

**VADNAIS LAKE AREA WATER  
MANAGEMENT ORGANIZATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**

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## **INTRODUCTORY SECTION**

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
 BOARD OF DIRECTORS AND APPOINTED OFFICIALS  
 YEAR ENDED DECEMBER 31, 2016**

**BOARD OF DIRECTORS**

Name	Title	Member City
Marc Johannsen	Chairperson	Vadnais Heights
Dan Jones	Vice-Chair	White Bear Lake
Robert Uzpen	Treasurer	Gem Lake
Rob Rafferty	Board Member	Lino Lakes
Marty Long	Board Member	North Oaks
Ed Prudhon	Board Member	White Bear Township

**TECHNICAL COMMISSION**

Name	Title	Member City
Mark Graham	Chairperson	Vadnais Heights
Jim Grisim	Vice-Chair	White Bear Lake
Jim Lindner	Treasurer	Gem Lake
Chris Mann/Bob Larson	Commissioner	North Oaks
Marty Asleson	Commissioner	Lino Lakes

## **FINANCIAL SECTION**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Vadnais Lake Area Water Management Organization  
Vadnais Heights, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Vadnais Lake Area Water Management Organization (the Organization), Vadnais Heights, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic 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 opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Organization's 2015 financial statements and, in our report dated April 11, 2017, we express unmodified opinions on the respective fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Organization as of December 31, 2016, and the respective changes in financial position and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Summarized Prior Year Comparative Information**

Other auditors have previously audited the Vadnais Lake Area Water Management Organization's 2015 financial statements and expressed an unmodified opinion on the governmental activities and the major fund in their report dated March 7, 2016. The summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**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 11, the schedule of employer's share of PERA net pension liability, and the schedule of employer's share of PERA contributions on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
April 11, 2017

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

As management of the Vadnais Lake Area Water Management Organization (the Organization), Vadnais Heights, Minnesota, we offer readers of the Organization's financial statements this narrative overview and analysis of the financial activities of the Organization for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements, which follow this section.

**Financial Highlights**

- The assets and deferred outflows of resources of the Organization exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$221,485 (*net position*). Of this amount, \$113,512 (*unrestricted net position*) may be used to meet the Organization's ongoing obligations.
- The Organization's total net position decreased by \$171,237.
- As of the close of the current fiscal year, the Organization's governmental fund reported combined ending fund balances of \$315,405, a decrease of \$179,059 in comparison with the prior year.
- The ending General fund balance was \$314,405. Of this balance, \$257,175 is committed purposes disclosed in the financial statements.
- The Organization's unrestricted cash and temporary investments as of 12/31/2016 decreased to \$417,256 from \$520,368 as of 12/31/2015.

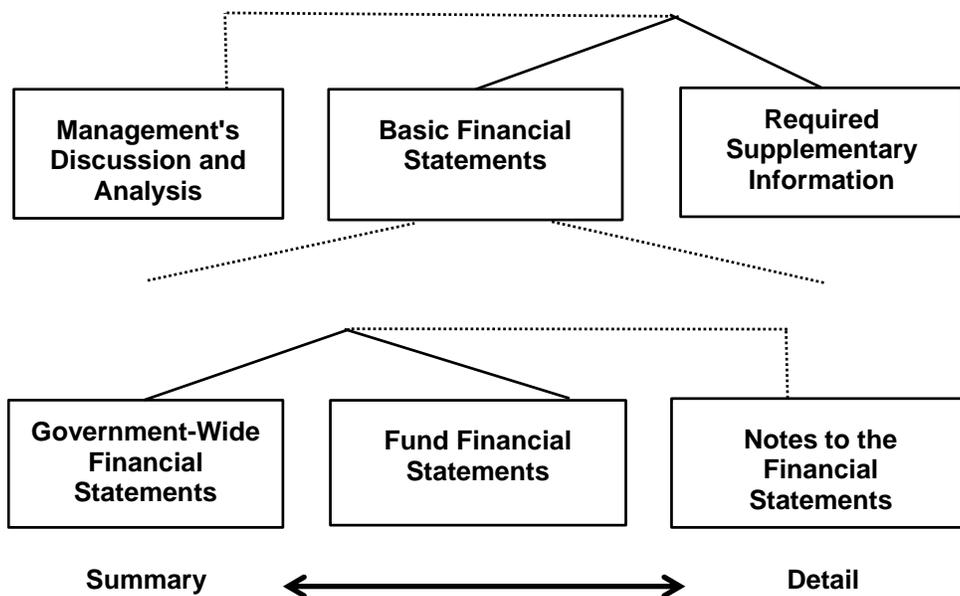
**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Organization's basic financial statements. The Organization's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another.

**Figure 1  
Required Components of the Organization's Annual Financial Report**



**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Overview of the Financial Statements (Continued)**

Figure 2 summarizes the major features of the Organization's financial statements, including the portion of the Organization government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Figure 2  
Major Features of the Government-Wide and Fund Financial Statements**

	Fund Financial Statements	
	Government-Wide Statements	Governmental Funds
Scope	Entire Organization	The activities of the Organization
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Organization's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Organization's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Organization is improving or deteriorating.

The *statement of activities* presents information showing how the Organization's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., grants and earned but unused vacation and sick leave).

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Government-Wide Financial Statements (Continued)**

The governmental activities of the Organization include general and administrative, programs, and projects.

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Organization, like other state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Organization currently only uses governmental funds.

**Governmental Funds**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Organization adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Organization, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$221,485 at the close of the most recent fiscal year.

The largest portions of the Organization's net position are unrestricted and available to meet the ongoing needs of the Organization. The Organization has a total of 49% classified as investment in capital assets (e.g., land, buildings, machinery and equipment). The Organization uses these capital assets to provide services to its member cities; consequently, these assets are not available for future spending.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Government-Wide Financial Analysis (Continued)**

**Vadnais Lake Area Water Management Organization's Summary of Net Position**

	December 31,		Increase (Decrease)
	2016	2015	
<b>ASSETS</b>			
Current	\$ 1,173,131	\$ 1,086,172	\$ 86,959
Capital, Net of Accumulated Depreciation	107,973	104,916	3,057
Total Assets	<u>1,281,104</u>	<u>1,191,088</u>	<u>90,016</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Pension Resources	146,551	44,470	102,081
<b>LIABILITIES</b>			
Current	836,175	582,295	253,880
Noncurrent	342,952	37,345	305,607
Total Liabilities	<u>1,179,127</u>	<u>619,640</u>	<u>559,487</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Pension Resources	<u>27,043</u>	<u>10,713</u>	<u>16,330</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	107,973	104,916	3,057
Unrestricted	<u>113,512</u>	<u>287,806</u>	<u>(174,294)</u>
Total Net Position	<u>\$ 221,485</u>	<u>\$ 392,722</u>	<u>\$ (171,237)</u>

At the end of the current fiscal year, the Organization is able to report positive balances in both categories of net position.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Government-Wide Financial Analysis (Continued)**

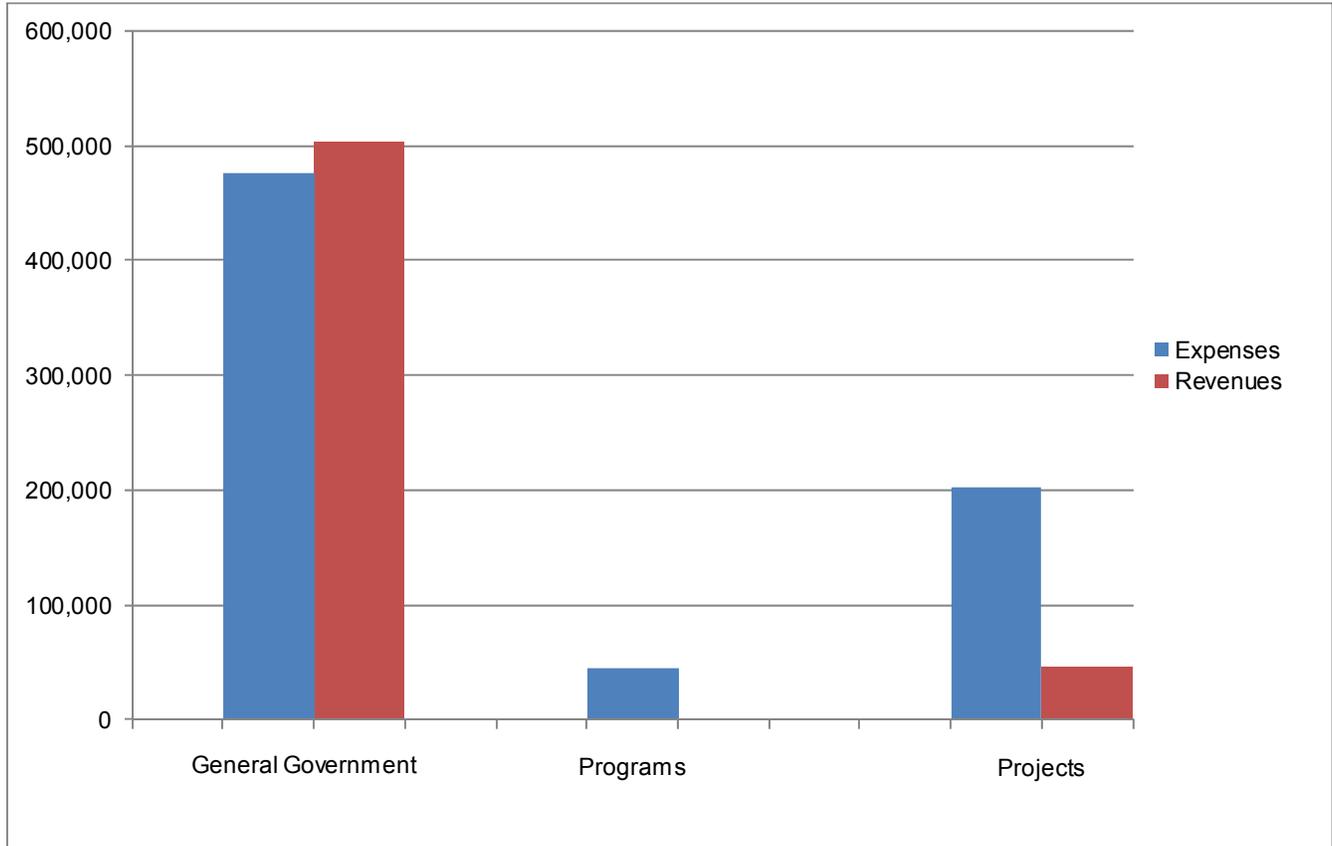
**Vadnais Lake Area Water Management Organization's Changes in Net Position**

	December 31,		Increase (Decrease)
	2016	2015	
<b>REVENUES</b>			
Program:			
Charges for Services	\$ 503,759	\$ 488,102	\$ 15,657
Operating Grants and Contributions	46,043	5,359	40,684
General:			
Unrestricted Investment Earnings	577	238	339
Miscellaneous	-	-	-
Total Revenues	<u>550,379</u>	<u>493,699</u>	<u>56,680</u>
<b>EXPENSES</b>			
General and Administrative	475,203	401,158	74,045
Programs	44,384	70,802	(26,418)
Projects	202,029	76,098	125,931
Total Expenses	<u>721,616</u>	<u>548,058</u>	<u>173,558</u>
<b>CHANGE IN NET POSITION</b>	(171,237)	(54,359)	(116,878)
Net Position - January 1	<u>392,722</u>	<u>447,081</u>	<u>(54,359)</u>
<b>NET POSITION - DECEMBER 31</b>	<u>\$ 221,485</u>	<u>\$ 392,722</u>	<u>\$ (171,237)</u>

VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016

**Government-Wide Financial Analysis (Continued)**

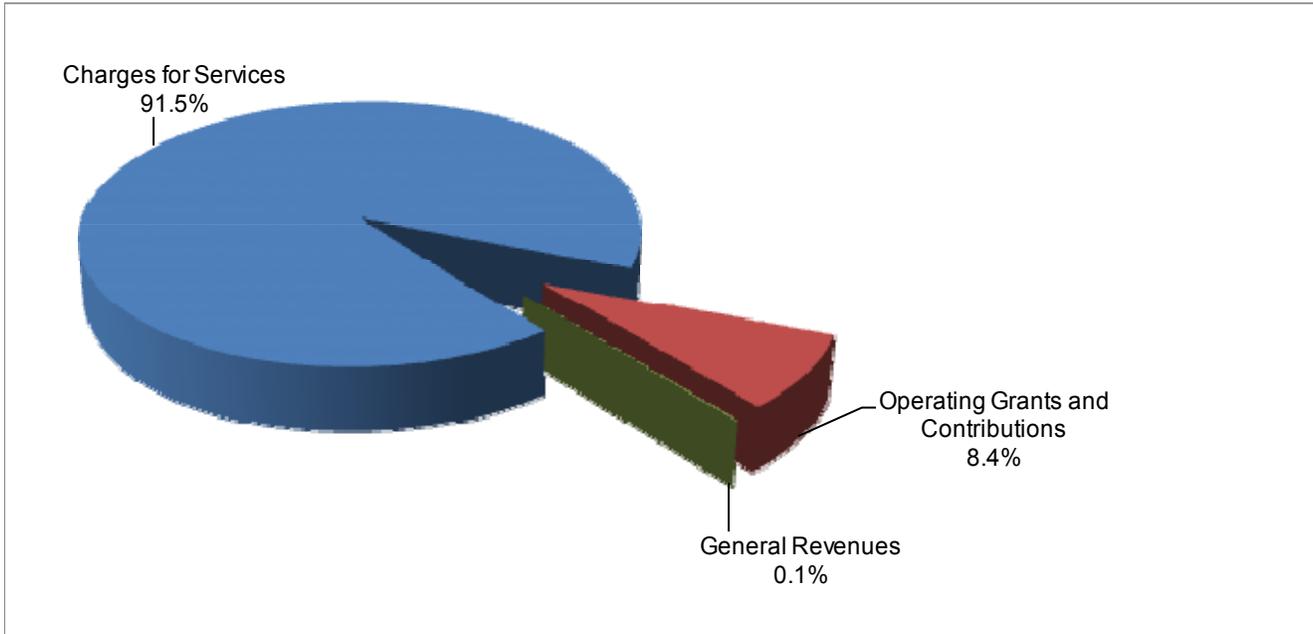
**Expenses and Program Revenues – Governmental Activities**



**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Government-Wide Financial Analysis (Continued)**

**Revenues by Source – Governmental Activities**



**Financial Analysis of the Government's Funds**

As noted earlier, the Organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental Funds***

The focus of the Organization's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Organization's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Organization's governmental fund reported an ending fund balance of \$315,405 a decrease of \$179,059 in comparison with the prior year. Approximately 18% of the total amount, \$58,230, constitutes unassigned fund balance, which is available for spending at the Organization's discretion. The remainder fund balance of \$257,175 is committed for purposes described in the notes to the financial statements.

The General fund is the chief operating fund of the Organization. At the end of the current year, the fund balance of the General fund was \$315,405. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 46% of 2016 fund expenditures and 51% of 2016 budgeted fund expenditures.

The fund balance of the Organization's General fund decreased \$179,059 during the current fiscal year.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**General Fund Budgetary Highlights**

The Organization's General fund budget was not amended during the year. Actual revenues were over budget by \$3,131, mainly due to charges for service exceeding budget by \$3,382. Expenditures had a negative budget variance of \$64,265, mostly due to project costs being more than anticipated.

**Capital Asset and Debt Administration**

***Capital Assets***

The Organization's investment in capital assets for its governmental activities as of December 31, 2016, amounts to \$107,973 (net of accumulated depreciation). This investment in capital assets includes infrastructure related to the Lambert Creek Restoration project and monitoring equipment at Whitaker Pond.

Additional information on the Organization's capital assets can be found in Note 3 of this report.

**Economic Factors and Next Year's Budgets**

The Organization considered and prepared the 2016 budget based on the following factors:

- Revenue is primarily from the storm sewer utility assessment, with occasional income from grants, service fees, and interest.
- Expenditures fall into three main categories: Programs, projects, and general and administration.
- Programs include: monitoring and data analysis, sustainable lake plans, cost-share, education and outreach, maintenance, and 30% of payroll for 5 employees.
- Projects include capital projects such as the Sucker Lake channel restoration, the Water Management Plan update completion, year three of the bacteria source monitoring on Lambert Creek, lower Kohler Lambert streambank restoration, Goose Lake shoreline restoration and development of the Whitaker Treatment wetland project occupying 40% of payroll for 5 employees.
- Operations and administration include office rent and supplies, bookkeeping and general and program audit, information systems, insurance, the update the Joint Powers Agreement and 30% payroll for 5 employees and legal expenses.

All of these factors were considered in preparing the Organization's budget for the 2016 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the Organization's finances for all those with an interest in the Organization's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Stephanie McNamara, Administrator, Vadnais Lake Area Water Management Organization, 800 County Road E East, Vadnais Heights, MN 55127.

## **BASIC FINANCIAL STATEMENTS**

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

	Governmental Activities
<b>ASSETS</b>	
Cash and Temporary Investments	\$ 417,256
Restricted Cash	39,438
Receivables:	
Accounts	27
Special Assessments	674,422
Due from Other Governments	41,988
Capital Assets:	
Depreciable Assets, Net of Accumulated Depreciation	107,973
Total Assets	1,281,104
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Pension Resources	146,551
<b>LIABILITIES</b>	
Accounts Payable	74,755
Escrow Deposits Payable	39,438
Salaries Payable	30,715
Due to Other Government	10,591
Unearned Revenue	650,521
Compensated Absences Payable:	
Due Within One Year	30,155
Due in More than One Year	10,052
Net Pension Liability:	
Due in More than One Year	332,900
Total Liabilities	1,179,127
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Pension Resources	27,043
<b>NET POSITION</b>	
Net Investment in Capital Assets	107,973
Unrestricted	113,512
Total Net Position	\$ 221,485

See accompanying Notes to Financial Statements.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
STATEMENT OF ACTIVITIES  
DECEMBER 31, 2016**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
General and Administrative	\$ 475,203	\$ 503,759	\$ -	\$ -	\$ 28,556
Programs	44,384	-	-	-	(44,384)
Projects	202,029	-	46,043	-	(155,986)
<b>Total</b>	<b>\$ 721,616</b>	<b>\$ 503,759</b>	<b>\$ 46,043</b>	<b>\$ -</b>	<b>(171,814)</b>
<b>GENERAL REVENUES</b>					
					Unrestricted Investment Earnings
					<u>577</u>
<b>CHANGE IN NET POSITION</b>					(171,237)
Net Position - January 1					<u>392,722</u>
<b>NET POSITION - DECEMBER 31</b>					<u><u>\$ 221,485</u></u>

See accompanying Notes to Financial Statements.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016  
(WITH SUMMARIZED COMPARATIVE INFORMATION AS OF DECEMBER 31, 2015)**

<b>ASSETS</b>	2016	2015
<b>ASSETS</b>		
Cash and Temporary Investments	\$ 417,256	\$ 520,368
Restricted Cash	39,438	39,406
Receivables:		
Accounts	27	120
Special Assessments	674,422	523,264
Due from Other Governments	41,988	3,014
Total Assets	\$ 1,173,131	\$ 1,086,172
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 74,755	\$ 13,510
Escrow Deposits Payable	39,438	39,406
Salaries Payable	30,715	-
Due to Other Government	10,591	25,815
Unearned Revenue	650,521	503,564
Total Liabilities	806,020	582,295
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue - Special Assessments	51,706	9,413
<b>FUND BALANCES</b>		
Committed	257,175	224,125
Unassigned	58,230	270,339
Total Fund Balances	315,405	494,464
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,173,131	\$ 1,086,172

See accompanying Notes to Financial Statements.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

Amounts reported for the governmental activities in the statement of net position are different because:

Total Fund Balances - Governmental	\$	315,405
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets		204,374
Less: Accumulated Depreciation		(96,401)
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Compensated Absences Payable		(40,207)
Pension Liability		(332,900)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.		
Special Assessments		51,706
Governmental funds do not report long-term amounts related to pensions.		
Deferred Outflows of Pension Resources		146,551
Deferred Inflows of Pension Resources		(27,043)
		119,508
Total Net Position - Governmental Activities	\$	221,485

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016	2015
<b>REVENUES</b>		
Charges for Services	\$ 502,687	\$ 489,201
Intergovernmental Grants	2,802	4,394
Interest on Investments	577	238
Miscellaneous	2,020	1,225
Total Revenues	508,086	495,058
<b>EXPENDITURES</b>		
Current:		
General and Administrative	437,675	384,216
Programs	36,384	70,802
Projects	213,086	65,644
Total Expenditures	687,145	520,662
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(179,059)	(25,604)
Fund Balances - January 1	494,464	520,068
<b>FUND BALANCES - DECEMBER 31</b>	\$ 315,405	\$ 494,464

See accompanying Notes to Financial Statements.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2016**

Amounts reported for the governmental activities in the statement of activities are different because:

Total Net Change in Fund Balances - Governmental Funds	\$ (179,059)
<p>Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Depreciation Expense	(10,937)
Capital Outlays	13,994
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special Assessments	42,293
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Pension Expense	(34,666)
Compensated Absences	<u>(2,862)</u>
Change in Net Position - Governmental Activities	<u><u>\$ (171,237)</u></u>

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2016**  
**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015)**

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amount
	Original	Final			
<b>REVENUES</b>					
Charges for Services	\$ 499,305	\$ 499,305	\$ 502,687	\$ 3,382	\$ 489,201
Intergovernmental Grants	5,000	5,000	2,802	(2,198)	4,394
Interest on Investments	150	150	577	427	238
Miscellaneous	500	500	2,020	1,520	1,225
Total Revenues	<u>504,955</u>	<u>504,955</u>	<u>508,086</u>	<u>3,131</u>	<u>495,058</u>
<b>EXPENDITURES</b>					
General and Administrative:					
Wages	286,340	286,340	298,211	(11,871)	264,593
Payroll Taxes and Employee Benefits	60,250	60,250	62,343	(2,093)	60,212
Legal	11,000	11,000	3,608	7,392	119
Professional Services	24,600	24,600	21,006	3,594	18,618
Information Systems	25,415	25,415	19,890	5,525	9,979
Insurance	5,200	5,200	4,370	830	4,443
Office	23,375	23,375	20,582	2,793	16,267
Staff Training	4,000	4,000	1,781	2,219	2,280
Telephone	-	-	2,520	(2,520)	2,250
Miscellaneous	11,000	11,000	3,364	7,636	5,455
Programs:					
Monitoring	49,700	49,700	33,160	16,540	33,648
Maintenance	22,000	22,000	3,224	18,776	37,154
Projects	100,000	100,000	213,086	(113,086)	65,644
Total Expenditures	<u>622,880</u>	<u>622,880</u>	<u>687,145</u>	<u>(64,265)</u>	<u>520,662</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(117,925)	(117,925)	(179,059)	67,396	(25,604)
Fund Balances - January 1	<u>494,464</u>	<u>494,464</u>	<u>494,464</u>	<u>-</u>	<u>520,068</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u><u>\$ 376,539</u></u>	<u><u>\$ 376,539</u></u>	<u><u>\$ 315,405</u></u>	<u><u>\$ 67,396</u></u>	<u><u>\$ 494,464</u></u>

See accompanying Notes to Financial Statements.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Vadnais Lake Area Water Management Organization (the Organization), Vadnais Heights, Minnesota, was established to meet the requirements of the Metropolitan Surface Water Management the Act, re-codified as Minnesota statutes, chapters 103-b and 103-d.

The general purpose of the Organization is to establish a jointly and cooperatively developed water management plan and program to (1) protect, preserve, and use natural surface and groundwater storage and retention systems; (2) minimize capital expenditures necessary to correct flooding and water quality problems; (3) identify and plan for means to effectively protect and improve surface and groundwater quality; (4) establish more uniform local policies and official controls for surface water, wetland and groundwater management; (5) prevent erosion of soil into surface water systems; (6) promote groundwater recharge; (7) protect and enhance fish and wildlife habitat and water recreational facilities; and (8) secure other benefits associated with the proper management of surface ground water, and be in accordance with the Act.

The Organization is governed by a board of directors which consists of six members, one from each of the following governmental units: City of North Oaks, City of White Bear Lake, City of Lino Lakes, White Bear Township, City of Vadnais Heights, and the City of Gem Lake. The board of directors exercises legislative authority and determines all matters of policy. The board of directors appoints personnel responsible for the proper administration of all affairs relating to the Organization's activities.

The Organization has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Organization are such that exclusion would cause the Organization's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The Organization has no component units that meet the GASB criteria.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statements of net position and the statements of activities) report information on all of the nonfiduciary activities of the Organization.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Organization considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charges for service, assessments to members, grants and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Organization.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

Nonexchange transactions, in which the Organization receives value without directly giving equal value in return, include grants, entitlement and donations. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Organization must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Organization on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The Organization reports the following major governmental fund:

The *General fund* is the Organization's primary operating fund. It accounts for all financial resources of the Organization.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use restricted resources first, then unrestricted resources as they are needed.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance**

***Deposits and Investments***

The Organization's cash and temporary investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)**

***Deposits and Investments (Continued)***

The Organization may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Minnesota Municipal Money Market (4M) fund operates in accordance with appropriate state laws and regulations. The 4M fund is an external investment pool not registered with the Securities and Exchange Commission (SEC); however, it follows the same regulatory rules of the SEC under rule 2a7. The reported value of the pool is the same as the fair value of the pool shares. Financial statements of the 4M fund can be obtained by contacting RBC Global Asset Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)**

***Restricted Assets***

Certain assets of the Organization are set aside for repayment of individual property owners once they meet specific criteria.

***Accounts Receivable***

Accounts receivable include amounts billed for services provided before year-end.

***Special Assessments***

Special assessments represent storm sewer utility charges. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue in the year they are collected or received in cash or within 60 days after year-end. Governmental fund special assessments receivables are offset by deferred inflows of resources or unearned revenue in the fund financial statements.

***Capital Assets***

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Organization as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Organization are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	20 – 30 Years
Equipment	5 – 7 Years

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)**

***Deferred Outflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Organization has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

***Compensated Absences***

It is the Organization's policy to permit employees to accumulate earned but unused vacation and sick benefits, which will be paid to the employee upon separation without the considerations of number of years of service. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General fund is used to pay employee benefits upon termination for governmental and proprietary funds.

***Pensions***

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Deferred Inflows of Resources***

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: special assessments. The unavailable amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Furthermore, the Organization has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)**

***Fund Balance***

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Organization is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the board of directors, which is the Organization's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the board of directors modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the board of directors itself or by an official to whom the governing body delegates the authority. The board of directors has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Administrator.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The Organization considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the Organization would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Organization has formally adopted a fund balance policy for the General Fund. The Organization's policy is to maintain a minimum unassigned fund balance of 35% to 50% of budgeted operating expenditures for cash-flow timing needs.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)**

***Net Position***

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

***Comparative Data/Reclassifications***

Comparative total data for the prior year has been presented for the fund financial statements in order to provide an understanding of the change in financial position. Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All annual appropriations lapse at year end. The Organization does not use encumbrance accounting.

During the budget year, supplemental appropriations and deletions are or may be authorized by the board of directors. The budget was not amended by the board of directors in 2016.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ACCOUNTS**

**Deposits and Investments**

***Deposits***

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Organization's deposits may not be returned or the Organization will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the board of directors, the Organization maintains deposits at those depository banks which are members of the Federal Reserve System.

Minnesota statutes require that all Organization deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by *Moody's Investors Service, Inc.*, or *Standard & Poor's Corporation*; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the Organization.

At year-end, the Organization's carrying amount of deposits was \$97,628 and the bank balance was \$97,991. The entire bank balance was covered by federal depository insurance.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ACCOUNTS (CONTINUED)**

**Deposits and Investments (Continued)**

***Investments***

The Organization does not have an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of 13 months or less.
- General obligations rated “A” or better; revenue obligations rated “AA” or better.
- General obligations of the Minnesota Housing Finance Agency rate “A” or better.
- Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Interest rate risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Investments as of December 31, 2016 are as follows:

<u>Type of Investments</u>	<u>Credit Quality/ Ratings (1)</u>	<u>Segmented Time Distribution (2)</u>	<u>Fair Value and Carrying Amount</u>
Pooled Investments:			
Minnesota Trust Term Series	N/A	Less than 6 Months	\$ 219,586
Minnesota Municipal Money Market Fund	N/A	Less than 6 Months	139,456
Total Investments			<u>\$ 359,042</u>

(1) Ratings are provided by Moody’s where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ACCOUNTS (CONTINUED)**

**Deposits and Investments (Continued)**

***Investments (Continued)***

The investments of the Organization are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the Organization's investments to the list on page 29 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Organization does not have an investment policy that addresses the risks described above.

The Minnesota Municipal Money Market Fund Trust and the US Bank Money Market are money market accounts that are valued at amortized cost with maturities of investments of one year or less.

The Minnesota Municipal Money Market Trust Fund does not have its own credit rating. PMA Financial Network, Inc., who administers the Minnesota Municipal Money Market Fund Trust, holds an organization credit rating of AA by *Standard & Poor's*.

A reconciliation of cash and temporary investments as shown in the financial statements of the Organization follows:

Carrying Amounts of Deposits	\$	97,628
Investments		359,042
Cash on Hand		24
Total		\$ 456,694
Cash and Investments		
Unrestricted	\$	417,256
Restricted		39,438
Total		\$ 456,694

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ACCOUNTS (CONTINUED)**

**Fair Value Measurements**

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Organization follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Organization has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statement of financial position are categorized based on the inputs to the valuation techniques as follows:

- *Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- *Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- *Level 3* – Financial asset and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use a pricing the asset.

Assets measured at fair value on a recurring basis:

Type	December 31, 2016			Total
	Level 1	Level 2	Level 3	
N/A	\$ -	\$ -	\$ -	\$ -
Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-
NAV Funds				359,042
Total Investments				<u>\$ 359,042</u>

The Minnesota Municipal Money Market Fund Trust is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

The City reports its investment in the Pool at the NAV per share, the fair value established by the Pool.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ACCOUNTS (CONTINUED)**

**Restricted Assets**

The Organization set aside the following cash balances for repayment of individual property owners:

Mitigation Restricted Cash	<u><u>\$ 39,438</u></u>
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**Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated:				
Infrastructure	\$ 181,219	\$ -	\$ -	\$ 181,219
Equipment	9,161	13,994	-	23,155
Total Capital Assets Being Depreciated	190,380	13,994	-	204,374
Less Accumulated Depreciation for:				
Infrastructure	(76,303)	(9,538)	-	(85,841)
Equipment	(9,161)	(1,399)	-	(10,560)
Total Accumulated Depreciation	(85,464)	(10,937)	-	(96,401)
Total Governmental Activities	\$ 104,916	\$ 3,057	\$ -	\$ 107,973

The full depreciation expense amount was charged to projects.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ACCOUNTS (CONTINUED)**

**Operating Lease**

The Organization entered into a lease agreement with the City of Vadnais Heights for office space. The lease agreement has an effective period beginning January 1, 2015 and will terminate on December 31, 2017.

The lease agreement calls for monthly payments for office space, as well as amounts for the Organizations portion of normal operating expenses, such as: janitorial, secretarial, office supplies, postage, utilities, IT support, and any other costs that arise.

The Organization paid \$17,400 and \$15,200 for rent in 2016 and 2015, respectively. The Organization's rent for fiscal year 2017 is expected be \$18,715 as outlined in the lease agreement.

**Unearned Revenue**

Governmental funds report unearned revenue in connection with receivables for revenues that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported were as follows:

	<b>Unearned</b>
Special Assessments Receivable	\$ 650,521

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
<b>Governmental Activities</b>					
Net Pension Liability	\$ 212,483	\$ 120,417	\$ -	\$ 332,900	\$ -
Compensated Absences Payable	37,345	28,604	(25,742)	40,207	30,155
Government-Type Activity					
Long-Term Liabilities	\$ 249,828	\$ 149,021	\$ (25,742)	\$ 373,107	\$ 30,155

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 DETAILED NOTES ON ACCOUNTS (CONTINUED)**

**Fund Balance Classifications**

At December 31, 2016, portions of the Organization's fund balance are not available for appropriation due to board of directors' action (committed). The following is a summary of the commitments:

Commitments:	
Insurance	\$ 500
Information Systems	2,500
Legal Assistance	5,000
Engineering and Technical Assistance	10,000
Payroll	10,000
Staffing Assistance - GIS Etc.	4,000
Financial Incentives	4,000
Education and Marketing	3,000
Maintenance	18,000
Equipment	2,500
Monitoring and Analysis	2,000
Lambert Creek Restoration	28,675
Water Quality Projects	80,000
Community Blue	12,000
Implementation on Impaired Waters	75,000
Total Committed	<u>\$ 257,175</u>

**NOTE 4 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Description**

The Organization participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

**General Employees Retirement Fund (GERF)**

All full-time and certain part-time employees of the Organization, other than teachers, are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4    DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**GERF Benefits**

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**Contributions**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

**GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The Organization was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The Organization's contributions to the GERF for the years ended December 31, 2016 and 2015 were \$19,128 and \$19,530, respectively. The Organization's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**Pension Costs**

**GERF Pension Costs**

At December 31, 2016, the Organization reported a liability of \$332,900 for its proportionate share of the GERF's net pension liability. The Organization's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a nonemployer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Organization totaled \$4,396. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization proportion of the net pension liability was based on the Organization contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Organization's proportion was 0.0041% which was the same as its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Organization recognized pension expense of \$51,122 for its proportionate share of GERF's pension expense. In addition, the Organization recognized an additional \$1,311 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**Pension Costs (Continued)**

GERF Pension Costs Continued)

At December 31, 2016, the Organization reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ 19,997
Changes in Actuarial Assumption	-	-
Net Difference Between Projected and Actual Earnings on Plan Investments	121,322	-
Changes in Proportion	14,092	7,046
Contributions to GERF Subsequent to the Measurement Date	11,137	-
Total	<u>\$ 146,551</u>	<u>\$ 27,043</u>

Deferred outflows of resources totaling \$11,137 related to pensions resulting from the Organization's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 32,099
2018	32,099
2019	32,147
2020	12,026

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% Per Year
Active Member Payroll Growth	3.25% Per Year
Investment rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stock	45.00%	5.50%
International Stock	15.00	6.00
Bonds	18.00	1.45
Alternative Assets	20.00	6.40
Cash	2.00	0.50
Total	<u>100.00%</u>	

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)**

**Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments 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.

**Pension Liability Sensitivity**

The following presents the Organization’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Organization’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	GERF	\$ 472,816	\$ 332,900

**Pension Plan Fiduciary Net Position**

Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

**NOTE 5 OTHER INFORMATION**

**Risk Management**

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Organization carries insurance. The Organization pays annual premiums for its workers compensation and property and casualty insurance. Settled claims have not exceeded the Organization’s coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The Organization’s management is not aware of any incurred but not reported claims.

**REQUIRED SUPPLEMENTARY INFORMATION**

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2016**

**Schedule of Employer's Share of PERA Net Pension Liability – General Employees Retirement Fund**

Required Supplementary Information								
Fiscal Year Ending	Fiscal Year Ending	Organization's Proportion of the Net Pension Liability	Organization's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	Organization's Covered Payroll (c)	Organization's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2016	6/30/2016	0.0041%	\$ 332,900	\$ -	\$ 332,900	\$ 286,044	116.4%	68.9%
6/30/2015	6/30/2015	0.0041%	\$ 212,483	\$ -	\$ 212,483	\$ 242,844	87.5%	78.2%

**Schedule of Employer's Share of PERA Contributions – General Employees Retirement Fund**

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Organization's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	\$ 19,128	\$ 19,128	\$ -	\$ 255,040	7.50%
12/31/15	\$ 19,530	\$ 19,530	\$ -	\$ 260,400	7.50%

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the Organization will present information for only those years for which information is available.

**OTHER REQUIRED REPORT**



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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors  
Vadnais Lake Area Water Management Organization  
Vadnais Heights, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and the major fund of the Vadnais Lake Area Water Management Organization (the Organization), Vadnais Heights, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements as and have issued our report thereon dated April 11, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota statute §6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except for tax increment financing because the Organization does not have any established tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the Organization failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the schedule of findings and recommendations as item 2016-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Organization's noncompliance with the above referenced provisions.

The Organization's written response to the legal compliance finding identified in our audit described in the schedule of findings and recommendations. The Organization's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use those charged with governance and management of the Organization and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
April 11, 2017

**VADNAIS LAKE AREA WATER MANAGEMENT ORGANIZATION  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
DECEMBER 31, 2016**

**MINNESOTA LEGAL COMPLIANCE FINDING**

2016-001 Out of State Travel Policy – Section 471.661

*Finding:* Minnesota Statutes Section 471.661 requires all political subdivisions to have and adopt and out-of-state travel policy that covers all employees and board members. It was noted during our testing, the Organization does not have a formally adopted policy in accordance with State Statute.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Finding**

There is no disagreement with the audit finding, however, they were not aware the policy was required when there is no out of state travel by staff or board members.

**Actions Planned in Response to the Finding:**

The Organization will adopt a policy that meets the requirements of the Statute.

**Official Responsible for Ensuring CAP:**

The Organization's Administrator will be responsible for ensuring the CAP.

**Planned Completion Date for CAP:**

The Organization will adopt the policy during calendar year 2017.

**Plan to Monitor Completion of CAP:**

The board will be monitoring this corrective action plan.