

Green Bay Metropolitan
Sewerage District
Green Bay, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2017 and 2016

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

DECEMBER 31, 2017 AND 2016

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Independent auditors' report

To the Commissioners
Green Bay Metropolitan Sewerage District
Green Bay, Wisconsin

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Green Bay Metropolitan Sewerage District, Green Bay, Wisconsin (the "GBMSD") as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the GBMSD's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GBMSD's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the GBMSD as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the schedules relating to pensions on page 34 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the GBMSD's financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also not a required part of the financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, on our consideration of the GBMSD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the GBMSD's internal control over financial reporting and compliance.



Certified Public Accountants

Green Bay, Wisconsin
April 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

The management of the Green Bay Metropolitan Sewerage District (GBMSD), offers readers of its financial statements this narrative overview and analysis for the fiscal year ended December 31, 2017. Readers are encouraged to consider the information presented here in conjunction with the GBMSD's financial statements and notes to the financial statements to enhance their understanding of the GBMSD's financial performance.

The GBMSD has adopted a new brand: NEW Water. The GBMSD has proudly served Northeast Wisconsin for more than 80 years, serving the mission of leading water quality improvements for the bay of Green Bay through operational excellence, resource recovery, education, and watershed management. The organization will continue to be known as the Green Bay Metropolitan Sewerage District legally, and will continue to provide the same quality water treatment service customers have come to expect. This new brand complements a new attitude of viewing materials received as a resource to be recovered, rather than as with which to dispose. Further, the GBMSD will be working closely with the greater Northeast Wisconsin community toward a common goal of clean water, an essential part of the quality of life in the watershed area. Clean water from wastewater was one of the greatest innovations of the 20th century. The GBMSD looks forward to Watershed Conservation and Stewardship being its signature contribution to the 21st century.

Financial Highlights

- The assets and deferred outflows of the GBMSD exceeded its liabilities and deferred inflows at the close of the most recent year by \$229,410,409 (net position). Of this amount, unrestricted net position is \$34,808,805.
- The GBMSD's operating expenses increased by \$1,197,790.
- User fees from municipal waste increased \$2,218,621 and mill waste increased \$169,485.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditors' report, and the financial statements of the GBMSD. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Financial Statements

The financial statements of the GBMSD report information of the GBMSD using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the GBMSD's assets, deferred outflows, liabilities and deferred inflows, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the GBMSD creditors (liabilities). It also provides the basis for evaluating the capital structure of the GBMSD and assessing the liquidity and financial flexibility of the GBMSD.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the GBMSD's operations over the past year and can be used to determine whether the GBMSD has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities during the reporting period.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

Financial Analysis of the GBMSD

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the GBMSD's financial activities for the years ending December 31, 2017 and 2016. These statements report the year-end balances of net position as well as the changes in net position from one year to the next. The balance of net position – the difference between assets and deferred outflows and liabilities and deferred inflows – measures the GBMSD's financial health or financial position. Over time, increases or decreases in the GBMSD's net position indicate whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth, and changes in governmental regulations must also be considered.

Net Position

A summary of the GBMSD's Statement of Net Position is presented below:

	Condensed Summary of Net Position			Variance of 2017 to 2016	
	12/31/2017	12/31/2016	12/31/2015	Increase (Decrease) Dollars	%
Capital assets:					
Net plant in service	\$ 150,560,981	\$ 156,890,234	\$ 153,471,885	\$ (6,329,253)	(4.0) %
Construction in progress	170,225,680	114,170,783	50,383,212	56,054,897	49.1
Current, restricted and other assets	113,077,985	107,330,278	108,235,531	5,747,707	5.4
Total assets	433,864,646	378,391,295	312,090,628	55,473,351	14.7
Deferred outflows of resources	2,976,736	4,257,133	1,184,226	(1,280,397)	(30.1)
Current liabilities	21,901,090	16,732,933	12,285,397	5,168,157	30.9
Long-term liabilities	184,301,548	145,164,031	90,326,317	39,137,517	27.0
Total liabilities	206,202,638	161,896,964	102,611,714	44,305,674	27.4
Deferred inflows of resources	1,228,335	1,611,937	7,483	(383,602)	(23.8)
Net position:					
Net investment in capital assets	128,444,538	128,374,911	121,746,874	69,627	0.1
Restricted	66,157,066	70,951,410	70,456,102	(4,794,344)	(6.8)
Unrestricted	34,808,805	19,813,206	18,452,681	14,995,599	75.7
Total net position	\$ 229,410,409	\$ 219,139,527	\$ 210,655,657	\$ 10,270,882	4.7 %

The largest portion of the GBMSD's net position (56%) is reflected in its investment in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure); less any related outstanding indebtedness used to acquire those assets and deferred outflows. The GBMSD uses these capital assets for operational purposes; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the GBMSD's net position (29%) represents resources that are subject to external restrictions on how they may be used. The restricted net position of \$66,157,066 is made up of equipment and interceptor replacement (\$38,740,539) and debt service (\$27,416,527). The remaining \$34,808,805 balance is considered unrestricted at the end of 2017.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. A summary of the Statement of Revenues, Expenses, and Changes in Net Position is shown below:

Condensed Summary of Revenues, Expenses and Changes in Net Position	Variance of 2017 to 2016				
				Increase (Decrease)	
	2017	2016	2015	Dollars	%
Revenues					
Operating revenues	\$ 40,257,353	\$ 37,461,932	\$ 36,221,714	\$ 2,795,421	7.5
Non-operating revenues	729,225	569,789	705,892	159,436	28.0
Total Revenues	40,986,578	38,031,721	36,927,606	2,954,857	7.8
Expenses					
Depreciation expense	7,652,471	7,474,124	7,421,951	178,347	2.4
Other operating expense	20,578,862	19,559,419	18,524,398	1,019,443	5.2
Total operating expenses	28,231,333	27,033,543	25,946,349	1,197,790	4.4
Non-operating expenses	2,966,877	3,125,505	2,729,133	(158,628)	(5.1)
Total expenses	31,198,210	30,159,048	28,675,482	1,039,162	3.4
Increase in net position before capital contributions	9,788,368	7,872,673	8,252,124	1,915,695	24.3
Capital contributions	482,514	611,197	360,696	(128,683)	(21.1)
Change in net position	10,270,882	8,483,870	8,612,820	1,787,012	21.1
Net position, January 1	219,139,527	210,655,657	202,042,837	8,483,870	4.0
Net position, December 31	\$ 229,410,409	\$ 219,139,527	\$ 210,655,657	\$ 10,270,882	4.7

Net position increased by \$10,270,882. Key elements of this increase are as follows:

- Operating income of \$12,026,020 increased from prior year operating income of \$10,428,389. The increase was due to increased operating revenues of \$2,795,421 while operating expenses only increased \$1,197,790. Municipal waste fees increased \$2,218,621, while mill waste increased \$169,485.

BUDGETARY HIGHLIGHTS

The GBMSD adopts an annual budget and a five-year capital plan following public budget workshops and a public hearing. The budget includes proposed expenses for operations, debt service, and plant and equipment. The budget then identifies the means of financing the expenses. The budget is used as the basis for establishing user rates on an annual basis. A budget comparison and analysis is presented to management as interim financial statements; however, they are not reported on nor shown in the financial statement section of this report.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

The following is a summary of the 2017 budget:

	Budget	Actual	Variance
Revenues	\$ 37,009,402	\$ 40,257,353	\$ 3,247,951
Expenses:			
Salaries and benefits	10,236,992	10,317,992	81,000
Power	2,489,873	2,444,939	(44,934)
Contracted services	2,942,143	2,437,773	(504,370)
Maintenance - plant	1,370,368	1,458,500	88,132
Chemicals	626,290	609,627	(16,663)
Natural gas and fuel oil	961,031	934,380	(26,651)
Solid waste disposal	211,325	186,079	(25,246)
Maintenance - interceptors	448,115	787,254	339,139
Office related expenses	450,784	506,085	55,301
Insurance	237,593	240,938	3,345
Supplementary expenses	479,362	447,920	(31,442)
Employee development	152,673	146,274	(6,399)
Travel and meetings	82,088	61,101	(20,987)
Total Expenses	20,688,637	20,578,862	(109,775)
Net change	\$ 16,320,765	\$ 19,678,491	\$ 3,357,726

The following is a summary of the 2016 budget:

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

	Budget	Actual	Variance
Revenues	\$ 35,959,870	\$ 37,461,932	\$ 1,502,062
Expenses:			
Salaries and benefits	9,743,345	10,308,059	564,714
Power	2,469,684	2,408,771	(60,913)
Contracted services	2,523,322	2,261,912	(261,410)
Maintenance - plant	1,362,391	1,371,703	9,312
Chemicals	646,923	590,801	(56,122)
Natural gas and fuel oil	1,078,379	908,606	(169,773)
Solid waste disposal	256,315	173,741	(82,574)
Maintenance - interceptors	321,310	257,930	(63,380)
Office related expenses	401,044	461,973	60,929
Insurance	202,995	232,200	29,205
Supplementary expenses	454,692	403,151	(51,541)
Employee development	123,078	118,996	(4,082)
Travel and meetings	73,297	61,576	(11,721)
Total Expenses	19,656,775	19,559,419	(97,356)
Net change	\$ 16,303,095	\$ 17,902,513	\$ 1,599,418

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

CAPITAL ASSETS

At the end of 2017, the GBMSD had \$458,003,553 invested in capital assets including two treatment plants and interceptors.

	Capital Assets		
	2017	2016	2015
Land and land improvements	\$ 4,048,104	\$ 3,897,054	\$ 3,886,764
Structures	108,480,188	108,373,995	101,782,099
Machinery and equipment	93,616,273	93,369,661	90,646,307
Furniture and fixtures	459,709	226,797	450,027
Autos and trucks	1,616,504	1,618,464	1,082,753
Interceptors	77,153,931	76,891,034	79,394,122
Amortizable assets	2,403,164	2,500,747	1,559,465
Construction in process	170,225,680	114,170,783	50,383,212
Total	458,003,553	401,048,535	329,184,749
Less: Accumulated depreciation	137,216,892	129,987,518	125,329,652
Net Capital Assets	\$ 320,786,661	\$ 271,061,017	\$ 203,855,097

More detailed information about the GBMSD's capital assets is presented in Note 2.D of the financial statements.

DEBT ADMINISTRATION

In order to abate levying a tax for debt service, the GBMSD maintains cash and investments in a reserve fund in an amount no less than what is required to meet the balance of the current year's debt service requirements plus the subsequent year's debt service. By October 1 of each year, the GBMSD's customers are informed that the GBMSD will not levy any taxes for the existing debt service. The GBMSD believes the most equitable method is collecting for municipal debt service requirements based on the flow and loadings to the plant. Procter and Gamble is assessed debt service cost based on its contractual plant capacity.

Indebtedness outstanding at December 31, 2017 and 2016 amounted to \$192.3 million, and \$147.7 million, respectively. This balance includes funds received by the GBMSD through the State of Wisconsin Clean Water Fund Loan program, which has replaced grant funding for the construction of wastewater treatment facilities. In addition, the GBMSD issued Clean Water Fund Loans during 2017 to finance a portion of the Resource Recovery and Electrical Energy (R2E2) project. Interest on these loans is payable semi-annually at a rate of 2.061%. More detailed information about the GBMSD's long-term liabilities is presented in Note 2.E of the financial statements.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Commission and management of the GBMSD considered many factors when setting the fiscal year budgets, user fees, and charges. One of those factors is the local economy, and the impact the GBMSD rates have on the major industries. By maintaining competitive rates, the GBMSD believes it can help keep its industrial customers competitive in their respective markets. The following table presents the budget rate history:

Municipal Rate History

Fiscal Year	Volume (Per 1,000 gallons)	BOD (Per Lb.)	Suspended Solids (Per Lb.)	Phosphorus (Per Lb.)	TKN (Per Lb.)	Fixed Charge
2010	0.61640	0.20704	0.23233	0.82987	0.67116	N/A
2011	0.71112	0.23857	0.26360	0.70698	0.87221	N/A
2012	0.84274	0.26511	0.29365	0.48596	0.76667	N/A
2013	0.85682	0.30901	0.34795	0.62393	0.78995	N/A
2014	0.76333	0.33466	0.29867	0.62124	0.68741	0.46763
2015	0.80448	0.39331	0.34822	0.56768	0.65358	0.52659
2016	0.79357	0.43068	0.41292	0.60597	0.64043	0.54580
2017	0.71260	0.41913	0.36651	0.58901	0.76448	0.78834

Mill Rate History

Fiscal Year	Volume (Per 1,000 gallons)	BOD (Per Lb.)	Suspended Solids (Per Lb.)	Phosphorus (Per Lb.)	TKN (Per Lb.)
2010	0.42111	0.16810	0.21243	0.78548	0.56928
2011	0.43660	0.17744	0.22522	0.61497	0.66935
2012	0.47128	0.18786	0.20413	0.36372	0.55581
2013	0.50944	0.20116	0.19775	0.44714	0.57453
2014	0.51836	0.24896	0.19362	0.50636	0.56970
2015	0.52549	0.26270	0.19420	0.40750	0.50956
2016	0.53420	0.25789	0.18371	0.38906	0.49819
2017	0.58553	0.26840	0.20301	0.43617	0.64142

The GBMSD is currently in the process of building a new solids handling facility which has an estimated project cost of \$169 million. The GBMSD embarked on this project, known as R2E2 for three main reasons: to replace aging infrastructure; to comply with stricter environmental standards, and to meet needs for increased capacity. R2E2's project concept was agreed upon through a community-wide effort, and represents a new attitude, of viewing what is sent as a resource to be recovered, rather than a waste with which to dispose. This project involves building two anaerobic digesters, which break down biodegradable material in the absence of oxygen, and reduce the volume of material to be processed. In addition, the digesters will produce methane-containing biogas, which will be captured and used to produce electricity. It is estimated that energy costs will be halved during the first year. Currently under construction, R2E2 is expected to go online in 2018.

GBMSD CONTACT INFORMATION

This financial report is designed to provide a general overview of the finances of the GBMSD for interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Maridey Diaz, Accounting Manager, 2231 N. Quincy Street, Green Bay, WI 54302.

FINANCIAL STATEMENTS

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

STATEMENTS OF NET POSITION DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and investments	\$ 27,366,654	\$ 24,306,007
Receivables		
Customer accounts	4,547,750	4,792,712
Other	203,633	131,262
Inventories	965,204	998,918
Prepaid items	<u>107,234</u>	<u>102,982</u>
Total current assets	<u>33,190,475</u>	<u>30,331,881</u>
Noncurrent assets		
Restricted assets		
Cash	64,393,584	47,503,899
Investments	11,945,731	25,280,634
Accrued interest receivable	90,337	150,146
Accounts receivable - construction	492,646	492,646
Interceptor cost recovery receivable	<u>2,965,212</u>	<u>3,571,072</u>
Total restricted assets	<u>79,887,510</u>	<u>76,998,397</u>
Capital assets		
Construction in progress		
Nondepreciable	170,225,680	114,170,783
Wastewater treatment facilities		
Nondepreciable	706,857	706,857
Depreciable	91,754,095	97,003,038
Interceptor sewers		
Depreciable	<u>58,100,029</u>	<u>59,180,339</u>
Total capital assets	<u>320,786,661</u>	<u>271,061,017</u>
Total assets	<u>433,864,646</u>	<u>378,391,295</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related amounts	<u>2,976,736</u>	<u>4,257,133</u>

The notes to the financial statements are an integral part of this statement.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

STATEMENTS OF NET POSITION DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,506,191	\$ 723,896
Accrued and other current liabilities	450,994	423,653
Compensated absences	429,271	456,335
Unearned revenue	451,514	459,855
Payable from restricted assets		
Accounts payable	5,524,206	10,964,975
Current portion of long-term debt	10,088,214	4,875,361
Accrued interest	<u>812,821</u>	<u>650,231</u>
Total current liabilities	<u>19,263,211</u>	<u>18,554,306</u>
Long-term obligations, less current portion		
General obligation debt	182,253,909	137,810,745
Compensated absences	1,229,084	1,258,381
Unearned revenue	3,067,150	3,510,323
Net pension liability	<u>389,284</u>	<u>763,209</u>
Total long-term liabilities	<u>186,939,427</u>	<u>143,342,658</u>
Total liabilities	<u>206,202,638</u>	<u>161,896,964</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related amounts	<u>1,228,335</u>	<u>1,611,937</u>
NET POSITION		
Net investment in capital assets	128,444,538	128,374,911
Restricted	66,157,066	70,951,410
Unrestricted	<u>34,808,805</u>	<u>19,813,206</u>
Total net position	<u>\$ 229,410,409</u>	<u>\$ 219,139,527</u>

The notes to the financial statements are an integral part of this statement.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES	\$ 40,257,353	\$ 37,461,932
OPERATING EXPENSES	<u>28,231,333</u>	<u>27,033,543</u>
Operating income	<u>12,026,020</u>	<u>10,428,389</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	729,225	569,789
Loss on disposal of capital assets	(57,673)	(250,723)
Interest and fiscal charges	<u>(2,909,204)</u>	<u>(2,874,782)</u>
Total nonoperating revenues (expenses)	<u>(2,237,652)</u>	<u>(2,555,716)</u>
Income before contributions	9,788,368	7,872,673
Capital contributions	<u>482,514</u>	<u>611,197</u>
Change in net position	10,270,882	8,483,870
Net position - January 1	<u>219,139,527</u>	<u>210,655,657</u>
Net position - December 31	<u><u>\$ 229,410,409</u></u>	<u><u>\$ 219,139,527</u></u>

The notes to the financial statements are an integral part of this statement.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 39,978,430	\$ 38,061,416
Cash paid for employee wages and benefits	(6,757,775)	(9,832,077)
Cash paid to suppliers	(9,449,113)	(9,377,719)
Net cash provided by operating activities	<u>23,771,542</u>	<u>18,851,620</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(61,256,807)	(66,855,049)
Sale of capital assets	-	17,965
Interceptor cost recovery income	(2,460,507)	597,009
Capital contributions	482,514	611,197
Proceeds from long-term debt	54,531,378	57,631,097
Principal paid on long-term debt	(4,875,361)	(5,666,454)
Interest paid on long-term debt	(4,366,364)	(2,704,771)
Net cash used by capital and related financing activities	<u>(17,945,147)</u>	<u>(16,369,006)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	943,367	677,463
Purchase of investments	(1,000,000)	(199,701)
Proceeds from sales and maturities of investments	14,180,570	8,875,431
Net cash provided by investing activities	<u>14,123,937</u>	<u>9,353,193</u>
Change in cash and cash equivalents	19,950,332	11,835,807
Cash and cash equivalents - January 1	<u>71,809,906</u>	<u>59,974,099</u>
Cash and cash equivalents - December 31	<u>\$ 91,760,238</u>	<u>\$ 71,809,906</u>

The notes to the financial statements are an integral part of this statement.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 12,026,020	\$ 10,428,389
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	7,652,471	7,474,124
Change in liability and deferred outflows and inflows of resources		
Pensions	3,589,237	454,461
Change in operating assets and liabilities		
Accounts receivables	172,591	1,063,107
Inventories	29,462	(52,981)
Prepaid items	-	76,517
Accounts payable	782,295	(268,891)
Accrued and other current liabilities	27,341	56,718
Unearned revenue	(451,514)	(463,623)
Compensated absences	(56,361)	83,799
Net cash provided by operating activities	<u>\$ 23,771,542</u>	<u>\$ 18,851,620</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 27,366,654	\$ 24,306,007
Cash and cash equivalents in restricted assets	<u>64,393,584</u>	<u>47,503,899</u>
Total cash and cash equivalents	<u>\$ 91,760,238</u>	<u>\$ 71,809,906</u>

The notes to the financial statements are an integral part of this statement.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Green Bay Metropolitan Sewerage District, Green Bay, Wisconsin (the "GBMSD"), have been prepared in conformity with accounting principles generally accepted in the United States of America (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 significant accounting principles and policies utilized by the GBMSD are described below:

A. REPORTING ENTITY

The GBMSD was organized in 1931, under Section 66.20 of the Wisconsin Statutes, to construct interceptor sewers, including rights-of-way and appurtenances, and construct and operate a sewage disposal plant. The GBMSD's service area includes all of the Cities of Green Bay and De Pere; Villages of Allouez, Ashwaubenon, Bellevue, Hobart, Howard, Luxemburg, Pulaski, and Suamico; the Towns of Ledgeview Sanitary District #2, Lawrence Utility District, Pittsfield Sanitary District #1, Scott Sanitary District #1, Dyckesville Sanitary District, New Franken Sanitary District, Royal Scot Sanitary District, and Bayshore Sanitary District.

The GBMSD, the City of Green Bay, and two paper mills located within the Green Bay city limits (Georgia-Pacific Consumer Products LP and Procter & Gamble Paper Products Company) have entered into a tripartite agreement setting forth the distribution of total cost of construction and operation of the wastewater treatment facilities. Pursuant to agreements, the two paper mills share proportionately in the principal and interest payments falling due during the fiscal year, thus reducing the amount assessable to the various municipalities with the GBMSD. Each entity utilizing the GBMSD's services is billed for the actual units of volume and strength of its sewage treated. Georgia-Pacific Consumer Products LP has discontinued discharging into the GBMSD's system. In 2014, Georgia-Pacific Consumer Products LP prepaid its remaining portion of outstanding debt.

The GBMSD is governed by a five member Board of Commission, appointed by the Brown County Executive, and operates under the jurisdiction of the Wisconsin State Statutes. In accordance with GAAP, the financial statements are required to include the GBMSD and any separate component units that have a significant operational or financial relationship with the GBMSD. The GBMSD has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statement No. 61.

B. ENTERPRISE FUND

The accounts of the GBMSD are accounted for in an enterprise fund as required by GAAP. Enterprise funds are used to account for government operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities, and deferred inflows and outflows of resources associated with the operation are included on the Statement of Net Position. Enterprise fund operating statement present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The accrual basis of accounting is utilized by the enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Unpaid enterprise fund service receivables are recorded at year-end. All capital assets are capitalized at historical cost and depreciated over their useful lives.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

2. Accounts Receivable

Accounts receivable are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the financial statements.

3. Inventories

Inventories are recorded at cost, which approximates market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

4. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

5. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

6. Capital Assets

Capital assets, which include property, plant and equipment assets, are reported in the financial statements. Capital assets are defined by the GBMSD as assets with an initial, individual cost of \$2,500 for general assets or \$5,000 for computers, or higher and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the GBMSD are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 80
Improvements	3 - 80
Sewers	50 - 100
Equipment	3 - 30

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable.

8. Unearned Revenues

Unearned revenues are reported for amounts received prior to the GBMSD earning the funds.

9. Long-term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

10. Compensated Absences

It is the GBMSD's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with employee handbook policies. All vacation and sick leave is accrued when incurred in the financial statements.

11. Pensions

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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Net Position

Equity is classified as net position and displayed in three components:

- ▶ **Net investment in capital assets.** Amount of capital assets, net of accumulated depreciation, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- ▶ **Restricted net position.** Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

13. Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with GBMSD's principal ongoing operations. The principal operating revenues of the GBMSD are metered sales and capital revenue for wastewater treatment services. Operating expenses include the costs associated with the conveyance and treatment of wastewater, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

14. Capital Contributions

Capital contributions consist of interceptor connection charges, contributed capital assets, and federal and state grants received to pay a portion of the construction costs of the wastewater treatment facility.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

F. RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements with no change in previously reported net position or changes in net position.

NOTE 2: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

The GBMSD maintains various cash and investment accounts which are displayed on the financial statements as "Cash and investments".

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.

The carrying amount of the GBMSD's cash and investments totaled \$103,705,969 and \$97,090,540 on December 31, 2017 and 2016, respectively, as summarized below:

	<u>12/31/2017</u>	<u>12/31/2016</u>
Deposits with financial institutions	\$ 51,817,443	\$ 36,996,482
Investments	51,888,526	60,094,058
	<u>\$ 103,705,969</u>	<u>\$ 97,090,540</u>
Reconciliation to the financial statements:		
Statement of net position		
Cash and investments	\$ 27,366,654	\$ 24,306,007
Restricted cash	64,393,584	47,503,899
Restricted investments	11,945,731	25,280,634
	<u>\$ 103,705,969</u>	<u>\$ 97,090,540</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Fair Value Measurements

The GBMSD categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs.

The GBMSD has the following fair value measurements as of December 31, 2017:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments			
U.S. Treasury notes	\$ -	\$ 5,972,260	\$ -
Corporate bonds	-	2,024,610	-
Municipal bonds	-	3,954,414	-
Money market funds	39,937,242	-	-
	<u>\$ 39,937,242</u>	<u>\$ 11,951,284</u>	<u>\$ -</u>

The GBMSD has the following fair value measurements as of December 31, 2016:

	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3
Investments			
U.S. Treasury notes	\$ -	\$ 6,015,300	\$ -
U.S. Government agencies	-	2,002,520	-
Corporate bonds	-	6,190,933	-
Municipal bonds	-	11,071,881	-
Wisconsin local government investment pool	47,408	-	-
Money market funds	34,766,016	-	-
	<u>\$ 34,813,424</u>	<u>\$ 25,280,634</u>	<u>\$ -</u>

Deposits and investments of the GBMSD are subject to various risks. Presented below is a discussion of the GBMSD's deposits and investments and the related risks.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Wisconsin statutes require repurchase agreements to be fully collateralized by bonds or securities issued or guaranteed by the federal government or its instrumentalities. The GBMSD does not have an additional custodial credit policy.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available. This coverage has been considered in determining custodial credit risk.

As of December 31, 2017 and 2016, \$51,230,314 and \$492,914 of the GBMSD's deposits with financial institutions were in excess of federal and state depository insurance limits. GBMSD's financial institution's trust department pledged collateral with a fair market value of \$53,470,030 as of December 31, 2017.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investment in securities to the top two ratings assigned by nationally recognized statistical rating organizations.

Presented below is the actual rating as of December 31, 2017 for each investment type.

Investment Type	Amount	Exempt from Disclosure	AAA	AA	Not Rated
U.S. Treasury notes	\$ 5,972,260	\$ 5,972,260	\$ -	\$ -	\$ -
Corporate bonds	2,024,610	-	-	2,024,610	-
Municipal bonds	3,954,414	-	3,954,414	-	-
Money market funds	39,937,242	-	-	-	39,937,242
Totals	<u>\$ 51,888,526</u>	<u>\$ 5,972,260</u>	<u>\$ 3,954,414</u>	<u>\$ 2,024,610</u>	<u>\$ 39,937,242</u>

Presented below is the actual rating as of December 31, 2016 for each investment type.

Investment Type	Amount	Exempt from Disclosure	AAA	AA	Not Rated
U.S. Treasury notes	\$ 6,015,300	\$ 6,015,300	\$ -	\$ -	\$ -
U.S. Government agencies	2,002,520	2,002,520	-	-	-
Corporate bonds	6,190,933	-	-	6,190,933	-
Municipal bonds	11,071,881	-	5,982,923	5,088,958	-
Money market funds	34,766,016	-	-	-	34,766,016
Wisconsin local government investment pool	47,408	-	-	-	47,408
Totals	<u>\$ 60,094,058</u>	<u>\$ 8,017,820</u>	<u>\$ 5,982,923</u>	<u>\$ 11,279,891</u>	<u>\$ 34,813,424</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Concentration of Credit Risk

The investment policy of the GBMSD allows that no more than 50% of its total investment portfolio can be invested in any one issuer, other than U.S. agency obligations, U.S. treasury obligations, certificates of deposit, and authorized pools. At December 31, 2017 and 2016, the GBMSD had no investments in any one issuer that represent 5% or more of total GBMSD investments.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the GBMSD manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. In accordance with its investment policy, the GBMSD manages its exposure to declines in fair values by limiting the maximum maturity dates as follows:

- ▶ No more than 80% will have a maturity date greater than two years from purchase.
- ▶ No more than 50% will have a maturity date greater than three years from purchase.
- ▶ No more than 30% will have a maturity date greater than four years from purchase.
- ▶ No more than 20% will have a maturity date greater than five years from purchase.
- ▶ No more than 10% will have a maturity date greater than six years from purchase.

Information about the sensitivity of the fair values of the GBMSD's investments to market interest rate fluctuations is provided by the following tables.

As of December 31, 2017, GBMSD had the following investments and maturities:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury notes	\$ 5,972,260	\$ -	\$ -	\$ 5,972,260	\$ -
Corporate bonds	2,024,610	-	2,024,610	-	-
Municipal bonds	3,954,414	3,954,414	-	-	-
Money market funds	39,937,242	39,937,242	-	-	-
Totals	<u>\$ 51,888,526</u>	<u>\$ 43,891,656</u>	<u>\$ 2,024,610</u>	<u>\$ 5,972,260</u>	<u>\$ -</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

As of December 31, 2016, GBMSD had the following investments and maturities:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury notes	\$ 6,015,300	\$ -	\$ -	\$ 4,043,040	\$ 1,972,260
U.S. Government agencies	2,002,520	2,002,520	-	-	-
Corporate bonds	6,190,933	4,131,043	2,059,890	-	-
Municipal bonds	11,071,881	7,090,608	3,981,273	-	-
Money market funds	34,766,016	34,766,016	-	-	-
Wisconsin local government investment pool	47,408	47,408	-	-	-
Totals	<u>\$ 60,094,058</u>	<u>\$ 48,037,595</u>	<u>\$ 6,041,163</u>	<u>\$ 4,043,040</u>	<u>\$ 1,972,260</u>

Investment in Wisconsin Local Government Investment Pool

The GBMSD has investments in the Wisconsin local government investment pool of \$47,408 at December 31, 2016. The Wisconsin local government investment pool (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 one day's notice. At December 31, 2017, the fair value of the GBMSD's share of the LGIP's assets was substantially equal to the carrying value.

B. RESTRICTED ASSETS

Restricted assets on December 31, 2017 totaled \$79,887,510 held for the following purposes:

	Equipment and Interceptor Replacement	Debt Retirement	Construction	Total
Cash, cash equivalents and investments	\$ 38,676,628	\$ 27,390,101	\$ 10,272,586	\$ 76,339,315
Receivables				
Accrued interest receivable	63,911	26,426	-	90,337
Accounts receivable	-	-	492,646	492,646
Interceptor cost recovery	2,965,212	-	-	2,965,212
Total	<u>\$ 41,705,751</u>	<u>\$ 27,416,527</u>	<u>\$ 10,765,232</u>	<u>\$ 79,887,510</u>

Restricted assets on December 31, 2016 totaled \$76,998,397 held for the following purposes:

	Equipment and Interceptor Replacement	Debt Retirement	Construction	Total
Cash, cash equivalents and investments	\$ 40,577,017	\$ 26,653,175	\$ 5,554,341	\$ 72,784,533
Receivables				
Accrued interest receivable	34,147	115,999	-	150,146
Accounts receivable	-	-	492,646	492,646
Interceptor cost recovery	3,571,072	-	-	3,571,072
Total	<u>\$ 44,182,236</u>	<u>\$ 26,769,174</u>	<u>\$ 6,046,987</u>	<u>\$ 76,998,397</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

	<u>Purpose</u>
Plant and equipment replacement account	As a condition of receiving state and federal funds for wastewater treatment facility construction, the GBMSD has established an account for replacement of mechanical equipment during the life of the facility.
Interceptor replacement account	The interceptor cost recovery receivables and payments are kept in a separate restricted account to pay any debt incurred in connection with the construction and also repair and replacement of interceptor facilities.
Debt retirement account	In order to allow the GBMSD to abate levying a tax for debt service, the GBMSD maintains cash and investments in a sinking fund in an amount no less than what is required to meet the balance of the current year debt service requirements plus the subsequent year's debt service requirements.
Construction account	Used to report debt proceeds or other financial resources available for use in construction projects.

C. INTERCEPTOR COST RECOVERY RECEIVABLE

The GBMSD has agreements with various municipal customers in which the municipalities have agreed to reimburse the GBMSD for the cost of interceptors owned by the GBMSD whose capacity has been allocated to the municipalities. Annual repayments on the receivables for the year ended December 31, 2017 are as follows:

<u>Year Ended December 31,</u>	<u>Total</u>
2018	\$ 557,563
2019	546,396
2020	556,873
2021	302,149
2022	312,926
2023-2025	689,305
	<u>\$ 2,965,212</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Construction in progress				
Capital assets, nondepreciable	\$ 114,170,783	\$ 57,545,424	\$ 1,490,527	\$ 170,225,680
Wastewater Treatment Facilities				
Capital assets, nondepreciable				
Land	706,857	-	-	706,857
Capital assets, depreciable				
Land improvements	3,190,197	151,050	-	3,341,247
Structures and equipment	105,459,797	172,744	66,551	105,565,990
Machinery and equipment	93,369,661	498,889	252,277	93,616,273
Furniture and fixtures	226,797	242,242	9,330	459,709
Autos and trucks	1,618,464	-	1,960	1,616,504
Amortizable assets	2,500,747	49,516	147,099	2,403,164
Subtotals	206,365,663	1,114,441	477,217	207,002,887
Less accumulated depreciation for:				
Land improvements	2,679,374	64,796	-	2,744,170
Structures and equipment	49,545,125	2,861,410	26,801	52,379,734
Machinery and equipment	55,210,324	3,116,250	235,722	58,090,852
Furniture and fixtures	215,887	7,792	9,330	214,349
Autos and trucks	563,477	63,005	1,960	624,522
Amortizable assets	1,148,438	193,826	147,099	1,195,165
Subtotals	109,362,625	6,307,079	420,912	115,248,792
Total capital assets, depreciable, net	97,003,038	(5,192,638)	56,305	91,754,095
Total wastewater treatment facilities, net	97,709,895	(5,192,638)	56,305	92,460,952
Interceptor Sewers				
Capital assets, depreciable				
Structures	2,914,198	-	-	2,914,198
Interceptors	76,891,034	266,453	3,556	77,153,931
Subtotals	79,805,232	266,453	3,556	80,068,129
Less accumulated depreciation for:				
Structures	1,482,278	76,909	-	1,559,187
Interceptors	19,142,615	1,268,486	2,188	20,408,913
Subtotals	20,624,893	1,345,395	2,188	21,968,100
Total capital assets, depreciable, net	59,180,339	(1,078,942)	1,368	58,100,029
Total interceptor sewers, net	59,180,339	(1,078,942)	1,368	58,100,029
Total Capital Assets, net	\$ 271,061,017	\$ 51,273,844	\$ 1,548,200	\$ 320,786,661

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Construction in progress				
Capital assets, nondepreciable	\$ 50,383,212	\$ 74,944,133	\$ 11,156,562	\$ 114,170,783
Wastewater Treatment Facilities				
Capital assets, nondepreciable				
Land	706,857	-	-	706,857
Capital assets, depreciable				
Land improvements	3,190,197	-	-	3,190,197
Structures and equipment	101,003,994	5,548,093	1,092,290	105,459,797
Machinery and equipment	90,596,786	4,686,763	1,913,888	93,369,661
Furniture and fixtures	279,875	10,383	63,461	226,797
Autos and trucks	1,618,464	-	-	1,618,464
Amortizable assets	1,790,737	720,718	10,708	2,500,747
Subtotals	198,480,053	10,965,957	3,080,347	206,365,663
Less accumulated depreciation for:				
Land improvements	2,614,578	64,796	-	2,679,374
Structures and equipment	47,828,158	2,785,737	1,068,770	49,545,125
Machinery and equipment	53,820,026	3,054,810	1,664,512	55,210,324
Furniture and fixtures	277,744	1,574	63,431	215,887
Autos and trucks	493,947	69,530	-	563,477
Amortizable assets	1,006,593	157,151	15,306	1,148,438
Subtotals	106,041,046	6,133,598	2,812,019	109,362,625
Total capital assets, depreciable, net	92,439,007	4,832,359	268,328	97,003,038
Total wastewater treatment facilities, net	93,145,864	4,832,359	268,328	97,709,895
Interceptor Sewers				
Capital assets, depreciable				
Structures	2,914,198	-	-	2,914,198
Interceptors	76,700,429	190,605	-	76,891,034
Subtotals	79,614,627	190,605	-	79,805,232
Less accumulated depreciation for:				
Structures	1,384,172	102,345	4,239	1,482,278
Interceptors	17,904,434	1,238,181	-	19,142,615
Subtotals	19,288,606	1,340,526	4,239	20,624,893
Total capital assets, depreciable, net	60,326,021	(1,149,921)	(4,239)	59,180,339
Total interceptor sewers, net	60,326,021	(1,149,921)	(4,239)	59,180,339
Total Capital Assets, net	\$ 203,855,097	\$ 78,626,571	\$ 11,420,651	\$ 271,061,017

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

E. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the GBMSD for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation debt					
Bonds	\$ 27,795,000	\$ -	\$ 495,000	\$ 27,300,000	\$ 515,000
Clean water fund	113,558,049	54,531,378	4,286,529	163,802,898	9,474,690
Notes	1,333,057	-	93,832	1,239,225	98,524
Total general obligation debt	142,686,106	54,531,378	4,875,361	192,342,123	10,088,214
Compensated absences	1,714,716	-	56,361	1,658,355	429,271
Business-type activities					
Total long-term obligations	<u>\$ 144,400,822</u>	<u>\$ 54,531,378</u>	<u>\$ 4,931,722</u>	<u>\$ 194,000,478</u>	<u>\$ 10,517,485</u>

The following is a summary of changes in long-term obligations of the GBMSD for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation debt					
Bonds	\$ 28,270,000	\$ -	\$ 475,000	\$ 27,795,000	\$ 495,000
Clean water fund	61,029,042	57,631,097	5,102,089	113,558,050	4,286,529
Notes	1,422,421	-	89,365	1,333,056	93,832
Total general obligation debt	90,721,463	57,631,097	5,666,454	142,686,106	4,875,361
Compensated absences	1,630,917	83,799	-	1,714,716	456,335
Total long-term obligations	<u>\$ 92,352,380</u>	<u>\$ 57,714,896</u>	<u>\$ 5,666,454</u>	<u>\$ 144,400,822</u>	<u>\$ 5,331,696</u>

Total interest paid on long-term debt during the years ended December 31, 2017 and 2016 totaled \$4,366,364 and \$3,061,774, respectively.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance	
					12/31/17	12/31/16
Clean water fund	11/12/97	05/01/17	3.173%	\$ 890,037	\$ -	\$ 58,916
Clean water fund	04/14/99	05/01/18	2.640%	2,737,735	180,332	356,026
Clean water fund	08/23/00	05/01/20	3.150%	3,222,103	622,159	817,009
Clean water fund	10/25/00	05/01/20	3.432%	1,924,428	377,515	495,096
Clean water fund	12/13/00	05/01/20	2.970%	2,159,850	409,937	538,776
Clean water fund	07/11/01	05/01/21	3.175%	1,490,715	378,252	465,654
Clean water fund	07/11/01	05/01/21	3.355%	946,212	242,176	297,888
Clean water fund	01/23/02	05/01/21	2.933%	3,881,879	972,665	1,198,760
Clean water fund	02/27/02	05/01/21	2.881%	695,592	172,839	213,067
Clean water fund	12/08/04	05/01/24	2.365%	5,347,693	2,273,728	2,569,229
Clean water fund	04/13/05	05/01/24	2.365%	2,761,525	1,179,202	1,332,455
General obligation notes	12/28/07	12/28/27	5.000%	2,000,000	1,239,225	1,333,057
General obligation bonds	09/15/08	05/01/28	4.00 - 4.625%	10,000,000	7,300,000	7,795,000
Clean water fund	03/11/09	05/01/28	2.668%	9,861,264	6,315,219	6,803,737
Clean water fund	12/09/09	05/01/29	2.910%	4,211,341	3,042,375	3,251,753
Clean water fund	12/09/09	05/01/29	2.910%	12,821,922	8,914,695	9,528,209
Clean water fund	11/10/10	05/01/30	2.400%	3,421,382	2,412,483	2,569,055
Clean water fund	12/22/10	05/01/30	2.400%	3,246,148	2,323,940	2,474,765
Clean water fund	12/12/12	05/01/32	2.625%	2,891,810	2,313,702	2,438,289
Clean water fund	04/10/13	05/01/32	2.625%	3,086,300	2,556,437	2,694,095
General obligation bonds	08/30/13	05/01/38	4.00 - 4.54%	20,000,000	20,000,000	20,000,000
Clean water fund	01/08/14	05/01/33	2.625%	4,153,498	3,536,439	3,712,515
Clean water fund	08/13/14	05/01/34	2.625%	15,209,242	13,438,067	14,059,102
Clean water fund ⁽¹⁾	10/14/15	05/01/35	2.061%	138,880,269	110,473,496	55,942,118
Clean water fund	12/23/15	05/01/35	2.275%	1,789,477	1,667,240	1,741,535
Total outstanding general obligation debt					<u>\$ 192,342,123</u>	<u>\$ 142,686,106</u>

⁽¹⁾ The District has authorized clean water fund debt of \$138,880,269, with total disbursed of \$110,473,496 as of December 31, 2017. Subsequent to year end and prior to the date of the issuance of the financial statements, the District made additional draws totaling \$3,190,343.

Annual principal and interest maturities of the outstanding general obligation debt of \$192,342,123 on December 31, 2017 are detailed below:

Year Ended December 31,	Principal	Interest	Total
2018	\$ 10,088,214	\$ 4,822,193	\$ 14,910,407
2019	10,157,537	4,576,566	14,734,103
2020	10,412,769	4,320,827	14,733,596
2021	10,178,722	4,066,065	14,244,787
2022	9,959,167	3,818,789	13,777,956
2023 - 2027	51,990,903	15,305,463	67,296,366
2028 - 2032	53,117,083	8,702,830	61,819,913
2033 - 2037	34,337,728	2,379,282	36,717,010
2038	2,100,000	47,250	2,147,250
	<u>\$ 192,342,123</u>	<u>\$ 48,039,265</u>	<u>\$ 240,381,388</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Legal Margin for New Debt

GBMSD's legal margin for creation of additional general obligation debt on December 31, 2017 was \$736,180,427 as follows:

Equalized valuation of GBMSD	\$ 18,570,451,001
Statutory limitation percentage	(x) 5%
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes	928,522,550
Total outstanding general obligation debt applicable to debt limitation	192,342,123
Legal margin for new debt	<u>\$ 736,180,427</u>

F. PENSION PLAN

1. 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 1200 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>.

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.

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are 1) final average earnings, 2) years of creditable service, and 3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. 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>
2007	3%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)

3. 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 remained 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 period ending December 31, 2016 and 2015, the WRS recognized \$461,061 and \$454,816, respectively, in contributions from the GBMSD.

Contribution rates for the reporting period ending December 31, 2016 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

At December 31, 2017 and 2016, the GBMSD reported a liability of \$389,284 and \$763,209, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 and 2014 rolled forward to December 31, 2016 and 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The GBMSD's proportion of the net pension liability was based on the GBMSD's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the GBMSD's proportion was 0.04722948%, which was an increase of 0.00026223% from its proportion measured as of December 31, 2015. At December 31, 2015, the GBMSD's proportion was 0.04696725%, which was a decrease of 0.000246750% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2017 and 2016, GBMSD recognized pension expense of \$1,002,453 and \$889,112, respectively.

At December 31, 2017 and 2016, the GBMSD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2017		December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 148,434	\$ 1,224,264	\$ 129,113	\$ 1,606,160
Net differences between projected and actual earnings on pension plan investments	1,937,731	-	3,124,795	-
Changes in assumptions	407,011	-	533,974	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,208	4,071	8,190	5,777
Employer contributions subsequent to the measurement date	475,352	-	461,061	-
Total	<u>\$ 2,976,736</u>	<u>\$ 1,228,335</u>	<u>\$ 4,257,133</u>	<u>\$ 1,611,937</u>

\$475,352 reported as deferred outflows related to pension resulting from the GBMSD's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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 ended December 31,	Expense
2017	\$ 516,990
2018	516,990
2019	353,996
2020	(115,627)
2021	700
Total	<u>\$ 1,273,049</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

5. Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2015
Measurement date of net pension liability:	December 31, 2016
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Long-term expected rate of return:	7.2%
Discount rate:	7.2%
Salary increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.1%

- * *No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% 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 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

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

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

	Current Asset Allocation %	Destination Target Asset Allocation %	Long-term Expected Nominal Rate of Return %	Long-term Expected Real Rate of Return %
Core Fund Asset Class				
Global equities	50%	45%	8.3%	5.4%
Fixed income	24.5%	37%	4.2%	1.4%
Inflation sensitive assets	15.5%	20%	4.3%	1.5%
Real estate	8%	7%	6.5%	3.6%
Private equity/debt	8%	7%	9.4%	6.5%
Multi-asset	4%	4%	6.6%	3.7%
Total Core Fund	110%	120%	7.4%	4.5%
Variable Fund Asset Class				
U.S. equities	70%	70%	7.6%	4.7%
International equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	100%	7.9%	5%

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

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

Single Discount Rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% 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 members 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 long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the GBMSD's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the GBMSD's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.2 percent, as well as what the GBMSD's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
GBMSD's proportionate share of the net pension liability (asset)			
December 31, 2017	\$ 5,121,276	\$ 389,284	\$ (3,254,565)
December 31, 2016	5,353,160	763,209	(2,821,625)

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>.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

6. Payables to the Pension Plan

At December 31, 2017 and 2016, the GBMSD reported a payable of \$80,440 and \$75,538, respectively, for the outstanding amount of contributions to the pension plan for the year ended December 31, 2017 and 2016.

G. NET POSITION

The GBMSD reports net investment in capital assets at December 31, 2017 and 2016 as follows:

	12/31/2017	12/31/2016
Capital assets	\$ 320,786,661	\$ 271,061,017
Less: Capital related debt	192,342,123	142,686,106
Total net investment in capital assets	<u>\$ 128,444,538</u>	<u>\$ 128,374,911</u>

The GBMSD reports restricted net position at December 31, 2017 and 2016 as follows:

	12/31/2017	12/31/2016
Restricted for		
Equipment and interceptor replacement	\$ 38,740,539	\$ 44,182,236
Debt retirement	27,416,527	26,769,174
Total restricted net position	<u>\$ 66,157,066</u>	<u>\$ 70,951,410</u>

NOTE 3: OTHER INFORMATION

A. RISK MANAGEMENT

The GBMSD is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The GBMSD completes an annual review of its insurance coverage to ensure adequate coverage.

B. CONTINGENCIES

From time to time, the GBMSD is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the GBMSD's financial position or results of operations.

C. SUBSEQUENT EVENT

During 2018 the GBMSD issued additional general obligation bonds through the Clean Water Fund Loan program, totaling \$3,190,343. Proceeds were used for capital improvements. Bonds are to be repaid from 2018 through 2035, with interest at 2.275%.

During 2018 the GBMSD issued general obligation refunding bonds for \$6,505,000. Proceeds were used to refund 2008 general obligation bonds. Bonds are to be repaid from 2019 through 2028, with interest at 2.00% - 5.00%. Present value savings of the refunding bonds totaled \$692,648.

REQUIRED SUPPLEMENTARY INFORMATION

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) WISCONSIN RETIREMENT SYSTEM LAST 10 FISCAL YEARS

Fiscal Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll (Plan Year)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/15	0.04721400%	\$ (1,159,705)	\$ 6,481,885	17.89%	102.74%
12/31/16	0.04696725%	763,209	6,688,466	11.41%	98.20%
12/31/17	0.04722948%	389,284	6,985,769	5.57%	99.12%

SCHEDULE OF CONTRIBUTIONS WISCONSIN RETIREMENT SYSTEM LAST 10 FISCAL YEARS

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll (Fiscal Year)	Contributions as a Percentage of Covered-Employee Payroll
12/31/15	\$ 454,816	\$ 454,816	\$ -	\$ 6,688,466	6.80%
12/31/16	461,061	461,061	-	6,985,769	6.60%
12/31/17	475,352	475,352	-	6,990,466	6.80%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

The amounts reported for each fiscal year were determined as of the calendar year-end that occurred within the prior fiscal year. The GBMSD is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

SUPPLEMENTARY INFORMATION

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

SCHEDULE OF OPERATING REVENUES AND EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Charges for services		
User fees - municipal waste	\$ 34,866,447	\$ 32,647,826
User fees - mill waste	1,585,340	1,415,855
Capital revenue - mills	1,496,164	1,696,131
Other revenues	<u>2,309,402</u>	<u>1,702,120</u>
Total operating revenues	<u>40,257,353</u>	<u>37,461,932</u>
OPERATING EXPENSES		
Salaries and wages	7,204,083	7,055,515
Fringe benefits	3,113,909	3,252,544
Employee development	146,274	118,996
Travel and meetings	61,101	61,576
Power	2,444,939	2,408,771
Natural gas and fuel oil	934,380	908,606
Chemicals	609,627	590,801
Maintenance - plant	1,458,500	1,371,703
Maintenance - interceptors	787,254	257,930
Contracted services	2,437,773	2,261,912
Insurance	240,938	232,200
Solid waste disposal	186,079	173,741
Office related expenses	506,085	461,973
Supplementary expenses	<u>447,920</u>	<u>403,151</u>
Subtotal	20,578,862	19,559,419
Depreciation	<u>7,652,471</u>	<u>7,474,124</u>
Total operating expenses	<u>28,231,333</u>	<u>27,033,543</u>
Operating income	<u>\$ 12,026,020</u>	<u>\$ 10,428,389</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR FINANCIAL STATEMENTS

Independent auditors' 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*

To the Commissioners
Green Bay Metropolitan Sewerage District
Green Bay, 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 Green Bay Metropolitan Sewerage District, Green Bay, Wisconsin, (the "GBMSD") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the GBMSD's financial statements, and have issued our report thereon dated April 19, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the GBMSD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GBMSD's internal control. Accordingly, we do not express an opinion on the effectiveness of the GBMSD'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the GBMSD'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the GBMSD'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 determination of financial statement amounts. 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*.

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 GBMSD'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 GBMSD's internal control and on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Schuch SC".

Certified Public Accountants

Green Bay, Wisconsin
April 19, 2018

FEDERAL AND STATE AWARDS

Independent auditors' report on compliance for the major federal program and on internal control over compliance required by the Uniform Guidance

To the Commissioners
Green Bay Metropolitan Sewerage District
Green Bay, Wisconsin

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM

We have audited Green Bay Metropolitan Sewerage District, Green Bay, Wisconsin's (the "GBMSD") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the GBMSD's major federal program for the year ended December 31, 2017. The GBMSD's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on compliance for the GBMSD's major federal program based on our audit of the types of compliance requirements referred to above. 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the GBMSD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the GBMSD's compliance.

OPINION ON THE MAJOR FEDERAL PROGRAM

In our opinion, the GBMSD complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the GBMSD is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the GBMSD's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the GBMSD's 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 program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants

Green Bay, Wisconsin

April 19, 2018

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Grantor Agency and Program Title</u>	<u>Pass-through Agency</u>	<u>CFDA Number</u>	<u>Pass-through Identifying Number</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
<i>Clean Water State Revolving Fund Cluster</i>			
Capitalization Grants for Clean Water State Revolving Funds	WI Department of Administration	66.458	4198-99
Great Lakes Program	Direct program	66.469	Not Applicable
	WI Department of Natural Resources	66.469	GL-00E02024
Total Great Lakes Program			
Total U.S. Environmental Protection Agency			
TOTAL FEDERAL AWARDS			

<u>Accrued (Deferred) Revenue 1/1/17</u>	<u>Cash Received (Refunded)</u>	<u>Accrued (Deferred) Revenue 12/31/17</u>	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Subrecipient Expenditures</u>
\$ -	\$ 54,531,377	\$ -	\$ 54,531,377	\$ 54,531,377	\$ -
-	387,336	-	387,336	387,336	263,474
-	12,000	-	12,000	12,000	-
-	399,336	-	399,336	399,336	263,474
-	54,930,713	-	54,930,713	54,930,713	263,474
<u>\$ -</u>	<u>\$ 54,930,713</u>	<u>\$ -</u>	<u>\$ 54,930,713</u>	<u>\$ 54,930,713</u>	<u>\$ 263,474</u>

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards for the GBMSD are 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).

The Schedule of Expenditures of Federal Awards include all federal awards of the GBMSD. Because the schedule presents only a selected portion of the operations of the GBMSD, it is not intended to and does not present the financial position, changes in net position, or cash flows of the GBMSD.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Revenues and expenditures in the schedule are presented in accordance with the accrual basis of accounting and are generally in agreement with revenues and expenses reported in the GBMSD's 2017 financial statements, with the exception of the Capitalization Grants for Clean Water State Revolving Funds program. Cash received in this program is reported as loan proceeds, while expenditures are reported as additions to GBMSD's capital assets. Accrued revenue at year-end consists of federal program expenditures scheduled for reimbursement to the GBMSD in the succeeding year while unearned revenue represents advances for federal program that exceed recorded GBMSD expenditures.

The GBMSD has not elected to charge a de minimis indirect rate of 10% of modified total direct costs.

NOTE 3: OVERSIGHT AGENCY

The federal oversight agency for the GBMSD is the U.S. Environmental Protection Agency.

Green Bay Metropolitan Sewerage District

Green Bay, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

BASIC FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No

Identification of major federal program:

CFDA Number	Name of Federal Program
66.458	Capitalization Grants for Clean Water State Revolving Funds

Audit threshold used to determine between Type A and Type B programs:

Federal Awards	\$1,647,500
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Auditee qualified as low-risk auditee	No
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SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING NO.	FINANCIAL STATEMENT FINDINGS
	There are no findings related to the financial statements required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2017.

SECTION III – FEDERAL AWARDS FINDINGS

FINDING NO.	FEDERAL AWARDS FINDINGS
	There are no findings related to federal awards programs in accordance with Uniform Guidance for the year ended December 31, 2017.

Green Bay Metropolitan Sewerage District Green Bay, Wisconsin

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017

PRIOR YEAR AUDIT FINDINGS

There were no findings or questioned costs for federal awards for the year ended December 31, 2016.

CORRECTIVE ACTION PLAN

There were no findings or questioned costs for federal awards for the year ended December 31, 2017.