	<u>2020</u>
Operating revenues:		
User fees	\$ 5,928,441	\$ 5,660,899
Connection fees	346,128	528,394
Effluent sales	161,611	166,678
Outside haulers income	25,788	35,524
Farmland rental income	51,699	52,437
Other revenue	<u>7,485</u>	<u>7,387</u>
Total operating revenues	<u>6,521,152</u>	<u>6,451,319</u>
Operating expenses:		
Plant operations	1,638,854	1,659,263
Plant maintenance	475,782	466,117
Quality control and pretreatment	122,502	134,702
Administrative and general	507,309	636,436
Depreciation	<u>1,874,657</u>	<u>1,865,386</u>
Total operating expenses	<u>4,619,104</u>	<u>4,761,904</u>
Operating income	<u>1,902,048</u>	<u>1,689,415</u>
Non-operating revenue (expenses):		
Interest income	40,565	112,757
Clean water fund contribution	153,719	153,719
Interest expense	( 269,712)	( 326,471)
Loss on disposal of fixed assets	<u>( 52,630)</u>	<u>( 18,242)</u>
Net non-operating expenses	<u>( 128,058)</u>	<u>( 78,237)</u>
Change in net position	1,773,990	1,611,178
Net position, beginning of the year	<u>29,570,390</u>	<u>27,959,212</u>
Net position, ending of year	<u>\$ 31,344,380</u>	<u>\$ 29,570,390</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>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from operating revenue	\$ 6,513,705	\$ 6,522,221
Cash paid for operating expenses	<u>( 2,813,015)</u>	<u>( 2,965,391)</u>
Net cash provided by operating activities	<u>3,700,690</u>	<u>3,556,830</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	( 1,216,861)	( 376,275)
Payments of interest on debt	( 279,153)	( 335,370)
Payment of principal on debt	( 2,393,220)	( 2,337,663)
Principal payments received on notes receivable	168,407	164,515
Proceeds from disposal of equipment	<u>- -</u>	<u>113,021</u>
Net cash used in capital and related financing activities	<u>( 3,720,827)</u>	<u>( 2,771,772)</u>
Cash flows from investing activities:		
Interest received	<u>42,634</u>	<u>112,475</u>
Net change in cash and cash equivalents	22,497	897,533
Cash and cash equivalents, beginning of year	<u>14,450,362</u>	<u>13,552,829</u>
Cash and cash equivalents, end of year	<u>\$ 14,472,859</u>	<u>\$ 14,450,362</u>

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

For the Years Ended December 31,

	2021	2020
Operating income	\$ 1,902,048	\$ 1,689,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,874,657	1,865,386
(Increase) decrease in:		
Accounts receivable - users	( 56,593)	114,895
Accounts receivable - other	49,146	( 43,993)
Prepaid expenses	( 461)	( 2,979)
Pension assets and deferred pension outflows	55,260	( 110,197)
Increase (decrease) in:		
Accounts payable - operating	( 4,878)	( 71,843)
Accrued liabilities	23,188	29
Pension liability and deferred pension inflows	( 141,677)	116,117
Net cash provided by operating activities	\$ 3,700,690	\$ 3,556,830

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 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

	2021	2020
Checking accounts	\$ 10,135	\$ 10,057
FDIC insured investment accounts	567,930	559,898
Certificates of deposit	1,193,031	1,697,714
Total in commercial banks and credit unions	1,771,096	2,267,669
Wisconsin State Treasurer's Investment Pool	12,701,763	12,182,693
Total cash and cash equivalents	\$ 14,472,859	\$ 14,450,362
Cash and cash equivalents, unrestricted	\$ 4,077,151	\$ 4,527,342
Cash and cash equivalents, restricted	10,395,708	9,923,020
Totals	\$ 14,472,859	\$ 14,450,362

*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, 2021. 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 \$1,771,096 and the financial institutions balance was \$1,811,556. Of the financial institutions balance, \$1,186,478 was covered by FDIC/NCUA insurance. Deposits with commercial financial institutions were \$625,078 more than federal insurance. No amounts have been collateralized.

The District has adopted a policy that limits deposits with a public depository to the sum of the federal insurer plus Public Deposit Guarantee Fund coverage unless the depository provides collateral or meets a set of financial criteria. At December 31, 2021, 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:

	2021	2020
Restricted for plant replacement	\$ 7,724,012	\$ 7,250,647
Restricted for debt service	2,671,696	2,672,373
Totals	\$ 10,395,708	\$ 9,923,020

**Note 3. Notes Receivable:**

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

	2021	2020
Village of Combined Locks	\$ 100,025	\$ 131,838
Darboy Sanitary District	429,479	566,073
Totals	\$ 529,504	\$ 697,911
Current	\$ 172,391	\$ 168,407
Non-current	357,113	529,504
Totals	\$ 529,504	\$ 697,911

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, 2021 and 2020, was as follows:

<u>2021</u>	Beginning Balance	Additions & Transfers	Reductions	Ending Balance
Land and improvements	\$ 3,081,751	\$ 65,420	\$ 8,540	\$ 3,138,631
Buildings and structures	31,547,169	106,083	23,187	31,630,065
Sewerage collection	15,543,863	--	--	15,543,863
Equipment	14,381,498	204,952	164,200	14,422,250
Vehicles	56,422	28,647	29,528	55,541
Total in service	64,610,703	405,102	225,455	64,790,350
Accumulated depreciation	36,868,682	1,874,657	172,642	38,570,697
Utility plant in service	27,742,021	( 1,469,555)	52,813	26,219,653
Disk filter project	--	543,694	--	543,694
Interceptor rehabilitation	--	296,601	--	296,601
Total construction in progress	--	840,295	--	840,295
Net totals	<u>\$27,742,021</u>	<u>\$ ( 629,260)</u>	<u>\$ 52,813</u>	<u>\$ 27,059,948</u>

During 2021, there were no proceeds on disposals of capital assets. One asset that was traded had a book value of \$183 at the time of the trade-in.

<u>2020</u>	Beginning Balance	Additions & Transfers	Reductions	Ending Balance
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.

**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:

	2021	2020
\$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.	\$ 595,981	\$ 785,534
\$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.	8,278,354	10,229,802
\$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.	1,649,951	1,902,170
Totals	10,524,286	12,917,506
Less current portion	2,450,097	2,393,220
Total long-term debt	\$ 8,074,189	\$ 10,524,286

Future maturities of long-term debt are as follows:

Year ending <i>December 31,</i>	Principal	Interest	Totals
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	285,015	10,756	295,771
2027	292,069	3,614	295,683
Total	\$ 10,524,286	\$ 544,068	\$ 11,068,354

Long-term debt activity for the year ended December 31, 2021, was as follows:

	Balance January 1, 2021	Reductions	Balance December 31, 2021	Amounts Due in One Year
Notes from direct borrowings:				
Clean water fund	\$12,917,506	\$2,393,220	\$ 10,524,286	\$2,450,097

**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, 2020, was as follows:

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

The 2021 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$4,883,800,775. The legal debt limit and margin of indebtedness as of December 31, 2021, in accordance with Section 67.03 of the Wisconsin Statutes is as follows:

Debt limit (5% of \$4,883,800,775)	\$ 244,190,039
Deduct long-term debt applicable to debt margin	10,524,286
Legal margin for new debt	\$ 233,665,753

**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:

Year	Core Fund Adjustment	Variable Fund Adjustment
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)
2020	1.7	21

**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 \$54,662 and \$52,319 in contributions from the employer for 2021 and 2020, respectively.

Contribution rates as of December 31, 2021 were 6.75% each for employees and employers. Contribution rates as of December 31, 2020 were 6.55% 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, 2021, the District reported an asset of \$294,076 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2020, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019, rolled forward to December 31, 2020. 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, 2020, the District's proportion was 0.00471039%, which was a decrease of 0.00004811% from its proportion measured as of December 31, 2019.

At December 31, 2020, the District reported an asset of \$153,435 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability 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 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, 2019, the District's proportion was 0.00475850%, which was a decrease of 0.00007401% from its proportion measured as of December 31, 2018.

The District recognized pension expense of \$58,239 and \$58,239 for 2021 and 2020, 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>2021</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 425,617	\$ 91,677
Net differences between projected and actual earnings on pension plan investments	--	552,104
Changes in assumptions	6,670	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	517	1,406
Employer contributions subsequent to the measurement date	54,662	--
Totals	<u>\$ 487,466</u>	<u>\$ 645,187</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</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>

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>
2021	\$ 273,426	\$ 327,817
2022	231,005	246,276
2023	101,530	201,769
2024	42,313	84,795

**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, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2019
Measurement date of net pension liability	December 31, 2020
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. The total pension liability for December 31, 2020, is based upon a roll-forward of the liability calculated from the December 31, 2019, 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	51	7.2	4.7
Fixed income	25	3.2	0.6
Inflation sensitive assets	16	2.0	(0.4)
Real estate	8	5.6	3.1
Private equity/debt	11	10.2	7.6
Multi-asset	4	5.8	3.3
Total Core Fund	11.5	6.6	4.1
 <u>Variable Fund Asset Class</u>			
U.S. equities	70	6.6	4.1
International equities	30	7.4	4.9
Total Variable Fund	100	7.1	4.6

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)	\$ 279,919	\$ ( 294,076)	\$ ( 715,671)

**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:

	2021	2020
Beginning balance	\$ 38,268	\$ 18,494
Contributions	-	21,598
Plan earnings	173	253
Withdrawals	( 10,038)	( 2,077)
Balance at end of year	\$ 28,403	\$ 38,268

**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, 2021.

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, 2021, contracts totaling \$692,900 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 \$54,700.

The District has begun the process of a significant reconstruction of the interceptor with relining of the mainline interceptor and acid resistant coatings to the concrete structures. During 2021, design work was begun and is continuing. The ultimate cost of this project is unknown but is expected to exceed \$22 million.

**Note 9. Subsequent Events:**

Subsequent to year end, the District accepted the low bid for construction of the effluent filtration project and a contract for related construction phase engineering services, totaling, \$17.6 million. 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 6, 2022, the date on which these financial statements were available to be issued. There are no other events subsequent to December 31, 2021, 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	0.00475850%	( 153,435)	756,450	20.28%	102.96%
12/31/21	0.00471039%	( 294,076)	775,093	37.94%	105.26%

\* 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%
12/31/21	52,319	52,319	--	775,093	6.75%

\* 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, 2021

**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>2021</u>	<u>2020</u>
City of Kaukauna	\$ 1,782,277	\$ 1,764,018
Village of Little Chute	2,211,718	1,777,659
Village of Kimberly	476,440	618,013
Village of Combined Locks	331,182	343,205
Darboy Joint Sanitary District #1	<u>1,126,824</u>	<u>1,158,004</u>
Total user fees revenue	<u>\$ 5,928,441</u>	<u>\$ 5,660,899</u>

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

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

	<u>2021</u>	<u>2020</u>
Plant operation expenses:		
Salaries and wages	\$ 228,642	\$ 213,772
Payroll taxes and benefits	124,796	150,461
Health and safety	14,185	13,412
Support - meter stations	7,544	6,964
Water utility bills	24,462	23,857
Natural gas and auxiliary fuel	35,034	36,414
Gasoline and lubricants	5,481	4,474
Electricity	537,709	488,419
Chemicals	522,071	540,600
Solids disposal fees	4,693	6,074
Sludge disposal	106,570	145,953
Other operating expenses	935	449
Environmental fees	26,732	28,414
Total plant operation expenses	<u>\$ 1,638,854</u>	<u>\$ 1,659,263</u>
Plant maintenance expenses:		
Salaries and wages	\$ 217,345	\$ 205,347
Payroll taxes and employee benefits	116,861	138,325
Other repairs and maintenance	110,002	90,867
Outside maintenance contracts	31,574	31,578
Total plant maintenance expenses	<u>\$ 475,782</u>	<u>\$ 466,117</u>
Quality control and pretreatment expenses:		
Salaries and wages	\$ 55,252	\$ 56,283
Payroll taxes and employee benefits	29,969	38,066
Laboratory expenses	25,744	27,176
Outside testing	10,235	11,230
Miscellaneous	1,302	1,947
Total quality control and pretreatment expenses	<u>\$ 122,502</u>	<u>\$ 134,702</u>

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

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

	2021	2020
Administrative and general expenses:		
Administrative salaries and wages	\$ 194,556	\$ 191,703
Commissioners' compensation and expense	16,947	18,079
Payroll taxes and employee benefits	106,028	127,573
Telephone	6,558	4,481
Office equipment rent and repair	30,890	17,152
Office supplies	4,625	4,493
Education and training	1,696	2,533
Membership and subscriptions	270	535
Travel reimbursement	494	598
Insurance	100,716	92,296
Engineering outside services	16,068	61,782
Accounting and auditing fees	15,100	15,000
Legal fees	2,034	4,567
Public relations	12,757	--
Financial advisory	3,000	--
Inflow reduction	( 9,479)	44,501
Interceptor/manhole rehab study	--	40,836
FOG control program	235	892
Miscellaneous administrative expenses	4,814	9,415
Total administrative and general expenses	\$ 507,309	\$ 636,436

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

**BUDGET COMPARISON**  
For the Year Ended December 31, 2021

	<u>Original &amp; Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Receipts:</b>			
User fees	\$ 5,014,331	\$ 5,928,441	\$ 914,110
Bank interest income	60,000	19,826	( 40,174)
ICA payments	182,987	183,032	45
Pretreatment	5,552	5,049	( 503)
Outside haulers	42,546	25,788	( 16,758)
Effluent income	166,356	161,611	( 4,745)
Connection fees	348,007	346,128	( 1,879)
Farmland rental	51,830	51,699	( 131)
Miscellaneous income	--	2,436	2,436
Unrestricted assets applied	878,624	878,624	--
<b>Total receipts</b>	<u>6,750,233</u>	<u>7,602,634</u>	<u>852,401</u>
<b>Expenditures:</b>			
Payroll	745,100	695,795	49,305
Benefits	437,500	377,654	59,846
Administration	68,910	82,051	( 13,141)
Environmental fees	30,000	26,732	3,268
Insurance	98,350	100,716	( 2,366)
Professional contract services	312,300	66,383	245,917
Sludge disposal	140,000	105,954	34,046
Utilities	602,550	602,686	( 136)
Chemicals	598,800	522,071	76,729
Operation, maintenance, lab, QC	189,700	164,405	25,295
<b>Total expenditures</b>	<u>3,223,210</u>	<u>2,744,447</u>	<u>478,763</u>
Capital budget expenses	189,776	1,012,955	( 823,179)
Provision for equipment replacement fund	664,874	699,510	( 34,636)
Provision for debt service fund	2,672,373	2,672,373	--
<b>Total expenditures</b>	<u>6,750,233</u>	<u>7,129,285</u>	<u>( 379,052)</u>
<b>Net receipts over expenditures</b>	<u>\$ --</u>	<u>\$ 473,349</u>	<u>\$ 473,349</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, 2021

Change in net position \$ 1,773,990

Amounts reported for budgetary basis are different because:

Unrestricted assets applied 878,624

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	168,407	
Non-cash deferred revenue recognized	<u>( 153,719)</u>	14,688

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	1,874,657	
Provision for equipment replacement and capital budget	(1,712,465)	
Interest income earned on equipment replacement fund	<u>( 6,114)</u>	156,078

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.

52,630

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	269,712	
Provision to debt service fund	<u>(2,672,373)</u>	<u>(2,402,661)</u>

Net receipts over expenditures \$ 473,349