

**HEART OF THE VALLEY
METROPOLITAN SEWERAGE DISTRICT**

KAUKAUNA, WISCONSIN

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

**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 year ended December 31, 2024 and 2023, 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, 2024, and 2023, 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.

**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, 2024 and 2023. 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 2024, the assets of the District exceeded liabilities by \$38.40 million. Of this amount, \$1.10 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 \$2.45 million during 2024 compared to an increase of \$2.35 million in 2023.

Operating Revenue - Operating revenue increased \$116,353 with user fees decreasing \$57,924.

Operating Expenses - Operating expenses decreased in 2024 by \$270,674.

Investment Income - The District's investment income (interest income) increased by \$69,094 due to higher interest rates.

Interest Expense - Interest expense increased \$262,837 as a result of principal payments made. The interest on the new Clean Water Fund loan is considered an addition to construction in progress until the project is completed.

Loss on Disposal of Fixed Assets - Assets with a book value of \$60,469 were disposed of during 2024.

Debt - The District's total debt obligation increased \$7.94 million during 2024. Principal payments on existing debt were \$2.57 million.

Deferred Revenue - Deferred revenue is recognized on a straight-line basis. The remaining portion of the unamortized balance, \$76,855, is considered to be a deferred inflow of resources.

Capital Assets - The District's capital assets increased \$12.21 million during 2024.

**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

	2024	2023	Change
Current assets	\$ 1,428,147	\$ 6,439,800	\$ (5,011,653)
Restricted assets	13,357,016	11,463,964	1,893,052
Capital assets	52,679,355	40,530,058	12,149,297
Total assets	67,464,518	58,433,822	9,030,696
Deferred outflows of resources	608,042	927,907	(319,865)
Current liabilities	2,096,889	852,697	1,244,192
Liabilities payable from restricted assets	3,346,275	2,678,858	667,417
Long-term debt	23,779,957	19,279,501	4,500,456
Total liabilities	29,223,121	22,811,056	6,412,065
Deferred inflows of resources	446,290	597,887	(151,597)
Total net position	\$ 38,403,149	\$ 35,952,786	\$ 2,450,363

**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 \$35.95 million at the close of the fiscal year ending December 31, 2024. This is an increase of \$2.45 million or 6.82% from the previous year.

A significant portion of the District's net position, 62.34%, is invested in capital assets. An additional 34.78% 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

	2024	2023	Change
Operating revenue	\$ 7,055,781	\$ 6,939,428	\$ 116,353
Operating expenses	5,068,377	5,339,051	(270,674)
Total operating income	1,987,404	2,218,500	387,027
Non-operating income (expense):			
Interest income	854,697	785,603	69,094
Clean water fund contribution	76,855	153,719	(76,864)
Interest expense	(414,373)	(151,536)	(262,837)
Loss on disposal of fixed assets	(54,220)	(34,378)	(19,842)
Total other expense	462,959	753,408	(290,449)
Change in net position	2,450,363	2,353,785	96,578
Net assets, beginning	35,952,786	33,599,001	2,353,785
Net assets, ending	\$ 38,403,149	\$ 33,952,786	\$ 2,450,363

Changes in Net Position

The District's net position increased \$2.45 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 2024 budget with anticipated expenditures and revenues of \$7,569,533 for the year. Community treatment fees of \$6,160,317 provides the majority of the District's revenue with the remaining revenue coming from other varied revenue streams that are a staple in previous District budgets.

The District tracks development activities with its member communities and collects connection fees for new properties served by the District. The five member communities invoiced a total of \$277,827 for 168 new connections that were added in 2024. This is consistent with the historical average of 180 connections per year since the upgraded WWTF was placed into service in 2007. Growth and development remain consistent with new sewer connections down just 2 from the 170 new connections added in 2023.

Influent flows entering the treatment facility are continuously totalized with an average daily influent flow of 7.250 million gallons per day (MGD) representing a 7.8% increase over the 6.725 average flow in 2023. Daily flow totals can vary greatly as totals are heavily influenced by the annual precipitation.

The District samples, tests, and monitors organic loadings for both compliance and for fair billing to its member communities. The Biochemical Oxygen Demand (BOD) load decreased -10.9% from the previous year. 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 also decreased in 2024 to 592,500 pounds representing a -12.1% decrease from 2023. The decrease in BOD is primarily due to a food manufacturer hauling a high strength waste stream for disposal outside the District's sewer service area. The ammonia reduction was anticipated due to a reduction in landfill leachate being discharged as leachate is very high in ammonia content.

The District's effluent filtration project continued throughout 2024 and will close out in the first quarter of 2025. Several punch list items had long lead times before they were received and installed which delayed close out into 2025. This applies to a larger polymer dosing pump and larger polymer make up batch tank necessary for high flow events to properly dose coagulants ahead of the filters. The filters are fully functional and have been continuously online since May of 2024.

The interceptor rehabilitation project has moved forward with construction activities ceasing in November for the winter months. The pipe lining and acid-resistant coatings began near the WWTF site and gradually moved further away as the construction season progressed. The lining portion of the contract saw more than half completed in 2024 with the most difficult of liners already being placed and cured. Contractors will begin the 2025 season as soon as possible to complete sections of interceptor pipe that are buried in the Fox Locks Navigation Authority channel. Strategic Municipal Services continues to represent the District while providing contract administration, construction observation and construction services.

**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 no changes to the program in 2024 and no additions or deletions of discharge permits.

HOVMSD staffing remained budgeted and staffed at 11 FTE employees. There was one retirement in January 2024 that was filled internally. The new vacancy was also filled with an internal candidate which opened up the mechanic position that was subsequently advertised and filled by an external candidate.

RATE HISTORY

	2024	2023	2022	7/1/2020 - 12/31/2021	1/1/2020- 6/30/2020
Flow (per 1,000 gallons)	0.717	0.705	0.763	0.628	0.696
B.O.D. (per pound)	0.176	0.176	0.193	0.189	0.220
Suspended Solids (per pound)	0.243	0.238	0.254	0.238	0.254
Phosphorus (per pound)	6.617	6.378	6.692	6.253	6.321
Ammonia-N (per pound)	1.102	1.090	1.247	1.236	1.320
Chloride (per pound)	0.002	0.003	0.004	0.003	0.003

CONTACT INFORMATION

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

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

STATEMENTS OF NET POSITION

December 31,

ASSETS

	<u>2024</u>	<u>2023</u>
Current assets:		
Cash and cash equivalents	\$ 787,960	\$ 5,630,316
Accounts receivable		
Users	507,409	521,580
Others	32,182	36,951
Accrued interest receivable	--	5,142
Notes receivable	--	180,644
Prepaid expenses	100,596	65,167
Total current assets	<u>1,428,147</u>	<u>6,439,800</u>
Restricted assets:		
Cash and cash equivalents	<u>13,357,016</u>	<u>11,463,964</u>
Capital assets:		
Capital assets in service, cost	63,755,366	63,685,441
Less accumulated depreciation	<u>41,950,753</u>	<u>40,558,004</u>
Net capital assets in service	21,804,613	23,127,437
Construction in progress	<u>30,874,742</u>	<u>17,402,621</u>
Total capital assets	<u>52,679,355</u>	<u>40,530,058</u>
Total assets	<u>67,464,518</u>	<u>58,433,822</u>
Deferred outflows of resources:		
WRS pension plan	<u>608,042</u>	<u>927,907</u>

LIABILITIES AND NET POSITION

	<u>2024</u>	<u>2023</u>
Current liabilities:		
Accounts payable - operating	\$ 1,770,880	\$ 488,371
Accrued liabilities	<u>326,009</u>	<u>384,059</u>
Total current liabilities	<u>2,096,889</u>	<u>872,430</u>
Liabilities payable from restricted assets:		
Current portion of long-term debt	3,255,089	2,567,939
Accrued interest	<u>91,186</u>	<u>91,186</u>
Total current liabilities payable from restricted assets	<u>3,346,275</u>	<u>2,659,125</u>
Long-term liabilities:		
Long-term debt	23,711,016	19,030,671
Net pension liability - WRS pension plan	<u>68,941</u>	<u>248,830</u>
Total long-term liabilities	<u>23,779,957</u>	<u>19,279,501</u>
Total liabilities	<u>29,223,121</u>	<u>22,811,056</u>
Deferred inflows of resources:		
Deferred revenue	77,241	76,855
WRS pension plan	<u>369,049</u>	<u>521,032</u>
Total deferred inflows of resources	<u>446,290</u>	<u>597,887</u>
Net position:		
Invested in capital assets, net of related debt	25,713,250	18,931,448
Restricted for plant replacement	9,466,836	8,793,668
Restricted for debt service	3,890,180	2,670,296
Unrestricted	<u>(667,117)</u>	<u>5,557,374</u>
Total net position	<u>\$ 38,403,149</u>	<u>\$ 35,952,786</u>

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

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

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

	<u>2024</u>	<u>2023</u>
Operating revenues:		
User fees	\$ 6,453,757	\$ 6,395,833
Connection fees	311,468	268,314
Effluent sales	192,157	174,808
Outside haulers income	34,138	33,788
Farmland rental income	54,831	56,500
Other revenue	9,430	10,185
	<u>7,055,781</u>	<u>6,939,428</u>
Total operating revenues		
Operating expenses:		
Plant operations	1,994,743	2,053,431
Plant maintenance	432,681	526,560
Quality control and pretreatment	153,956	153,736
Administrative and general	806,045	830,483
Depreciation	1,680,952	1,774,841
	<u>5,068,377</u>	<u>5,339,051</u>
Total operating expenses		
Operating income	<u>1,987,404</u>	<u>1,600,377</u>
Non-operating revenue (expenses):		
Interest income	854,697	785,603
Clean water fund contribution	76,855	153,719
Interest expense	(414,373)	(151,536)
Loss on disposal of fixed assets	(54,220)	(34,378)
	<u>462,959</u>	<u>753,408</u>
Net non-operating expenses		
Change in net position	2,450,363	2,353,785
Net position, beginning of the year	<u>35,952,786</u>	<u>33,599,001</u>
Net position, ending of year	<u>\$ 38,403,149</u>	<u>\$ 35,952,786</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,

	2024	2023
Cash flows from operating activities:		
Cash received from operating revenue	\$ 7,074,721	\$ 6,976,518
Cash paid for operating expenses	(3,537,420)	(3,391,820)
Net cash provided by operating activities	<u>3,537,301</u>	<u>3,584,698</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(12,486,459)	(11,577,821)
Payments of interest on debt	(414,373)	(118,122)
Payment of principal on debt	(2,567,939)	(2,508,326)
Proceeds of general obligation notes	7,935,435	10,887,787
Principal payments received on notes receivable	180,643	176,469
Proceeds from disposal of equipment	<u>6,249</u>	<u>10,000</u>
Net cash used in capital and related financing activities	<u>(7,346,444)</u>	<u>(3,130,013)</u>
Cash flows from investing activities:		
Interest received	<u>859,839</u>	<u>782,441</u>
Net change in cash and cash equivalents	(2,949,304)	1,237,126
Cash and cash equivalents, beginning of year	<u>17,094,280</u>	<u>15,857,154</u>
Cash and cash equivalents, end of year	<u><u>\$ 14,144,976</u></u>	<u><u>\$ 17,094,280</u></u>
Operating cash and cash equivalents	\$ 787,960	\$ 5,630,316
Restricted cash and cash equivalents	<u>13,357,016</u>	<u>11,463,964</u>
Total cash and cash equivalents	<u><u>\$ 14,144,976</u></u>	<u><u>\$ 17,094,280</u></u>

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

For the Years Ended December 31,

	<u>2024</u>	<u>2023</u>
Operating income	\$ 1,987,404	\$ 1,600,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,680,952	1,774,841
(Increase) decrease in:		
Accounts receivable - users	14,171	44,510
Accounts receivable - other	4,769	(7,420)
Prepaid expenses	(35,429)	(10,235)
Pension assets and deferred pension outflows	319,865	186,874
Increase (decrease) in:		
Accounts payable	1,282,509	20,544
Accrued liabilities	(58,050)	95,155
Pension liability and deferred pension inflows	(254,631)	(119,948)
Net cash provided by operating activities	<u>\$ 4,941,560</u>	<u>\$ 3,584,698</u>

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:

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state, and local governmental entities, statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool.

	2024	2023
Checking accounts	\$ 10,300	\$ 10,114
FDIC insured investment accounts	790,348	1,491,366
Certificates of deposit	533,122	505,065
Total in commercial banks and credit unions	1,333,770	2,006,545
Wisconsin State Treasurer's Investment Pool	12,811,206	15,087,735
Total cash and cash equivalents	\$ 14,144,976	\$ 17,094,280
Cash and cash equivalents, unrestricted	\$ 787,960	\$ 5,630,316
Cash and cash equivalents, restricted	13,357,016	11,463,964
Totals	\$ 14,144,976	\$ 17,094,280

Deposits

Deposits in banks and credit unions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution, as of December 31, 2024. 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. 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 \$1,333,770 and the financial institutions balance was \$1,321,535. Of the financial institutions balance, \$500,300 was covered by FDIC insurance. Deposits with commercial financial institutions were \$821,235 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, 2024, 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:

	2024	2023
Restricted for plant replacement	\$ 9,466,836	\$ 8,793,668
Restricted for debt service	3,890,180	2,670,296
Totals	<u>\$ 13,357,016</u>	<u>\$ 11,463,964</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 3. Changes in Capital Assets:

Capital assets activity for the years ended December 31, 2024 and 2023, was as follows:

<u>2024</u>	<u>Beginning Balance</u>	<u>Additions & 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	16,591,236	1,793,167	--	18,384,403
Interceptor rehabilitation	811,385	10,862,167	--	11,673,552
MCC upgrade	--	787,657	--	787,657
Blower 7	--	10,280	--	10,280
HVAC system	--	4,065	--	4,065
Waste Tank rehab	--	14,785	--	14,785
Total construction in progress	17,402,621	13,472,121	--	30,874,742
Total capital assets not being depreciated	20,296,699	13,472,121	--	33,768,820
Capital assets being depreciated:				
Land improvements	244,553	15,460	10,420	249,593
Buildings and structures	31,362,565	58,778	24,409	31,396,934
Sewerage collection	15,543,863	--	--	15,543,863
Equipment	13,584,841	309,055	286,950	13,606,946
Vehicles	55,541	35,304	26,893	63,952
Total capital assets being depreciated	60,791,363	418,597	348,672	60,861,288
Accumulated depreciation:				
Land improvements	153,166	13,934	10,420	156,680
Buildings and structures	17,403,898	776,824	11,368	18,169,354
Sewerage collection	12,380,787	276,292	--	12,657,079
Equipment	10,585,238	609,625	239,521	10,955,342
Vehicles	34,915	4,277	26,894	12,298
Total accumulated depreciation	40,558,004	1,680,952	288,203	41,950,753
Capital assets being depreciated, net	20,233,359	(1,262,355)	60,469	18,910,535
Total capital assets, net	\$ 40,530,058	\$ 12,209,766	\$ 60,469	\$ 52,679,355

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 3. Changes in Capital Assets - Continued:

<u>2023</u>	<u>Beginning Balance</u>	<u>Additions & 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	5,815,568	10,775,668	--	16,591,236
Interceptor rehabilitation	708,716	102,669	--	811,385
Total construction in progress	6,524,284	10,878,337	--	17,402,621
Total capital assets not being depreciated	9,418,362	10,878,337	--	20,296,699
Capital assets being depreciated:				
Land improvements	244,553	--	--	244,553
Buildings and structures	31,362,565	--	--	31,362,565
Sewerage collection	15,543,863	--	--	15,543,863
Equipment	13,544,941	341,264	301,364	13,584,841
Vehicles	55,541	--	--	55,541
Total capital assets being depreciated	60,751,463	341,264	301,364	60,791,363
Accumulated depreciation:				
Land improvements	141,411	11,755	--	153,166
Buildings and structures	16,607,569	796,329	--	17,403,898
Sewerage collection	12,013,449	367,338	--	12,380,787
Equipment	10,245,670	596,554	256,986	10,585,238
Vehicles	32,050	2,865	--	34,915
Total accumulated depreciation	39,040,149	1,774,841	256,986	40,558,004
Capital assets being depreciated, net	21,711,314	(1,433,577)	44,378	20,233,359
Total capital assets, net	\$ 31,129,676	\$ 9,444,760	\$ 44,378	\$ 40,530,058

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 4. Long-term Debt:

Long-term obligations of the District are as follows:

	2024	2023
\$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.	\$ -	\$ 203,322
\$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.	4,235,911	4,235,911
\$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.	1,126,630	1,126,630
\$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.	16,032,747	16,032,747
	5,002,447	--
	871,361	--
Totals	26,966,105	21,598,610
Less current portion	3,255,089	2,567,939
Total long-term debt	<u>\$ 23,711,016</u>	<u>\$ 19,030,671</u>

Future maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Totals
2025	\$ 3,255,089	\$ 635,091	\$ 3,890,180
2026	1,390,837	581,817	1,972,654
2027	1,421,611	546,834	1,968,445
2028	1,153,770	514,779	1,668,549
2029	1,178,519	485,730	1,664,249
2030-2034	6,282,804	1,970,624	8,253,428
2035-2039	6,986,168	1,145,019	8,131,187
2040-2044	5,297,307	279,706	5,577,013
Totals	<u>\$ 26,966,105</u>	<u>\$ 6,159,600</u>	<u>\$ 33,125,705</u>

Long-term debt activity for the year ended December 31, 2024, was as follows:

	Balance January 1, 2024	Additions	Reductions	Balance December 31, 2024	Amounts Due in One Year
Notes from direct borrowings:					
Clean water fund	<u>\$21,598,610</u>	<u>\$ 7,935,435</u>	<u>\$ 2,567,939</u>	<u>\$26,966,106</u>	<u>\$ 3,255,089</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 4. Long-term Debt - Continued:

Long-term debt activity for the year ended December 31, 2023, was as follows:

	Balance January 1, 2023	Additions	Reductions	Balance December 31, 2023	Amounts Due in One Year
Notes from direct borrowings:					
Clean water fund	\$13,219,149	\$ 10,887,787	\$ 2,508,326	\$21,598,610	\$ 2,567,939

The 2024 equalized valuation of the District as certified by the Wisconsin Department of Revenue is \$6,834,776,403. The legal debt limit and margin of indebtedness as of December 31, 2024, in accordance with Section 67.03 of the Wisconsin Statutes is as follows:

Debt limit (5% of \$6,834,776,403)	\$ 341,738,820
Deduct long-term debt applicable to debt margin	26,966,105
Legal margin for new debt	\$ 314,772,715

Note 5. 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 5. 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:

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2014	4.7	25.0
2015	2.9	2.0
2016	0.5	(5.0)
2017	2.0	4.0
2018	2.4	17.0
2019	0.0	(10.0)
2020	1.7	21.0
2021	5.1	13.0
2022	7.4	15.0
2023	1.6	(21.0)

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5. 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 \$59,322 and \$59,285 in contributions from the employer for 2024 and 2023, respectively.

Contribution rates as of December 31, 2024 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers, executives & elected officials)	6.80%	6.80%
Protective with Social Security	6.80%	13.20%
Protective without Social Security	6.80%	18.10%

Contribution rates as of December 31, 2023 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers, executives & elected officials)	6.80%	6.90%
Protective with Social Security	6.80%	13.20%
Protective without Social Security	6.80%	18.10%

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

At December 31, 2024, the District reported an asset of \$68,941 for its proportionate share of the net pension liability. The net pension asset was measured as of December 31, 2023, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2022, rolled forward to December 31, 2023. 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, 2023, the District's proportion was 0.00463688%, which was an increase of 0.00006007% from its proportion measured as of December 31, 2022.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5. General Information About the WRS Pension Plan - Continued:

At December 31, 2023, the District reported an asset of \$248,830 for its proportionate share of the net pension liability. The net pension asset was measured as of December 31, 2022, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2021, rolled forward to December 31, 2022. 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, 2022, the District's proportion was 0.00469695%, which was an increase of 0.00001101% from its proportion measured as of December 31, 2021.

The District recognized pension expense of \$47,315 and \$126,211 for 2024 and 2023, 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>2024</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 277,969	\$ 368,174
Net differences between projected and actual earnings on pension plan investments	240,250	--
Changes in assumptions	30,049	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	452	875
Employer contributions subsequent to the measurement date	59,322	--
Totals	<u>\$ 608,042</u>	<u>\$ 369,049</u>
<u>2023</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 396,308	\$ 520,662
Net differences between projected and actual earnings on pension plan investments	422,707	--
Changes in assumptions	48,930	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	677	370
Employer contributions subsequent to the measurement date	59,285	--
Totals	<u>\$ 927,907</u>	<u>\$ 521,032</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5. 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>	Net Deferred Outflows of Resources
2024	\$ 36,750
2025	38,677
2026	150,616
2027	(46,372)
Therafter	--

Actuarial Assumptions

The total pension liability in the December 31, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2022
Measurement date of net pension liability	December 31, 2023
Experience study	January 1, 2018-December 31, 2020 Published November 19, 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	2020 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. The total pension liability for December 31, 2023, is based upon a roll forward of the liability calculated from the December 31, 2022, actuarial valuation.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 5. General Information About the WRS Pension Plan - Continued:

The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	December 31, 2021
Measurement date of net pension liability	December 31, 2022
Experience study	January 1, 2018-December 31, 2020 Published November 19, 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	2020 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. The total pension liability for December 31, 2022, is based upon a roll forward of the liability calculated from the December 31, 2021, 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 5. General Information About the WRS Pension Plan - Continued:

**Asset Allocation Targets and Expected Returns
As of December 31, 2023**

<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>
Public equity	40	7.3	5.0
Public fixed income	27	5.8	2.7
Inflation sensitive	19	4.4	1.1
Real estate	8	5.8	2.6
Private equity/debt	18	9.6	6.9
Leverage	(12)	3.7	1.0
Total Core Fund	100	7.4	4.6
<u>Variable Fund Asset Class</u>			
U.S. equities	70	6.8	4.0
International equities	30	7.6	4.8
Total Variable Fund	100	7.3	4.5

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

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.70%

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 12% 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 5. General Information About the WRS Pension Plan - Continued:

**Asset Allocation Targets and Expected Returns
As of December 31, 2022**

<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	48	7.6	5.0
Fixed income	25	5.3	2.7
Inflation sensitive assets	19	3.6	1.1
Real estate	8	5.2	2.6
Private equity/debt	15	9.6	6.9
Total Core Fund	115	7.4	4.8
<u>Variable Fund Asset Class</u>			
U.S. equities	70	7.2	4.6
International equities	30	8.1	5.5
Total Variable Fund	100	7.7	5.1

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

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

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%.

Single Discount Rate

A single discount rate of 6.8% was used to measure the total pension liability for the current and prior year. The discount rate is based on the expected rate of return on pension plan investments of 6.8% and a municipal bond rate of 3.77% (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, 2023. 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% expected rate of return implies that a dividend of approximately 1.7% 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 5. 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, 2023 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)	\$ 666,352	\$ 68,941	\$ (349,092)

The following presents the District's proportionate share of the net pension liability (asset) as of December 31, 2022 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)	\$ 248,830	\$ 825,860	\$ (148,116)

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 6. 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. Account balances at year end were \$32,009 and \$10,071 for 2024 and 2023 respectively

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 7. 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, 2024.

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.

Note 8. Subsequent Events:

The District has evaluated all subsequent events through June XX, 2025, the date on which these financial statements were available to be issued. There are no events subsequent to December 31, 2024, 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	0.00468594%	(377,695)	809,806	46.64%	106.02%
12/31/23	0.00469695%	248,830	861,554	28.88%	95.72%
12/31/24	0.00463688%	68,941	871,838	7.91%	98.85%

* 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%
12/31/23	56,000	56,000	--	861,554	6.50%
12/31/24	59,285	59,285	--	871,838	6.80%

* 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, 2024

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 following:

- Lowering the 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

Based on a three-year experience study conducted in 2018 covering January 1, 2015 through December 31, 2017, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-end December 31, 2018, including the following:

- Lowering the long-term expected rate of return from 7.2% to 7.0%
- Lowering the discount rate from 7.2% to 7.0%
- Lowering the wage inflation rate from 3.2% to 3.0%
- Lowering the price inflation rate from 2.7% to 2.5%
- Lowering the post-retirement adjustments from 2.1% to 1.9%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2012 Mortality table to the 2020 Wisconsin 2018 Mortality Table

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

Wisconsin Retirement System

Last 10 Fiscal Years*

Significant methods and assumptions used in calculating Wisconsin Retirement System Actuarially Determined Contributions

	2023	2022	2021	2020	2019
Valuation Date:	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Actuarial Cost Method:	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization Method:	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period
Amortization Period:	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS
Asset Valuation Method:	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)
Actuarial Assumptions					
Net Investment Rate of Return	5.4%	5.4%	5.4%	5.4%	5.5%
Weighted based on assumed rate for:					
Pre-retirement	6.8%	7.0%	7.0%	7.0%	7.2%
Post-retirement	5.0%	5.0%	5.0%	5.0%	5.0%
Salary Increases:					
Wage Inflation	3.0%	3.0%	3.0%	3.0%	3.2%
Seniority/Merit	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%
Post-retirement Benefit Adjustments*:	1.7%	1.9%	1.9%	1.9%	2.1%
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2021 valuation pursuant to an experience study of the period 2018-2010.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2012-2014.
Mortality	Wisconsin 2020 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2020 fully generational improvement scale (multiplied by 60%)	Wisconsin 2018 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	Wisconsin 2018 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	Wisconsin 2018 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%)

* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actual experience, and other factors.

Value is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
Wisconsin Retirement System
Last 10 Fiscal Years*

Significant methods and assumptions used in calculating Wisconsin Retirement System Actuarially Determined Contributions

	2018 12/31/2016	2017 12/31/2015	2016 12/31/2014	2015 12/31/2013	2014 12/31/2012
Valuation Date:	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Actuarial Cost Method:	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period	Level Percentage of Payroll-Closed Amortization Period
Amortization Method:	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS	30 year closed from date of participation in WRS
Amortization Period:	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)
Asset Valuation Method:					
Actuarial Assumptions					
Net Investment Rate of Return	5.5%	5.5%	5.5%	5.5%	5.5%
Weighted based on assumed rate for:					
Pre-retirement	7.2%	7.2%	7.2%	7.2%	7.2%
Post-retirement	5.0%	5.0%	5.0%	5.0%	5.0%
Salary Increases:					
Wage Inflation	3.2%	3.2%	3.2%	3.2%	3.2%
Seniority/Merit	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%
Post-retirement Benefit Adjustments*:	2.1%	2.1%	2.1%	2.1%	2.1%
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2012-2014.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2012-2014.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2009-2011.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2009-2011.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2009-2011.
Mortality	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%)	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%)	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience projected to 2017 with scale BB to all for future improvements (margin) in mortality.	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience projected to 2017 with scale BB to all for future improvements (margin) in mortality.	Wisconsin 2012 Mortality Table. The rates based on actual WRS experience projected to 2017 with scale BB to all for future improvements (margin) in mortality.

* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actual experience, and other factors.
Value is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

OTHER SUPPLEMENTARY INFORMATION

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

SCHEDULES OF USER FEES REVENUE

For the Years Ended December 31,

	<u>2024</u>	<u>2023</u>
City of Kaukauna	\$ 1,962,770	\$ 1,820,192
Village of Little Chute	2,268,003	2,487,108
Village of Kimberly	563,418	513,074
Village of Combined Locks	449,175	387,224
Darboy Joint Sanitary District #1	<u>1,210,391</u>	<u>1,188,235</u>
Total user fees revenue	<u>\$ 6,453,757</u>	<u>\$ 6,395,833</u>

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

SCHEDULES OF OPERATING EXPENSES

For the Years Ended December 31,

	<u>2024</u>	<u>2023</u>
Plant operation expenses:		
Salaries and wages	\$ 254,988	\$ 238,715
Payroll taxes and benefits	172,092	164,042
Health and safety	15,295	14,300
Support - meter stations	12,414	7,833
Water utility bills	30,512	28,506
Natural gas and auxiliary fuel	59,803	56,209
Gasoline and lubricants	6,376	4,453
Electricity	599,018	618,287
Chemicals	570,981	625,938
Solids disposal fees	6,276	8,976
Sludge disposal	236,152	257,441
Other operating expenses	1,172	1,116
Environmental fees	29,664	27,615
Total plant operation expenses	<u>\$ 1,994,743</u>	<u>\$ 2,053,431</u>
Plant maintenance expenses:		
Salaries and wages	\$ 167,182	\$ 253,186
Payroll taxes and employee benefits	112,831	163,004
Other repairs and maintenance	111,369	79,648
Outside maintenance contracts	41,299	30,722
Total plant maintenance expenses	<u>\$ 432,681</u>	<u>\$ 526,560</u>
Quality control and pretreatment expenses:		
Salaries and wages	\$ 67,040	\$ 68,226
Payroll taxes and employee benefits	45,246	43,270
Laboratory expenses	28,561	29,374
Outside testing	11,903	10,785
Miscellaneous	1,206	2,081
Total quality control and pretreatment expenses	<u>\$ 153,956</u>	<u>\$ 153,736</u>

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

SCHEDULES OF OPERATING EXPENSES - CONTINUED

For the Years Ended December 31,

	<u>2024</u>	<u>2023</u>
Administrative and general expenses:		
Administrative salaries and wages	\$ 223,301	\$ 246,569
Commissioners' compensation and expense	88,401	18,647
Payroll taxes and employee benefits	137,507	224,946
Telephone	4,766	6,221
Office equipment rent and repair	34,067	25,417
Office supplies	11,091	6,059
Education and training	3,569	3,432
Membership and subscriptions	271	601
Travel reimbursement	245	651
Insurance	135,360	123,641
Engineering outside services	67,074	8,882
Accounting and auditing fees	15,500	15,300
Legal fees	50,536	40,202
Public relations	20,608	30,559
Financial advisory	--	--
Financial support	1,500	1,243
Inflow reduction	--	45,031
Special projects support	6,021	28,113
FOG control program	184	113
Miscellaneous administrative expenses	6,044	4,856
Total administrative and general expenses	<u>\$ 806,045</u>	<u>\$ 830,483</u>

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

BUDGET COMPARISON
For the Year Ended December 31, 2024

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
Receipts:			
User fees	\$ 6,160,317	\$ 6,453,757	\$ 293,440
Bank interest income	275,000	418,598	143,598
ICA payments	182,847	180,644	(2,203)
Pretreatment	7,500	7,500	--
Outside haulers	33,166	34,138	972
Effluent income	165,000	192,157	27,157
Connection fees	355,581	311,468	(44,113)
Farmland rental	59,372	54,831	(4,541)
Miscellaneous income	--	1,930	1,930
Unrestricted assets applied	330,750	330,750	--
Total receipts	7,569,533	7,985,773	416,240
Expenditures:			
Payroll	850,210	712,511	137,699
Benefits	537,000	467,676	69,324
Administration	80,550	80,825	(275)
Environmental fees	30,000	29,664	336
Insurance	140,313	135,360	4,953
Professional contract services	244,700	223,137	21,563
Sludge disposal	216,000	216,000	--
Utilities	715,050	695,709	19,341
Chemicals	929,500	570,981	358,519
Operation, maintenance, lab, QC	206,000	255,562	(49,562)
Total expenditures	3,949,323	3,387,425	561,898
Capital budget expenses	12,000	--	12,000
Provision for equipment replacement fund	617,913	613,902	4,011
Provision for debt service fund	2,990,297	2,990,297	--
Total expenditures	7,569,533	6,991,624	577,909
Net receipts over expenditures	\$ --	\$ 994,149	\$ 994,149

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, 2024

Change in net position	\$ 2,450,363
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Amounts reported for budgetary basis are different because:

Unrestricted assets applied	330,750
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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 not included in the budget.

ICA principal payments received	180,643	
Non-cash deferred revenue recognized	<u>(76,855)</u>	103,788

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	1,680,952	
Provision for equipment replacement and capital budget	(613,902)	
Interest income earned on equipment replacement fund	<u>(436,098)</u>	630,952

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 this is not included in the budget. Thus, the change in net position differs from the budget by the gain/loss on the sale of capital assets.	54,220
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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	414,373	
Provision to debt service fund	<u>(2,990,297)</u>	<u>(2,575,924)</u>

Net receipts over expenditures	<u>\$ 994,149</u>
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**HEART OF THE VALLEY METROPOLITAN SEWERAGE DISTRICT
KAUKAUNA, WISCONSIN**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2024

	Federal CFDA No.	CORE Profile Number	<u>Federal Expenditures</u>
<i>Federal Awards</i>			
Environmental Protection Agency			
Passed through Wisconsin Department of Administration			
Clean Water State Revolving Fund	66.458	N/A	\$ 5,002,447

SEE NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS.

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

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND AWARDS

For the Year Ended December 31, 2024

Note 1. Basis of Presentation:

The accompanying schedules of expenditures of federal and state awards (schedules) include the federal and state grant activity of Heart of the Valley Metropolitan Sewerage District (District) under programs of the federal and state governments for the year ended December 31, 2024. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines*. Because the schedules present only a selected portion of the operations of the District, they are not intended to and do not present the financial position, changes in the net assets or cash flow of the District.

Note 2. Summary of Significant Accounting Policies:

Expenditures reported on the schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance. Pass-through entity identifying numbers are presented where available.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heart of the Valley Metropolitan Sewerage District (District), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June XX, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying corrective action plan. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ERICKSON & ASSOCIATES, S.C.
Appleton, Wisconsin
June XX, 2025

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE AND THE *STATE SINGLE AUDIT GUIDELINES***

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

Report on Compliance for Each Major Federal and State Program

Opinion of Each Major Federal and State Program

We have audited Heart of the Valley Metropolitan Sewerage District's (District) compliance with the types of compliance requirements identified as a subject to audit in the OMB Compliance Supplement and the State Single Audit Guidelines that could have a direct and material effect on each of the District's major federal and state programs for the year ended December 31, 2024. The District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2024.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal and state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, the Uniform Guidance, and *State Single Audit Guidelines* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the *State Single Audit Guidelines*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

ERICKSON & ASSOCIATES, S.C.
Appleton, Wisconsin
June XX, 2025

DRAFT

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2024

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued in accordance with Generally accepted accounting principles:	Unmodified opinion
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to the financial statements?	No

Federal Awards

Internal control over major federal program(s):	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for major federal programs:	Unmodified opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:	
66.458	Clean Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended December 31, 2024

Financial Statement Findings:

2024-001 Financial Statement Preparation

Condition: The District has historically relied upon its auditors to assist in the preparation of the district-wide 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.

Criteria: We are required to report on whether the District is able to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting district-wide and fund financial statements, including the related footnotes.

Cause: The additional costs with hiring staff experienced in preparing financial statements, along with additional training time, outweigh the derived benefits.

Effect: Information provided to management throughout the year may not be presented in accordance with generally accepted accounting principles.

Recommendation: The District should continue to evaluate the cost/benefit of outsourcing the task of preparing the financial statements to the external auditors.

**Views of
Responsible
Officials:** See District's corrective action plan.

Federal and State Findings and Questioned Costs: **None**

Other Issues:

Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the District's ability to continue as a going concern? No

Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue, or excess reserve) related to grants/contracts with funding agencies agencies that require audits to be in accordance with the State Single Audit Guidelines?
Department of Public Instruction No

Was a management letter or other document conveying audit comments issued as a result of this audit? Yes

Signature of shareholder
Date of report

June XX, 2025

CORRECTIVE ACTION PLAN

2024-001 Financial Statement Preparation

Corrective Action Plan: The District has evaluated the cost/benefit of outsourcing the task of preparing the financial statements to the auditors. The District has determined that it is in the best interest of the District to continue to do so. The District will carefully review the draft of the financial statements and notes prior to approving them and accept responsibility for their content and presentation.

Anticipated Completion Date: Ongoing

Contact Information: For more information regarding these findings please contact Brian Helminger, District Director, Heart of the Valley Metropolitan Sewerage District, 801 Thilmany Road, Kaukauna, WI, 54130.

Sincerely,

Brian Helminger
District Director