



# **Erickson & Associates, S.C.**

*Certified Public Accountants*

1000 West College Avenue • Appleton, Wisconsin 54914 • (920) 733-4957 • FAX (920) 733-6221  
255 South Main Street • Fond du Lac, Wisconsin 54935 • (920) 921-4189 • FAX (920) 923-1149  
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## **MANAGEMENT LETTER**

May 8, 2023

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, 2022, 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 8, 2023

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, 2022, and have issued our report dated May 8, 2023. 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 19, 2023. 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, accrued interest receivable and payable, expense financial study costs and bond issue costs and capitalize interest on the filter project. 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 8, 2023.

## **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, 2022

Entry	Account / Description	Acct #	Debit	Credit	Inc Effect
	Income before adjustments.....				<u>2,212,349.91</u>
1	Interest expense Accrued interest to adjust accrued interest expense	42700.00 22150.00	12,437.18	12,437.18	(12,437.18)
2	CIP - Disc Filtration project Interest expense to reclassify interest on loan	13414.00 42700.00	22,967.18	22,967.18	22,967.18
3	Gain/loss on disposal of f/a Accum provision for depr to adjust to detail reports, appears to be ID #2843, robotic reader	41050.00 14892.00	31.72	31.72	(31.72)
4	Acc'd int rec, equip replcmnt Interest income, genrl checking Interest income, equip replc to adjust accrued interest receivable on CDs	19150.156 41910.00 41950.00	1,422.00 68.00	1,490.00	1,422.00
5	Interest income, conn fee Misc income to move late fees on conn rev to misc inc, w/ other	41980.00 41100.00	111.35	111.35	
6	Salary Wages, regular Salary Wages, regular Salary Salary Commissioners, fees Acc'd payroll Sick leave & vacation pay res to adjust accrued vacation & sick pay and accrued wages	56010.00 56020.00 57010.00 57020.00 58010.00 59010.00 59040.00 24386.00 26200.00	6,410.07 2,617.16 3,381.15 1,841.32 13,331.26 150.00	3,965.42 677.49 23,088.05	(677.49) (23,088.05)
7	Prof serv, financial advisory CIP - Disc Filtration project to expense Ehlers study \$8,500 and Quarles & Brady \$26,000 debt issue costs	59924.00 13414.00	34,500.00	34,500.00	(34,500.00)
8	Deferred pension assets WI retirement fund to record FASB adj difference on pension	18200.00 59120.00	88,616.13	88,616.13	88,616.13
9	Retained earnings, general fund Retained earnings, debt fund Retained earnings, replacement to adj debt/replacement funds to calc	20216.00 20217.00 20220.00	809,970.58	392,675.58 417,295.00	
	Subtotal, numbered entries		997,855.10	997,855.10	42,270.87

Entry	Account / Description	Acct #	Debit	Credit	Inc Effect
	<u>Reclass Entries (do not post):</u>				
A	Alloc pyrl taxes, benefits,wages	56099.00	165,974.64		
	Alloc pyrl taxes, benefits,wages	57099.00	147,177.28		
	Alloc pyrl taxes, benefits,wages	58099.00	40,638.61		
	SS	48408.00		52,297.37	
	Medi care	48409.00		12,231.23	
	Alloc pyrl taxes, benefits,wages to allocate pyrl taxes, benefits, wages	59299.00		289,261.93	
B	Deferred pension outflows	18201.00	737,085.94		
	Deferred pension assets	18200.00	152,724.06		
	Deferred pension inflows to reclassify deferred pension inflows/outflows	18202.00		889,810.00	
	Total, all entries		<u>2,241,455.63</u>	<u>2,241,455.63</u>	42,270.87
					<u>2,254,620.78</u>
					= WTB

**HEART OF THE VALLEY  
METROPOLITAN SEWERAGE DISTRICT  
KAUKAUNA, WISCONSIN  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**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 Audit of the Financial Statements**

##### **Opinions**

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Heart of the Valley Metropolitan Sewerage District, as of December 31, 2022, and 2021, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

##### **Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

##### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

##### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and the required supplementary information as listed on in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 8, 2023

**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, 2022 and 2021. 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 2022, the assets of the District exceeded liabilities by \$33.60 million. Of this amount, \$5.21 million was reported as "unrestricted net position," which may be used to meet our on-going obligations.

*Changes in Net Position* - The District's "total net position" increased by \$2.25 million during 2022 compared to an increase of \$1.77 million in 2021.

*Operating Revenue* - Operating revenue increased \$613,160 with user fees increasing \$578,227.

*Operating Expenses* - Operating expenses increased in 2022 by \$296,708.

*Investment Income* - The District's investment income (interest income) increased by \$189,462 due to higher 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 2022 revenue recognized was \$153,719.

*Interest Expense* - Interest expense decreased \$58,642 as a result of principal payments made. There were advances on a new Clean Water Fund loan in 2022 but these were made later in the year.

*Loss on Disposal of Fixed Assets* - Assets with a book value of \$136,555 were disposed of during 2022. Most of these disposals were due to changes related to the effluent filter project. There were no proceeds on these disposals.

*Debt* - The District's total debt obligation increased \$2.69 million during 2022. Borrowings, related to the effluent filter project, were \$5.14 million. Principal payments on existing debt were \$2.45 million.

*Notes Receivable and Deferred Revenue* - During 2005, the District accepted notes from Combined Locks and Darboy Sanitary. The remaining portion of these notes, \$357,113, is classified as: current, \$176,469, and long-term, \$180,644. Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$230,574, is considered to be a deferred inflow of resources.

*Capital Assets* - The District's capital assets increased \$4.07 million during 2022. Current additions, \$6.00 million, exceeded depreciation and removals. Most of the current year additions was for the effluent filter project, \$5.27 million or the interceptor improvement project \$0.41 million.

**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**

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Current assets	\$ 5,480,477	\$ 4,857,234	\$ 623,243
Restricted assets	11,205,679	10,395,708	809,971
Capital assets	31,129,676	27,059,948	4,069,728
Other assets	<u>558,339</u>	<u>651,189</u>	<u>( 92,850)</u>
Total assets	<u>48,374,171</u>	<u>42,964,079</u>	<u>5,410,092</u>
Deferred outflows of resources	<u>737,086</u>	<u>487,466</u>	<u>249,620</u>
Current liabilities	1,114,803	494,052	620,751
Liabilities payable from restricted assets	2,566,246	2,509,444	56,802
Long-term debt	<u>10,710,823</u>	<u>8,074,189</u>	<u>2,636,634</u>
Total liabilities	<u>14,391,872</u>	<u>11,077,685</u>	<u>3,314,187</u>
Deferred inflows of resources	<u>1,120,384</u>	<u>1,029,480</u>	<u>90,904</u>
Total net position	<u>\$ 33,599,001</u>	<u>\$ 31,344,380</u>	<u>\$ 2,254,621</u>

**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 \$33.60 million at the close of the fiscal year ending December 31, 2022. This is an increase of \$2.25 million or 7.19% from the previous year.

A significant portion of the District's net position, 51.15%, is invested in capital assets. An additional 33.35% 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**

	2022	2021	Change
Operating revenue	\$ 7,134,312	\$ 6,521,152	\$ 613,160
Operating expenses	4,915,812	4,619,104	296,708
Total operating income	<u>2,218,500</u>	<u>1,902,048</u>	<u>316,452</u>
Non-operating income (expense):			
Interest income	230,027	40,565	189,462
Clean water fund contribution	153,719	153,719	--
Interest expense	( 211,070)	( 269,712)	58,642
Loss on disposal of fixed assets	( 136,555)	( 52,630)	( 83,925)
Total other expense	<u>36,121</u>	<u>( 128,058)</u>	<u>164,179</u>
Change in net position	2,254,621	1,773,990	480,631
Net assets, beginning	<u>31,344,380</u>	<u>29,570,390</u>	<u>1,773,990</u>
Net assets, ending	<u>\$ 33,599,001</u>	<u>\$ 31,344,380</u>	<u>\$ 2,254,621</u>

*Changes in Net Position*

The District's net position increased \$2.25 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 2022 budget with anticipated expenditures and revenues of \$6,967,273. Community treatment fees of \$6,152,038 provide the majority of the District's revenue with the remaining revenue coming from the common revenue streams detailed in this and past District budgets.

The District tracks development activities with its member communities and collects connection fees for new connections served by the District. The five member communities invoiced a total of \$358,828 for 183 new connections that were added within their boundaries in 2022. This is on par with the average of 180 connections recorded since the existing WWTF was last upgraded in 2007. Growth and development remained consistent in 2022.

Influent flow averaged 6.368 million gallons per day (MGD) representing a modest 61,000 gallon per day increase over 2021. Daily flow totals do vary year to year and are strongly influenced by the annual precipitation.

The District continues to closely monitor organic loadings on a continuous basis for both compliance and billing purposes. The Biochemical Oxygen Demand (BOD) load increased by 2.4% percent over 2020. The BOD parameter along with the ammonia loadings are critical to the District as the organic capacity of the biological processes are finite. The ammonia load decreased by -7.5% from 2021 when the load increased by 8.1% over 2020. This was the first observed decrease in ammonia load since 2015.

Ground was broken on the District's effluent filtration project in August with the project moving along nicely compliments of a mild winter. The project was awarded to low bidder CD Smith Construction headquartered in Fond Du Lac, Wisconsin. The filter project is on schedule and the District anticipates placing the effluent filters into service in late 2023 and project close out in 2024. The filters will provide a physical barrier to separate and remove additional suspended solids and phosphorus from the liquid flow. The debt service for the Clean Water Fund loan is initially interest only payments until after the project is closed out. Sewer rates will be adjusted to account for full principal and interest payments that are anticipated in 2025.

The planning and project work for the Interceptor System Rehabilitation project continued throughout 2022. The project should be ready for bidding in the second quarter of 2023. Bypass pumping details and project scope adjustments have been identified and are now incorporated into the bidding documents. Strategic Municipal Services has been working with the District for several years; first in its evaluation and now the rehabilitation of the interceptor.

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. The District continues working with industries to protect the treatment plant and encouraging the reduction of organic loads where possible.

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

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

**SIGNIFICANT EVENTS - CONTINUED**

HOVMSD staffing remained at 11 FTE employees in 2022. There were no position vacancies or employee retirements in 2022.

**RATE HISTORY**

	<u>2023</u>	<u>2022</u>	<u>7/1/2020 - 12/31/2021</u>	<u>1/1/2020- 6/30/2020</u>	<u>2019</u>
Flow (per 1,000 gallons)	0.705	0.763	0.628	0.696	0.735
B.O.D. (per pound)	0.176	0.193	0.189	0.220	0.238
Suspended Solids (per pound)	0.238	0.254	0.238	0.254	0.255
Phosphorus (per pound)	6.378	6.692	6.253	6.321	6.239
Ammonia-N (per pound)	1.090	1.247	1.236	1.320	1.324
Chloride (per pound)	0.003	0.004	0.003	0.003	0.004

**CONTACT INFORMATION**

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

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

**STATEMENTS OF NET POSITION**

December 31,

ASSETS

	<u>2022</u>	<u>2021</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,651,475	\$ 4,077,151
Accounts receivable		
Users	566,090	522,439
Others	29,531	35,345
Accrued interest receivable	1,980	558
Notes receivable	176,469	172,391
Prepaid expenses	54,932	49,350
<b>Total current assets</b>	<u>5,480,477</u>	<u>4,857,234</u>
<b>Restricted assets:</b>		
Cash and cash equivalents	<u>11,205,679</u>	<u>10,395,708</u>
<b>Capital assets:</b>		
Capital assets in service, cost	63,645,541	64,790,350
Less accumulated depreciation	<u>39,040,149</u>	<u>38,570,697</u>
Net capital assets in service	24,605,392	26,219,653
Construction in progress	<u>6,524,284</u>	<u>840,295</u>
<b>Total capital assets</b>	<u>31,129,676</u>	<u>27,059,948</u>
<b>Noncurrent assets:</b>		
Notes receivable	180,644	357,113
Net pension asset - WRS pension plan	<u>377,695</u>	<u>294,076</u>
<b>Total noncurrent assets</b>	<u>558,339</u>	<u>651,189</u>
<b>Total assets</b>	<u>48,374,171</u>	<u>42,964,079</u>
<b>Deferred outflows of resources:</b>		
WRS pension plan	<u>737,086</u>	<u>487,466</u>



## LIABILITIES AND NET POSITION

	2022	2021
<b>Current liabilities:</b>		
Accounts payable - operating	\$ 101,206	\$ 137,101
Accounts payable - construction	724,693	92,113
Accrued liabilities	288,904	264,838
Total current liabilities	1,114,803	494,052
<b>Liabilities payable from restricted assets:</b>		
Current portion of long-term debt	2,508,326	2,450,097
Accrued interest	57,772	45,335
Accounts payable, equipment reserve	148	14,012
Total current liabilities payable from restricted assets	2,566,246	2,509,444
<b>Long-term liabilities:</b>		
Long-term debt	10,710,823	8,074,189
Total liabilities	14,391,872	11,077,685
<b>Deferred inflows of resources:</b>		
Deferred revenue	230,574	384,293
WRS pension plan	889,810	645,187
Total deferred inflows of resources	1,120,384	1,029,480
<b>Net position:</b>		
Invested in capital assets, net of related debt	17,185,686	16,429,537
Restricted for plant replacement	8,141,307	7,724,012
Restricted for debt service	3,064,372	2,671,696
Unrestricted	5,207,636	4,519,135
Total net position	\$ 33,599,001	\$ 31,344,380

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 NET POSITION**  
For the Years Ended December 31,

	2022	2021
Operating revenues:		
User fees	\$ 6,506,668	\$ 5,928,441
Connection fees	373,828	346,128
Effluent sales	161,363	161,611
Outside haulers income	28,672	25,788
Farmland rental income	52,910	51,699
Other revenue	10,871	7,485
Total operating revenues	7,134,312	6,521,152
Operating expenses:		
Plant operations	1,880,965	1,638,854
Plant maintenance	487,758	475,782
Quality control and pretreatment	145,710	122,502
Administrative and general	603,340	507,309
Depreciation	1,798,039	1,874,657
Total operating expenses	4,915,812	4,619,104
Operating income	2,218,500	1,902,048
Non-operating revenue (expenses):		
Interest income	230,027	40,565
Clean water fund contribution	153,719	153,719
Interest expense	( 211,070)	( 269,712)
Loss on disposal of fixed assets	( 136,555)	( 52,630)
Net non-operating revenue (expenses)	36,121	( 128,058)
Change in net position	2,254,621	1,773,990
Net position, beginning of the year	31,344,380	29,570,390
Net position, ending of year	\$ 33,599,001	\$ 31,344,380

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>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from operating revenue	\$ 7,096,475	\$ 6,513,705
Cash paid for operating expenses	<u>( 3,223,800)</u>	<u>( 2,813,015)</u>
Net cash provided by operating activities	<u>3,872,675</u>	<u>3,700,690</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	( 5,385,606)	( 1,216,861)
Payments of interest on debt	( 198,633)	( 279,153)
Payment of principal on debt	( 2,450,097)	( 2,393,220)
Proceeds of general obligation notes	5,144,960	--
Principal payments received on notes receivable	<u>172,391</u>	<u>168,407</u>
Net cash used in capital and related financing activities	<u>( 2,716,985)</u>	<u>( 3,720,827)</u>
Cash flows from investing activities:		
Interest received	<u>228,605</u>	<u>42,634</u>
Net change in cash and cash equivalents	1,384,295	22,497
Cash and cash equivalents, beginning of year	<u>14,472,859</u>	<u>14,450,362</u>
Cash and cash equivalents, end of year	<u>\$ 15,857,154</u>	<u>\$ 14,472,859</u>

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

For the Years Ended December 31,

	2022	2021
Operating income	\$ 2,218,500	\$ 1,902,048
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,798,039	1,874,657
(Increase) decrease in:		
Accounts receivable - users	( 43,651)	( 56,593)
Accounts receivable - other	5,814	49,146
Prepaid expenses	( 5,582)	( 461)
Pension assets and deferred pension outflows	( 333,239)	55,260
Increase (decrease) in:		
Accounts payable - operating	( 35,895)	( 4,878)
Accrued liabilities	24,066	23,188
Pension liability and deferred pension inflows	244,623	( 141,677)
Net cash provided by operating activities	\$ 3,872,675	\$ 3,700,690

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

**Reporting Entity**

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

**Basis of Financial Statement Presentation**

*Proprietary Fund Statements*

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

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

**Accounts Receivable**

*Users*

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

*Others*

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

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

**Inventories**

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

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**Utility Plant in Service**

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

Expenditures for additions and improvements are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets, are expensed as incurred. The District follows the policy of not capitalizing assets with a cost of less than \$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

	2022	2021
Checking accounts	\$ 10,276	\$ 10,135
FDIC insured investment accounts	3,112,660	567,930
Certificates of deposit	495,088	1,193,031
Total in commercial banks and credit unions	3,618,024	1,771,096
 Wisconsin State Treasurer's Investment Pool	 12,239,130	 12,701,763
Total cash and cash equivalents	\$ 15,857,154	\$ 14,472,859
 Cash and cash equivalents, unrestricted	 \$ 4,651,475	 \$ 4,077,151
Cash and cash equivalents, restricted	11,205,679	10,395,708
Totals	\$ 15,857,154	\$ 14,472,859

*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, 2022. 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 \$3,618,025 and the financial institutions balance was \$3,645,788. Of the financial institutions balance, \$500,276 was covered by FDIC/NCUA insurance. Deposits with commercial financial institutions were \$3,145,512 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, 2022, 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:

	2022	2021
Restricted for plant replacement	\$ 8,141,307	\$ 7,724,012
Restricted for debt service	3,064,372	2,671,696
Totals	\$ 11,205,679	\$ 10,395,708

**Note 3. Notes Receivable:**

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

	2022	2021
Village of Combined Locks	\$ 67,460	\$ 100,025
Darboy Sanitary District	289,653	429,479
Totals	\$ 357,113	\$ 529,504
Current	\$ 176,469	\$ 172,391
Non-current	180,644	357,113
Totals	\$ 357,113	\$ 529,504

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. Changes in Capital Assets:**

Capital assets activity for the years ended December 31, 2022 and 2021, was as follows:

<u>2022</u>	<u>Beginning Balance</u>	<u>Additions &amp; Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,894,078	\$ --	\$ --	\$ 2,894,078
Construction in progress:				
Disk filter project	543,694	5,271,874	--	5,815,568
Interceptor rehabilitation	296,601	412,115	--	708,716
Total construction in progress	840,295	5,683,989	--	6,524,284
Total capital assets not being depreciated	<u>3,734,373</u>	<u>5,683,989</u>	<u>--</u>	<u>9,418,362</u>
Capital assets being depreciated:				
Land improvements	244,553	--	--	244,553
Buildings and structures	31,630,065	--	267,500	31,362,565
Sewerage collection	15,543,863	--	--	15,543,863
Equipment	14,422,250	320,333	1,197,642	13,544,941
Vehicles	55,541	--	--	55,541
Total capital assets being depreciated	<u>61,896,272</u>	<u>320,333</u>	<u>1,465,142</u>	<u>60,751,463</u>
Accumulated depreciation:				
Land improvements	129,656	11,755	--	141,411
Buildings and structures	16,034,829	801,033	228,293	16,607,569
Sewerage collection	11,646,111	367,338	--	12,013,449
Equipment	10,733,336	612,628	1,100,294	10,245,670
Vehicles	26,765	5,285	--	32,050
Total accumulated depreciation	<u>38,570,697</u>	<u>1,798,039</u>	<u>1,328,587</u>	<u>39,040,149</u>
Capital assets being depreciated, net	<u>23,325,575</u>	<u>( 1,477,706)</u>	<u>136,555</u>	<u>21,711,314</u>
Total capital assets, net	<u>\$27,059,948</u>	<u>\$ 4,206,283</u>	<u>\$ 136,555</u>	<u>\$ 31,129,676</u>

During 2022, there were no proceeds on disposals of capital assets.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 4. Changes in Capital Assets - Continued:**

<u>2021</u>	<u>Beginning Balance</u>	<u>Additions &amp; Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,894,078	\$ --	\$ --	\$ 2,894,078
Construction in progress:				
Disk filter project	--	543,694	--	543,694
Interceptor rehabilitation	--	296,601	--	296,601
Total construction in progress	--	840,295	--	840,295
Total capital assets not being depreciated	<u>2,894,078</u>	<u>840,295</u>	<u>--</u>	<u>3,734,373</u>
Capital assets being depreciated:				
Land improvements	187,673	65,420	8,540	244,553
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 capital assets being depreciated	<u>61,716,625</u>	<u>405,102</u>	<u>225,455</u>	<u>61,896,272</u>
Accumulated depreciation:				
Land improvements	128,982	9,214	8,540	129,656
Buildings and structures	15,247,066	798,064	10,301	16,034,829
Sewerage collection	11,278,774	367,337	--	11,646,111
Equipment	10,162,548	695,061	124,273	10,733,336
Vehicles	51,312	4,981	29,528	26,765
Total accumulated depreciation	<u>36,868,682</u>	<u>1,874,657</u>	<u>172,642</u>	<u>38,570,697</u>
Capital assets being depreciated, net	<u>24,847,943</u>	<u>( 1,469,555)</u>	<u>52,813</u>	<u>23,325,575</u>
Total capital assets, net	<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 trade-in.

**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:

	2022	2021
\$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.	\$ 401,946	\$ 595,981
\$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.	6,280,754	8,278,354
\$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.	1,391,489	1,649,951
\$19,149,949 general obligation sewerage system promissory note, series 2022, dated July 27, 2022, with interest at 2.145% payable semi-annually and maturing through 2042.	5,144,960	--
Totals	13,219,149	10,524,286
Less current portion	2,508,326	2,450,097
Total long-term debt	\$ 10,710,823	\$ 8,074,189

Future maturities of long-term debt are as follows:

Year ending <i>December 31,</i>	Principal	Interest	Totals
2023	\$ 2,508,326	\$ 270,828	\$ 2,779,154
2024	2,790,139	210,333	3,000,472
2025	2,647,806	146,221	2,794,027
2026	516,850	108,994	625,844
2027	528,877	96,827	625,704
2028-2032	1,262,445	386,813	1,649,258
2033-2037	1,403,776	243,965	1,647,741
2038-2042	1,560,930	85,125	1,646,055
Totals	\$ 13,219,149	\$ 1,549,106	\$ 14,768,255

Long-term debt activity for the year ended December 31, 2022, was as follows:

	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022	Amounts Due in One Year
Notes from direct borrowings:					
Clean water fund	\$10,524,286	\$5,144,960	\$ 2,450,097	\$13,219,149	\$ 2,508,326

**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, 2021, was as follows:

	Balance January 1, 2021	Additions	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

The 2022 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$5,502,918,311. The legal debt limit and margin of indebtedness as of December 31, 2022, in accordance with Section 67.03 of the Wisconsin Statutes is as follows:

Debt limit (5% of \$5,502,918,311)	\$ 275,145,916
Deduct long-term debt applicable to debt margin	<u>13,219,149</u>
Legal margin for new debt	<u>\$ 261,926,767</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 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
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
2021	5.1	13

**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 \$56,001 and \$54,662 in contributions from the employer for 2022 and 2021, respectively.

Contribution rates as of December 31, 2022 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers, executives & elected officials)	6.75%	6.75%
Protective with Social Security	6.75%	6.75%
Protective without Social Security	6.75%	6.75%

Contribution rates as of December 31, 2021 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers, executives & elected officials)	6.75%	6.75%
Protective with Social Security	6.75%	6.75%
Protective without Social Security	6.75%	6.75%

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

At December 31, 2022, the District reported an asset of \$377,695 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2021, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2020, rolled forward to December 31, 2021. 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, 2021, the District's proportion was 0.00468594%, which was a decrease of 0.00002445% from its proportion measured as of December 31, 2020.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

At December 31, 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.

The District recognized pension expense of \$(32,615) and \$(31,755) for 2022 and 2021, respectively.

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

<u>2022</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 610,145	\$ 43,998
Net differences between projected and actual earnings on pension plan investments	--	844,935
Changes in assumptions	70,464	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	476	877
Employer contributions subsequent to the measurement date	56,001	--
Totals	<u>\$ 737,086</u>	<u>\$ 889,810</u>
<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>



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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

Deferred outflows related to 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>Net Deferred Outflows/(Inflows) of Resources</u>
2022	\$ ( 18,002)
2023	( 102,528)
2024	( 45,071)
2025	( 43,124)

**Actuarial Assumptions**

The total pension liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2020
Measurement date of net pension liability	December 31, 2021
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Long-term expected rate of return	6.8%
Discount rate	6.8%
Salary increases:	
Inflation	3.0%
Seniority/Merit	0.1% - 5.6%
Mortality	WRS Experience Mortality Table
Post-retirement adjustments*	1.7%

\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.7% 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 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, price inflation, mortality and separation rates. The total pension liability for December 31, 2021, is based upon a roll forward of the liability calculated from the December 31, 2020, 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:**

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.

**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 tables:

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**Asset Allocation Targets and Expected Returns  
As of December 31, 2021**

<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	52	6.8	4.2
Fixed income	25	4.3	1.8
Inflation sensitive assets	19	2.7	0.2
Real estate	7	5.6	3.0
Private equity/debt	11	9.7	7.0
Total Core Fund	115	6.6	4.0
<u>Variable Fund Asset Class</u>			
U.S. equities	70	6.3	3.7
International equities	30	7.2	4.6
Total Variable Fund	100	6.8	4.2

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.50%

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

The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%. Currently, an asset allocation target of 15% policy leverage is used, subject to an allowable range of up to 20%.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**Asset Allocation Targets and Expected Returns  
As of December 31, 2020**

<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
<b>Total Core Fund</b>	<b>115</b>	<b>6.6</b>	<b>4.1</b>
 <u>Variable Fund Asset Class</u>			
U.S. equities	70	6.6	4.1
International equities	30	7.4	4.9
<b>Total Variable Fund</b>	<b>100</b>	<b>7.1</b>	<b>4.6</b>

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 6.8% was used to measure the total pension liability, as opposed to a discount of 7.0% for the prior year. This single discount rate is based on the expected rate of return on pension plan investments of 6.8% and a municipal bond rate of 1.84% (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2021. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax exempt securities.). Because of the unique structure of WRS, the 6.8% (7.0% for 2020) expected rate of return implies that a dividend of approximately 1.7% (1.9% for 2020) 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) as of December 31, 2021 calculated using the discount rate of 6.8%, 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 (5.8%) or 1-percentage-point higher (7.8%) than the current rate:

	1% Decrease to Discount Rate (5.8%)	Current Discount Rate (6.8%)	1% Increase to Discount Rate (7.8%)
District's proportionate share of the net pension liability (asset)	\$ 268,001	\$ ( 377,695)	\$ ( 842,477)

The following presents the District's proportionate share of the net pension liability (asset) as of December 31, 2020 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:

	2022	2021
Beginning balance	\$ 28,403	\$ 38,268
Contributions	--	--
Plan earnings	376	173
Withdrawals	( 9,784)	( 10,038)
Balance at end of year	\$ 18,995	\$ 28,403

**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, 2022.

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, 2022, contracts totaling \$13.1 million had been issued, but the related work had not yet been performed. These are for future services up to 2025. The majority of this, \$12.5 million, is related to the effluent filtration project.

The District is in the process of a significant reconstruction of the interceptor with relining of the mainline interceptor. During 2021, design work was begun and is continuing. The ultimate cost of this project is unknown but it is expected to exceed \$20 million.

**Note 9. Subsequent Events:**

The District has evaluated all subsequent events through May 8, 2023, the date on which these financial statements were available to be issued. There are no events subsequent to December 31, 2022, 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%
12/31/22	0.46859400%	( 377,695)	809,806	46.64%	106.02%

\* 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%
12/31/22	54,661	54,661	--	809,806	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, 2022**

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

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

**Note 2. Change of Assumptions:**

Based on a three-year experience study conducted in 2021 covering January 1, 2018 through December 31, 2020, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-end December 31, 2021, including the

- Lowering long-term expected rate of return from 7.0% to 6.8%
- Lowering the discount rate from 7.0% to 6.8%
- Lowering the price inflation rate from 2.5% to 2.4%
- Lowering the post-retirement adjustments from 1.9% to 1.7%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality table to the 2020 WRS Experience Mortality Table

**OTHER SUPPLEMENTARY INFORMATION**

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

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

	<u>2022</u>	<u>2021</u>
City of Kaukauna	\$ 1,895,855	\$ 1,782,277
Village of Little Chute	2,479,261	2,211,718
Village of Kimberly	527,381	476,440
Village of Combined Locks	393,828	331,182
Darboy Joint Sanitary District #1	<u>1,210,343</u>	<u>1,126,824</u>
Total user fees revenue	<u>\$ 6,506,668</u>	<u>\$ 5,928,441</u>

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

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

	2022	2021
<b>Plant operation expenses:</b>		
Salaries and wages	\$ 245,296	\$ 228,642
Payroll taxes and benefits	165,975	124,796
Health and safety	13,300	14,185
Support - meter stations	8,445	7,544
Water utility bills	19,996	24,462
Natural gas and auxiliary fuel	50,270	35,034
Gasoline and lubricants	5,078	5,481
Electricity	590,102	537,709
Chemicals	617,610	522,071
Solids disposal fees	4,956	4,693
Sludge disposal	132,388	106,570
Other operating expenses	453	935
Environmental fees	27,096	26,732
Total plant operation expenses	\$ 1,880,965	\$ 1,638,854
<b>Plant maintenance expenses:</b>		
Salaries and wages	\$ 221,346	\$ 217,345
Payroll taxes and employee benefits	147,177	116,861
Other repairs and maintenance	93,149	110,002
Outside maintenance contracts	26,086	31,574
Total plant maintenance expenses	\$ 487,758	\$ 475,782
<b>Quality control and pretreatment expenses:</b>		
Salaries and wages	\$ 61,303	\$ 55,252
Payroll taxes and employee benefits	40,639	29,969
Laboratory expenses	30,916	25,744
Outside testing	11,400	10,235
Miscellaneous	1,452	1,302
Total quality control and pretreatment expenses	\$ 145,710	\$ 122,502

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

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

	2022	2021
Administrative and general expenses:		
Administrative salaries and wages	\$ 216,448	\$ 194,556
Commissioners' compensation and expense	19,499	16,947
Payroll taxes and employee benefits	50,202	106,028
Telephone	6,924	6,558
Office equipment rent and repair	35,303	30,890
Office supplies	5,457	4,625
Education and training	2,771	1,696
Membership and subscriptions	342	270
Travel reimbursement	207	494
Insurance	110,374	100,716
Engineering outside services	22,734	16,068
Accounting and auditing fees	15,200	15,100
Legal fees	18,884	2,034
Public relations	23,433	12,757
Financial advisory	34,500	3,000
Financial support	1,585	1,200
Inflow reduction	22,339	( 9,479)
Special projects support	12,271	--
FOG control program	126	235
Miscellaneous administrative expenses	4,741	3,614
Total administrative and general expenses	\$ 603,340	\$ 507,309

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

**BUDGET COMPARISON  
For the Year Ended December 31, 2022**

	<u>Original &amp; Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Receipts:</b>			
User fees	\$ 6,152,038	\$ 6,506,668	\$ 354,630
Bank interest income	30,000	99,761	69,761
ICA payments	182,941	182,941	--
Pretreatment	6,141	7,124	983
Outside haulers	33,349	28,672	( 4,677)
Effluent income	167,184	161,363	( 5,821)
Connection fees	342,710	373,828	31,118
Farmland rental	52,910	52,910	--
Miscellaneous income	--	3,747	3,747
Total receipts	<u>6,967,273</u>	<u>7,417,014</u>	<u>449,741</u>
<b>Expenditures:</b>			
Payroll	768,600	744,393	24,207
Benefits	433,000	403,993	29,007
Administration	80,135	76,828	3,307
Environmental fees	29,000	27,096	1,904
Insurance	108,872	110,374	( 1,502)
Professional contract services	267,900	188,794	79,106
Sludge disposal	128,000	130,567	( 2,567)
Utilities	620,250	665,446	( 45,196)
Chemicals	671,900	617,610	54,290
Operation, maintenance, lab, QC	199,400	152,672	46,728
Total expenditures	<u>3,307,057</u>	<u>3,117,773</u>	<u>189,284</u>
Capital budget expenses	23,125	--	23,125
Provision for equipment replacement fund	965,394	617,913	347,481
Provision for debt service fund	2,671,697	2,671,697	--
Total expenditures	<u>6,967,273</u>	<u>6,407,383</u>	<u>559,890</u>
Net receipts over expenditures	<u>\$ --</u>	<u>\$ 1,009,631</u>	<u>\$ 1,009,631</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, 2022

Change in net position \$ 2,254,621

Amounts reported for budgetary basis are different because:

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	172,391	
Non-cash deferred revenue recognized	<u>( 153,719)</u>	18,672

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	1,798,039	
Provision for equipment replacement and capital budget	( 617,913)	
Interest income earned on equipment replacement fund	<u>( 119,716)</u>	1,060,410

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. 136,555

The issuance of debt for the acquisition of capital assets is not included in either the budget or the statement of revenue, expenses, and changes in fund net position. 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	211,070	
Provision to debt service fund	<u>(2,671,697)</u>	<u>(2,460,627)</u>
Net receipts over expenditures		<u>\$ 1,009,631</u>