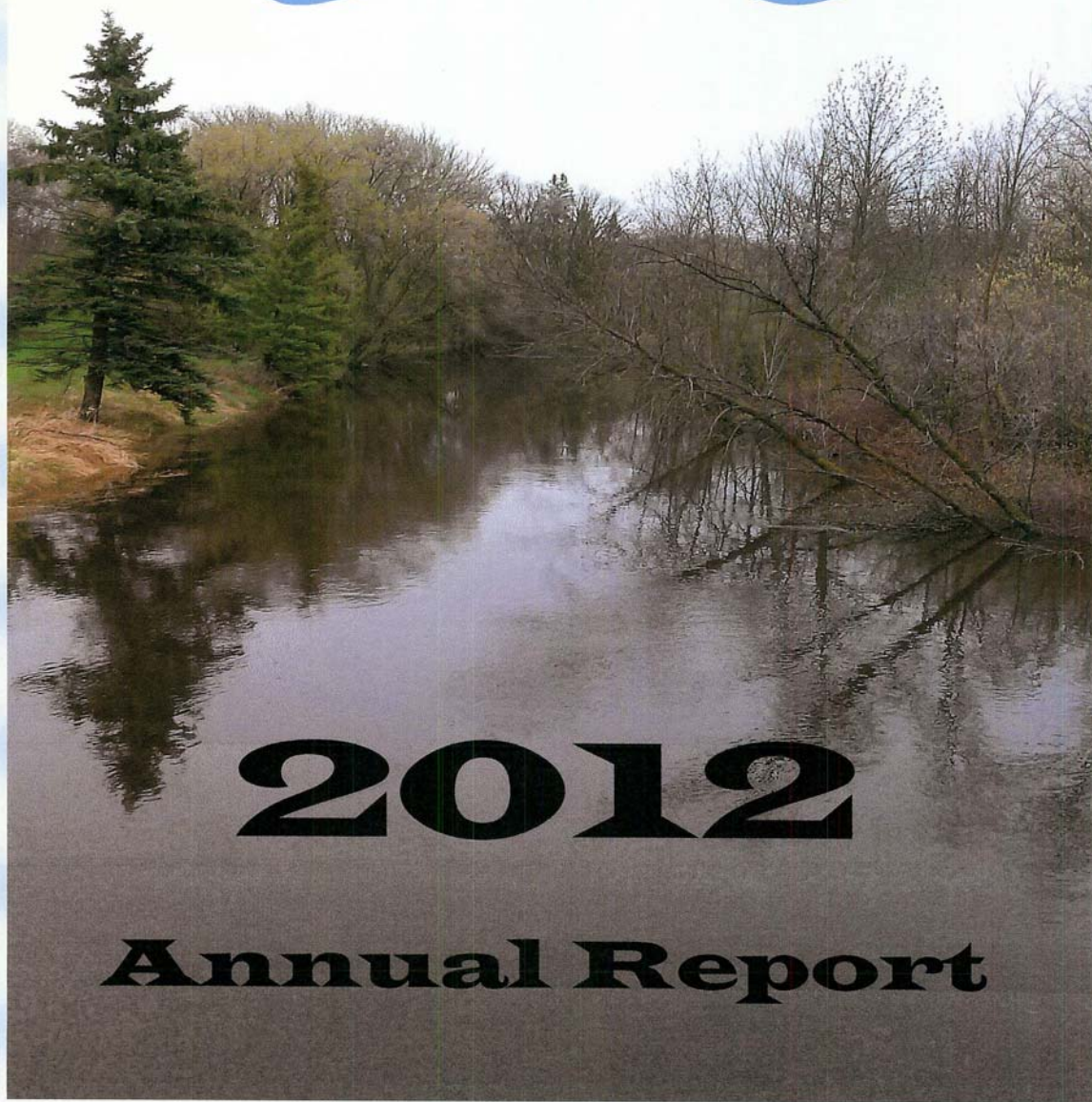


Roseau River Watershed District



2012

Annual Report



P.O. BOX 26 ~ 108 3rd Ave SW ~ Roseau, MN 56751

PHONE: (218) 463-0313 FAX: (218) 463-0315 EMAIL: rrwd@mncable.net WEBSITE: www.roseauriverwd.com

Letter from the Managers and Staff

Greetings! It's been another busy year for the RRWD! The Board had a new manager appointed, Aaron Magnusson. Welcome aboard Aaron!

The Board and staff have been working diligently with landowners and various agencies on the Watershed's goals for flood damage reduction. As you will see in this report, the Board has several projects in various stages of development. It is very gratifying to be a part of this process. As we see projects being completed, all those involved, including landowners and citizens, should feel proud of the community and leaders that have made these projects possible.

The Project Team has been working on the Beltrami Island State Forest and Roseau River Wildlife Management Area projects. We look forward to continued progress on these in 2013.

Moving forward, the Board and staff will be working on numerous activities including staff gage updating, project operation and maintenance, culvert inventory and updating the District's governing documents.

We are looking forward to a productive 2013.

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2012 DISTRICT INFORMATION

OFFICE INFORMATION

The Roseau River Watershed District (RRWD) office is located at 108 3rd Ave. SW, Roseau. The mailing address is PO Box 26, Roseau MN 56751. The phone number is (218) 463-0313, the fax number is (218) 463-0315 and the e-mail address is rrwd@mncable.net. Office hours are 8 a.m. - 4 p.m., Monday - Friday. In 2012 the Board held regular business meetings, on the first Wednesday of each month, at 8:00 a.m. (April – Sept.) and 3 p.m. (Oct. – March). All of the meetings held by the Roseau River Watershed are open to the public.

BOARD OF MANAGERS

A Board of Managers governs the Roseau River Watershed District. The Board has five managers, four appointed by the Roseau County Board of Commissioners and one appointed by the Kittson County Board of Commissioners. The 2012 members were:

Chairman – Todd Miller
52630 County Road
Warroad, Minnesota 56763

Vice Chairman- Laverne Voll
235572 520th Avenue
Salol, Minnesota 56756

Secretary - Leroy Carriere
504 4th Avenue Ne
Roseau, Minnesota 56751

Treasurer-Floyd Haugen
25241 County Road 16
Badger, Minnesota 56714

Manager - Cody Schmalz
4529 400th Street
Lancaster, Minnesota 56735

Aaron Magnusson
36576 270th Street
Roseau, Mn 56751

Manager Aaron Magnusson joined the Board in November of 2012.

EMPLOYEES AND CONSULTANTS

The District does have a regular full-time employee and one permanent part-time employee. Citizens are encouraged to contact the administrator, a manager, staff or the consultants at any time with their concerns or suggestions.

Administrator - Rob Sando

Administrative Assistant - Tracy Halstensgard

Attorney – Steven Anderson, Roseau

Accounting Firm – Drees, Risky, & Vallager, Ltd. – Crookston, MN.

ESTABLISHMENT

The Roseau River Drainage and Conservancy District, having been established by Order of the District Court, Roseau County, dated August 13, 1920, under the provisions of Chapter 13, Laws of 1919, Special Session. In 1963, the Governing Body of the Roseau River Drainage and Conservancy District having petitioned the District Court, Roseau County as authorized in Minnesota Statutes, 112.74 for the right to operate and exercise all the rights and authority contained in Sections 112.34 - 112.83 of Minnesota Statutes. The Court, having heard the evidence adduced by the petitioners in favor of granting their petition, did order on June 17, 1963 that from and after this date the, the Roseau River Drainage and Conservancy District and its Governing Board shall operate under and exercise all the rights and authority contained in Section 112.34 - 112.83 of Minnesota Statutes, known as the "Minnesota Watershed Act", and shall hereafter be a Watershed District in accordance with the terms and provisions of the said "Minnesota Watershed Act", and the County Board of Commissioners of Roseau and Kittson Counties having petitioned the Minnesota Water Resource Board on November 20, 1963, asking for a change in boundary, for a change in name of said District to Roseau River Watershed District, and to designate a place of business for the Watershed District, pursuant to the provisions of Minnesota Laws of 1955, Chapter 799, as amended, and the Minnesota Water Resource Board having held a hearing on February 19, 1964 in Roseau did order on March 18, 1964, the change in name of the Roseau River Drainage and Conservancy District to the Roseau River Watershed District, the City of Roseau to be the place of business of the Roseau River Watershed District, and did define the District's boundary.

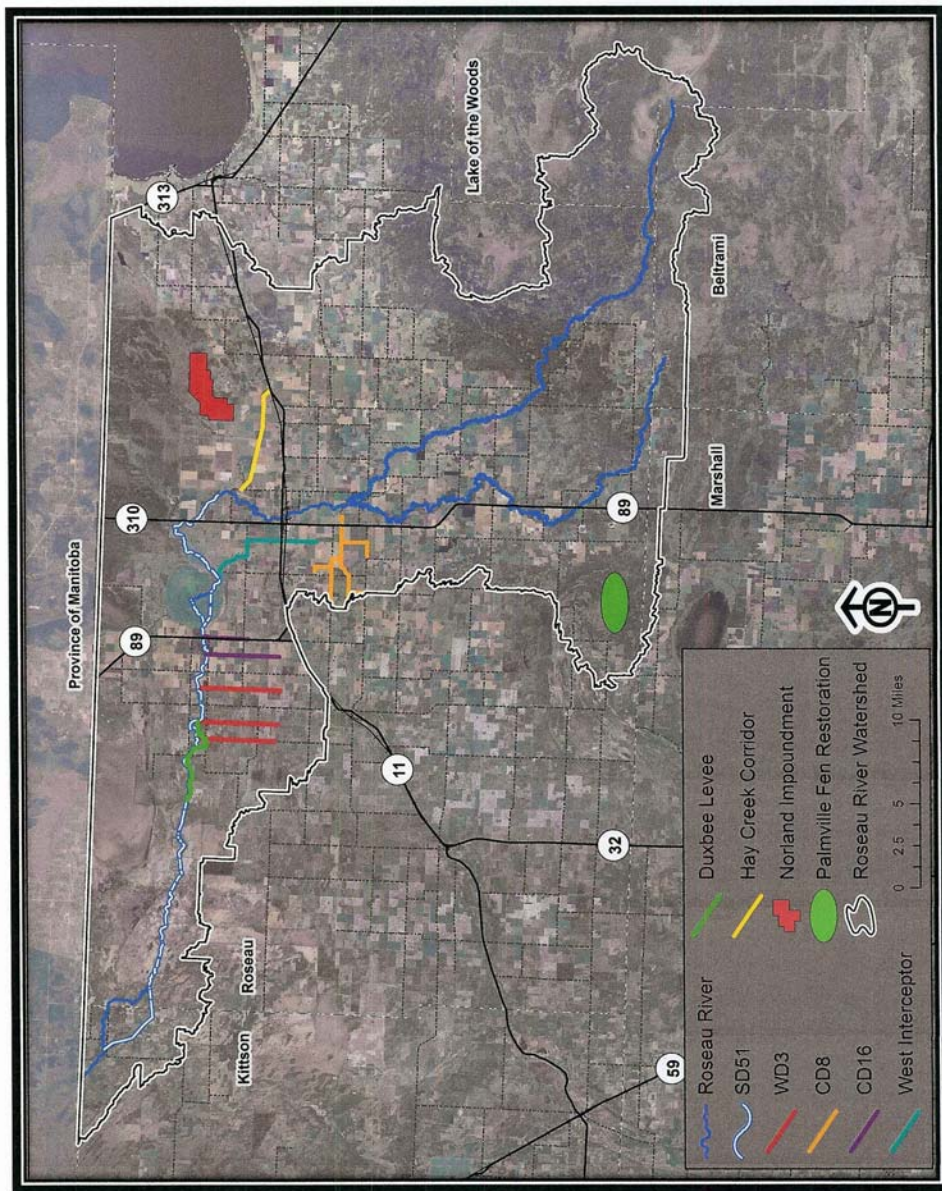
The board of managers initially adopted an Overall Plan for the RRWD on August 18, 1964. The plan was submitted to the Minnesota Water Resource Board. The Minnesota Water Resource Board on April 20, 1965 approved the Overall Plan. In June of 2004 the Board of Managers approved an update of the Overall Plan. The plan is on file in the Roseau River Watershed office and online at www.roseauriverwd.com.

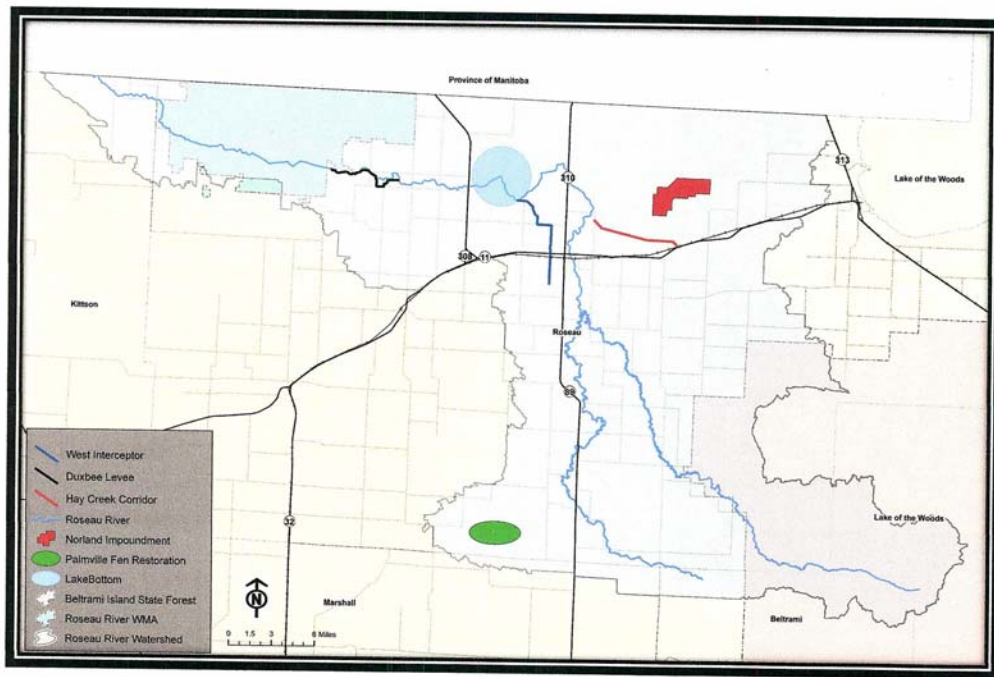
MISSION STATEMENT

It is the intention of the Board of Managers to manage the waters and related resources within the Roseau River Watershed District in a reasonable and orderly manner which will improve the general welfare and public health of the residents of the District.

The Board of Managers accepts the responsibilities with which they are charged as a governing body by Minnesota Statutes. Said Board of Managers, in the conduct of the duties and responsibilities conferred upon them, do not intend to usurp the authority or responsibilities of other agencies or governing bodies, however, said Board of Managers will not avoid their responsibilities and obligations.

It is the stated intent of the Managers herein that no person shall be deprived or divested of any previously established beneficial use or right, by any rules of the District, without due process of law. All rules of this district shall be construed according to this intention.





PROJECT STATUS

PROJECTS COMPLETED

Ring Dikes

To date the District has completed 14 farmstead ring dikes.

Trangrud Bridge Public Water Access

Background: The RRWD in cooperation with the MN DNR and Roseau County established a public water access west of the CR #113 bridge over the Roseau River (SD #51). The access was completed with cement slat boards for access and a parking area for fishing and river enthusiasts.

West Interceptor Project

Background: The West Interceptor is a multipurpose flood control and native prairie/wetland restoration project that provides flood relief to the City of Roseau and natural resource enhancements for the area. The City of Roseau petitioned the RRWD Board of Managers in June of 2003 for the West Interceptor Project.

Funding for the project was received from the U.S. Economic Development Authority, Small Business Administration, State of Minnesota and RRWD. Total project cost was just over 4 million dollars.

The West Interceptor is a new 7.5 mile channel, 1 mile west of the City of Roseau, starting 2 miles south of Highway #89/MN Highway 11 to an outlet in State Ditch 51 approximately 5 miles northwest of Roseau. The project also included the conversion of 595 acres of agricultural land to prairie lands, grasslands and wetlands.

Gladden Construction of Laporte, Minnesota was awarded the construction contract in the spring of 2006. Construction began in July 2006 with completion in November of 2008.

Status: The corridor was mowed in the summer of 2012 as well as regular maintenance.

Roseau River Duxby Levee

Background: This Corps of Engineers local flood control project was planned, designed, and authorized under the provisions of the 1965 Flood Control Act (Public Law 89-298) and the 1988 Water Resources Development Act (Public Law 100-676).

The flood barrier consists of about 6 miles of earth levees; and road raises. Proper operation of the Duxby Levee flood control project will provide flood protection against a 5 year flood (a flood with 20% chance of occurring in any given year) on the Roseau River (SD #51). The levee is designed for a capacity of 2,600 cubic feet per second with 2.5 feet of freeboard.

The Corps started construction of the Duxby Levee feature independent of the rest of the Roseau River project in 1991. Construction was completed in 1992 and was finalized in 1993.

Status: Activities in 2012 were the required mowing.

PROJECTS UNDER CONSTRUCTION

The District has two projects in various phases of construction. They are:

Palmville Project

Background:

The District, in the fall of 2006, hired Engineer Nate Dalager from HDR Engineering to coordinate the Project Team process and develop a preliminary engineering proposal for construction of a flood damage reduction and fen restoration project in the Palmville area. A petition was presented to the Roseau County Commissioners, a public hearing was held and the Commissioners accepted the project.

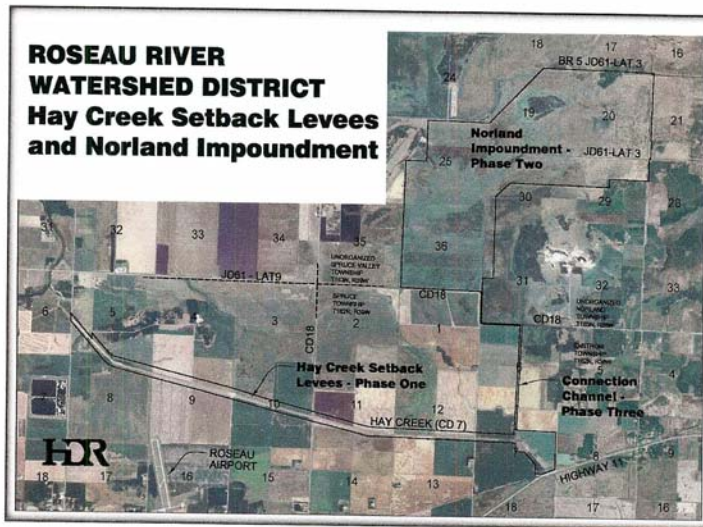
There has been extensive cooperation with the MN DNR and Wildlife Manager Randy Prachar in developing the project and also with the operation and maintenance plan.

Holte Construction was awarded the bid with construction taking place in the winter of 2007 and spring 2008. The RRWD Board of Managers worked with the DNR on a Joint Powers Agreement and Operation and Maintenance Plan for the project. There was continued construction and ground water monitoring during 2011.

Status: The Joint Powers Agreement was signed by the Watershed District, Roseau County and the MN DNR in the fall of 2012. There was continued minor construction as well as monitoring completed.

Hay Creek Project

Background: The Primary purpose of this project is to provide a 50% reduction in the 10-year and a 30% reduction in the 100-year discharges from the Hay Creek / Norland drainage area, contributing to the Roseau River at its confluence approximately 4 miles downstream of the City of Roseau. In the Hay Creek Norland area alone, the flood damage reduction would include increased protection, less flood depth, and reduced flooding duration, directly improving 13,300 acres of

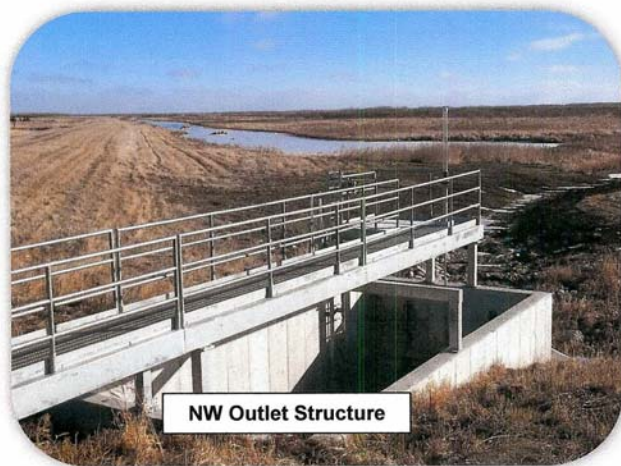


agricultural land, 24 miles of roads, 131 miles of ditches and 27 culverts and bridges previously prone to flood damages.

The District had initiated the Hay Creek Project, ordered an engineering study and purchased much of the land in the early 1990's. In 1993, the project was renamed (the previous name was the Lost River Project) and a Step 1 submittal was made to the Red River Watershed Management Board. In 1994, a draft Engineer's Report was completed and in 1995 the project was released by the Corps of Engineers. In 1996, the District revised an expanded version that provided increased storage capacity. This was done after a preliminary report on Norland's original design showed that while flows downstream, as well as the backwater effect in Roseau would have been reduced during the April flood, the project had a lesser effect on the higher flows associated with the 1997 May flood.

Since the initial submittal, the project focus has changed. The COE attempted a Section 206 (Aquatic Ecosystem restoration). After numerous delays the RRWD Board of Managers was informed in January of 2005 that funding from the COE was no longer available.

In the summer of 2006 the District hired Nate Dalager from HDR Engineering to coordinate and develop a preliminary engineering plan. There were several Project Team meetings held in accordance with the Mediation Agreement. In 2008 the district purchased the property required for the project.



In 2009 the RRWD Board of Managers awarded the construction of Phase 1 (Hay Creek Corridor) to North Pine Excavating, Phase 3 (Connection Channel) to All Seasons Excavating and Phase 2A (Outlet Structures) to Wagner Construction and ICS. Construction of Phases 1 and 3 was completed in 2010.

Phase 2 was awarded to Spruce Valley Corporation in 2010. Construction of Phase 2 continued through the winter

of 2011. Anticipated completion date is the summer of 2012. The RRWD will continue to do annual monitoring as specified in the COE permit.

Status: Construction of Phase 2 of the project finishing work was completed in 2012. The RRWD Board has been working on the Operation and Maintenance (O & M) Plan for the project. The District is still waiting for the US COE's determination on an adaptive wetland mitigation proposal that was presented in December of 2011.

PROJECTS UNDER INVESTIGATION

In 2012 the District's primary focus was on ways to reduce damage from excess floodwaters. The District is continuing to investigate possible project areas upstream of Roseau (Beltrami Island State Forest), and downstream of Roseau (Roseau River Wildlife Management Area, and the old Roseau Lakebed).

Beltrami Island Projects

DESCRIPTION: The District continues to pursue the restoration of damaged FDR structures, culvert sizing and water conservation projects in the Beltrami Island State Forest area. Utilizing the Project Team process, the Board will continue to work with Federal, State and local agencies in the pursuit of FDR and NRE goals.

STATUS: In 2012 Project Team meetings were held and site assessments were completed for the proposed dam restoration sites.



Roseau River Wildlife Management Area (RRWMA)

DESCRIPTION: The RRWMA is a 63,000 acre wildlife management area located in the Northwest portion of Roseau County consisting of wet meadows, lowland brush, marshes, aspen stands and four open water pools. In August of 1986 the District entered into an agreement with the State of Minnesota to construct two emergency spill ways in the RRWMA as part of a project undertaken by the Department of Natural Resources. The total project consisted of upgrading 26 miles existing wildlife dikes, replacing three outlet control structures and replacing three sheet pile emergency spillways at a cost of \$1,100,000.00. As a project participant, the RRWD receives additional floodwater retention in pools #2 and #3 for spring runoff. The RRWD has an agreement with the State of Minnesota for Pool #2 to be drawn down to an elevation of 1029.0 and for Pool #3 to be drawn down to 1024.0 every year in the fall. The possibility of improving the ability to manage the water in Pool 3 as well as allow for better timing of flood water storage is being investigated by the RRWD Board and the Mn DNR. Project Team meetings were held to discuss the proposed project. In June of 2006 a draft Alternatives Analysis was completed. From 2007 to 2009 discussions on funding and preferred alternatives took place between the RRWD Board and MN DNR personnel without resolution.

In 2011 the District identified HDR Engineering as the primary engineer and proceeded with a preliminary engineering study. The RRWD met with representatives from the MN DNR in October and the project team also in October for their approval for the RRWMA project. A Step 1 submittal was presented to the RRWMB in November and accepted at the December RRWMB meeting after a tour of the site.

STATUS: HDR Engineering continues to work on the Preliminary Engineer's Report for the project. The district continued to hold Project Team meetings and pursued various funding options.

Roseau Lake Bottom Project

DESCRIPTION: The District has identified the rehabilitation of the Roseau Lake in the RRWD Overall Plan. The purpose of this project, as mentioned in the Comprehensive Water Management Plan (Appendix 13 of the RRWD Overall Plan), is to improve the benefits from the available storage while also restoring some NRE benefits to the lakebed. The District will continue to work with MN DNR representatives in evaluating project proposals for this area. Administrator Sando coordinated with Commissioner Falk in identifying and organizing a Roseau Lake Citizen's Advisory Committee which met three times during the early spring of 2011. The Committee focused on issue identification and prioritization.

STATUS: In 2012 this project was not actively pursued by the RRWD Board.

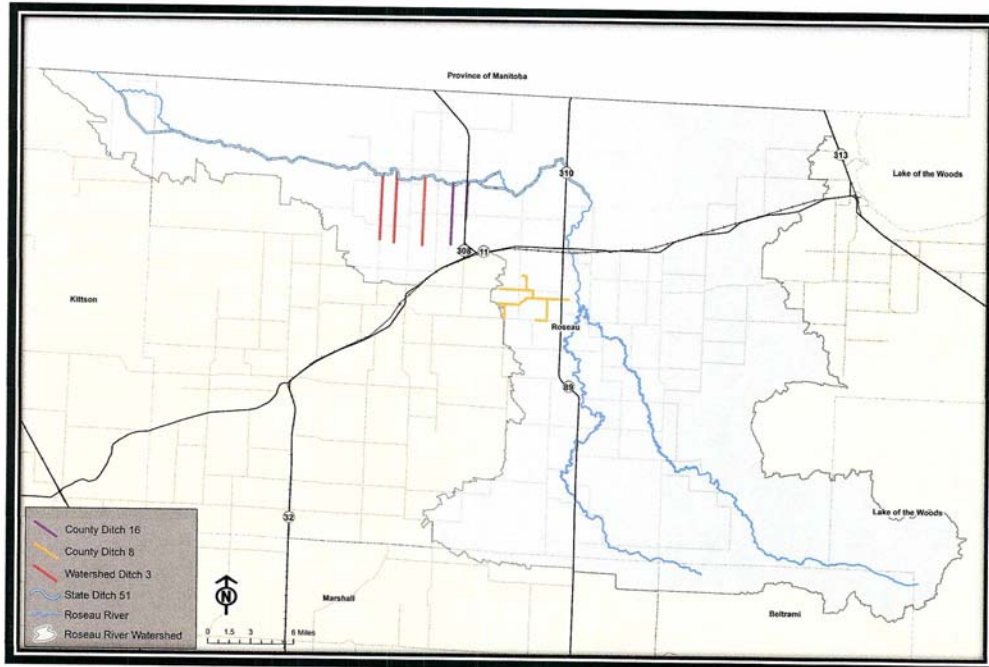
Malung Impoundment

DESCRIPTION: The Roseau River Watershed District Board of Managers in 2009 established the Malung Impoundment as a project. The proposed dry impoundment would hold approximately 3,500 acre feet of water and would offer a direct benefit to the City of Roseau when operated during high water events.

STATUS: In 2012 this project was not actively pursued by the RRWD Board.

DRAINAGE SYSTEMS

The Roseau River Watershed District is the Ditch Authority for the following systems.



Watershed Ditch No.1 and Roseau County Ditch No. 16

WD No.1 is a one mile ditch plus additional outlet for lands drained by Roseau County Ditch Number 16. It is located on the west side of Sections 34 and 27, Dieter Township and drains lands in Dieter and Ross Townships.

CD No. 16 is located in Dieter and Ross Townships, was turned over for administration and management to the Watershed District.

The 2012 inspection showed the rest of the ditch to be in good repair.

Watershed Ditch No.3

This ditch system consists of three laterals draining lands in Ross, Moose, Dieter, and Pohlitz Townships. A segment of lateral 1 was completed in the fall of 2006 from County Road #10 south along the east side of section 32 of Dieter Township south ¼ mile. The described portion of the ditch was moved to the east approximately 65 feet in order to provide a 4:1 side slope to prevent sloughing that was occurring along the road. Cleaning of lateral 3 was completed in the summer of 2011. There were several FEMA cleanout areas identified in the Lateral 2 and were addressed in 2011. General maintenance that took place in 2012 was; brushing, mowing and spraying. Since the above mentioned work has been completed, the ditch system is considered to be in good repair.

The District applied for and received a Clean Water grant for the installation of 29 side water inlets along laterals 2 and 3 of WD #3. Installation of those inlets is scheduled for 2013.

State Ditch No. 51

Originally established by the State of Minnesota it consisted of 10 river cutoffs constructed in 1906-1907 time frame. In 1914 to 1918, the ditch was improved when the State of Minnesota dug the river channel from the Canadian border to and around the Roseau Lakebed. That expansion paralleled Cutoff Number 10 in Kittson County and followed the other cutoffs constructed in 1906 and 1907. In 1988, SD 51 was expanded when the Roseau County Board of Commissioners turned over the Roseau River and Roseau Lake Bottom portions of Judicial Ditch No. 61 and State Ditch No. 37 to the Roseau River Watershed District. Under Minnesota Statute Authority, these ditches were combined with State Ditch No. 51 at a hearing conducted on October 11, 1988 and continued and concluded on November 1, 1988. The redetermination of benefits process found in excess of 9 million dollars in ditch benefits.

In a cooperative effort with The Nature Conservancy, MN DNR, local landowners and the District, abandoned fire-break ditches were filled in near the Canadian Border during the exceptionally dry summer of 2012.

During the late fall and winter of 2012 the Board oversaw the removal of debris in a majority of the length of the channel.

Roseau County Ditch No.8

This ditch, located in Jadis and Stafford Townships, was turned over for administration and management to the Watershed District. The ditch capacity is under designed and past attempts to consider improvements have failed. In 2005 the RRWD Board of Managers directed JOR Engineering to do a complete survey of the ditch system, to determine the condition of the system.

The 2012 inspection showed the ditch to be in good repair. General maintenance that took place in 2012 was; brushing, mowing and spraying.

DISTRICT ACTIVITY

Permits Issued:

In 2012 the district approved 16 permits for the following activities: installation of culverts for field drainage and driveway accesses, ditch slope repair, ag tiling and culvert replacement.

Data Collection:

The district utilizes staff gages at strategic locations within the watershed. These gages are read by volunteers and staff who read the gages when high water events occur. The collections of readings help the Watershed determine the amount and timing of high water throughout the watershed.

Website:

The RRWD Board contracted with SandPiper Designs to create and maintain a District website. The website can be viewed at www.roseauriverwd.com. The District minutes, rules and permit forms are available online. The Website is still under development.

District Meetings :

In 2012, the Board held 12 regular monthly meetings and 4 special meetings. The Board minutes are available online at www.roseauriverwd.com and at the office.

Non-District Meetings:

- **MAWD** - In December of 2012, Managers LeRoy Carriere and Todd Miller attended the annual meeting of the Minnesota Association of Watershed Districts (MAWD) held in Alexandria, Minnesota. The district is a member of MAWD which provides assistance on issues that affect watershed districts.
- **RRWMB** - The Red River Watershed Management Board (RRWMB) delegate in 2012 was Manager Todd Miller. The District also participates in an annual conference sponsored by RRWMB and FDRWG held in March of each year.
- **RRIW** - The Roseau River International Watershed (RRIW) was created in 2000 with representation from both the United States (Minnesota) and Canada (Manitoba). The group continues to meet to address water related issues and concerns within the Roseau River Basin. The two RRWD board members delegated to represent the RRWD in 2012 were Managers LaVerne Voll and Floyd Haugen.
- **Citizens Advisory Committee (CAC)** - On February 8th, 2012 the Citizens Advisory Committee held it's annual meeting. The group discussed several of the District's proposed projects. Members of the CAC are as follows:

Mark Foldesi

Greg Halvorson

Ed Dunham

Kelly Christianson

Mark Bakken

Ron Olson

Mitchell Johnson

Dave Grafstrom

Scott Habstritt

Greg Braaten

Roger Falk

Torris Bakken

Steve Lee

Wayne Trangsrud

Norm Flagstad

Terry Sizemore

Leon Olson

FINANCIAL

The budget adopted at the September 2011 hearing for 2012 locally funded expenditures is as follows:

General Fund Budget:

1. Managers per diem & expenses	\$ 20,000.00
2. Staff	\$ 88,000.00
3. Engineering	\$ 5,000.00
4. Payroll Expense	\$ 17,500.00
5. Mileage Reimbursement	\$ 7,500.00
6. Conferences & Meetings	\$ 7,500.00
7. Rent (includes utilities)	\$ 8,000.00
8. Capital Outlay	\$ 5,000.00
9. Office Expense	\$ 10,000.00
10. Insurance	\$ 12,500.00
11. Professional & Legal	\$ 7,500.00
12. Association Dues	\$ 2,000.00
13. Stream Gaging / Misc.	\$ 17,500.00
14. Roseau River Projects / Maintenance	\$ 42,000.00

Total	----- \$ 250,000.00
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Construction Budget:

1. Red River Watershed Management Board	\$ 136,000.00
2. Roseau River Watershed District Construction Fund	\$ 136,000.00

Total	----- \$ 272,000.00
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Ditch system levees for the year 2012:

\$12,000.00 levy on WD#3 ditch system
\$ 5,000.00 levy on Ditch #8
\$ 1,500.00 levy on Ditch #16
\$ 2,500.00 levy on West Interceptor

Financial Summary

This section summarizes the District's financial activity for 2012. The information provided in this section is a summary of the activity for the year. A detailed report of all activity within the respective fund accounts is available for review at the District's office. By law the Roseau River Watershed District is allowed to establish a number of funds for the purpose of carrying out their duties. To finance these funds the District levies an "ad valorem" tax, meaning in "proportion to the value," over the entire watershed district and is based on the property value, rather than benefits. The following is a brief summary of types of funds established and the ways they assist in carrying out the goals of the District.

General Fund

This is the general operating fund of the District. The fund is set up for the purpose of providing for the general administrative expenses and for the construction and maintenance of projects of common benefit to the District. The levy to fund the Administrative fund may not exceed 0.00048 percent of taxable market value or \$250,000, whichever is less.

Red River Watershed Management Board Construction Fund

This is established and used for the development of programs and projects of benefit to the District. The levy to fund the Red River Water Management Construction Fund may not exceed 0.00486 of the taxable market value of the property in the District. One-half of the levied funds received are sent to the Red River Watershed Management Board for programs and projects that have common benefit in the Red River Basin.

Other Income

This is other sources that are received by the District that include funds from grants and aids as well as reimbursement from other governmental agencies.

BASIC FINANCIAL STATEMENTS

The following pages are the basic financial statements proved by the District's accountant for the year (January 1, through December 31, 2012) as augmented with the Legal Compliance.

BASIC FINANCIAL STATEMENTS

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF NET CASH POSITION
DECEMBER 31, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 2,366,303
TOTAL ASSETS	<u>\$ 2,366,303</u>
NET CASH POSITION	
Restricted for Capital Projects	\$ 1,929,469
Unrestricted (deficit)	<u>436,834</u>
TOTAL NET POSITION	<u>\$ 2,366,303</u>

See notes to the basic financial statements.

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

FUNCTION	Disbursements	Program Receipts and Sources			Governmental Activities Total	Net Cash Sources (Uses) and Change in Net Cash Position
		Fees, Assessments and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Administration	\$ 182,483	\$ 1,642	\$ 118	\$ -	\$ (180,723)	
Administrative construction	29,426	-	7,300	-	(22,126)	
General maintenance projects	63,693	128,420	-	80,100	144,827	
Flood control projects	383,429	-	-	802,520	419,091	
Drainage projects	15,055	827	-	-	(14,228)	
Total Governmental Activities	674,086	130,889	7,418	882,620	346,841	
General Receipts:						
Property taxes					383,804	
Intergovernmental (not restricted for special program)						
MV Credits					9,225	
Interest earnings					715	
Total General Receipts					393,744	
Changes in Cash Net Position					740,585	
Net Cash Position, January 1					1,625,718	
Net Cash Position, December 31					\$ 2,366,303	

See notes to the basic financial statements.

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Capital Project Fund	Total
ASSETS			
Cash and investments	\$ 436,834	\$ 1,929,469	\$ 2,366,303
TOTAL ASSETS	\$ 436,834	\$ 1,929,469	\$ 2,366,303
CASH FUND BALANCE			
Restricted	-	1,929,469	1,929,469
Unassigned	436,834	-	436,834
TOTAL CASH FUND BALANCE	\$ 436,834	\$ 1,929,469	\$ 2,366,303

See notes to the basic financial statements.

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENT AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES			
Taxes	\$ 255,872	\$ 127,932	\$ 383,804
Special assessments	-	125,376	125,376
Intergovernmental:			
State	6,150	608,936	615,086
RRWMB	118	235,411	235,529
Federal	-	48,650	48,650
Interest	715	-	715
Other	1,642	3,869	5,511
TOTAL REVENUES	<u>264,497</u>	<u>1,150,174</u>	<u>1,414,671</u>
EXPENDITURES			
Administration	161,438	21,045	182,483
Administrative construction	-	29,426	29,426
General maintenance projects	22,297	41,396	63,693
Flood control projects	-	383,429	383,429
Drainage projects	-	15,055	15,055
TOTAL EXPENDITURES	<u>183,735</u>	<u>490,351</u>	<u>674,086</u>
Revenues Over (Under) Expenditures	80,762	659,823	740,585
Fund Balance - January 1	<u>356,072</u>	<u>1,269,646</u>	<u>1,625,718</u>
Fund Balance - December 31	<u>\$ 436,834</u>	<u>\$ 1,929,469</u>	<u>\$ 2,366,303</u>

See notes to the basic financial statements.

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS
DECEMBER 31, 2012

ASSETS

Cash and investments	\$ (18,809)
Due from Red River Management Board	<u>18,809</u>
	<u>\$ -</u>

LIABILITIES

Due to Red River Management Board	<u>\$ -</u>
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See notes to the basic financial statements.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

The Roseau River Watershed District, (the "District") was established under the Minnesota Watershed Act as an agency of the State of Minnesota. The purpose of the District is to carry out conservation of the natural resources of the State of Minnesota through land utilization, flood control, and other needs upon sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. The District serves an area in Northwestern Minnesota. The District is governed by the Board of Managers, which is composed of five members appointed by the county boards in accordance with Minnesota Statutes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 1. C, these financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards (GASB) pronouncements.

A. Reporting Entity

The financial statements of the District include all organizations, funds and account groups over which the District's Board exercises significant influence over and, or is financially accountable or organizations for which the nature and significance of their relationship with the District is such that exclusion would cause the Roseau River Watershed District's financial statements to be misleading. Currently, the District does not have any component units.

B. Basis of Presentation

Government-Wide Financial Statement

The Statement of Net Cash Position and Statement of Activities Arising From Cash Transactions display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements distinguish between governmental and business-type activities (if any). The District displays all operations as governmental activities, because generally governmental activities are financed through taxes, intergovernmental revenues, and other non-exchange receipts.

Fund Financial Statements

Fund financial statements of the District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are typically organized into two categories: governmental, fiduciary and proprietary. The District currently has no proprietary funds.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

Governmental Funds

General Fund

The general fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Capital Projects Fund

The capital projects fund is used to account for the financial resources to be used from the acquisition or construction of capital projects. The reporting entity includes the capital projects fund as a major fund.

Fiduciary Fund

Agency Fund

The agency fund accounts for assets held by the District in a purely custodial capacity on behalf of the Red River Watershed Management Board. Since an agency fund is custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of operations.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe the recognition of revenues and expenditures within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In government-wide Statement of Net Cash Position and the Statement of Activities Arising From Cash Transactions, governmental activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the cash basis of accounting is used as appropriate:

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

Their operating statements present sources and uses of available spend able financial resources during a given period. These funds use fund balances as their measure of available spend able financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Cash Position and Statement of Activities Arising From Cash Transactions governmental activities are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues and expenditures when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or unbilled services provided in current year) and certain liabilities and their related expense (such as accounts payable, unpaid good or services received in the current year and accrued expenses) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the government-wide financials would be presented on the accrual basis of accounting.

D. Budgets

The budget is prepared using the same method of accounting as the financial statements. The annual adopted budget is not legally binding to the District, with the exception of the budget for the administrative fund, which is limited by state statute at \$250,000 and set by the Board for 2012 at \$250,000.

E. Revenues

In the Statement of Activities, cash basis revenues that are derived directly from each activity or from parties outside the District's taxpayers are reported as program revenues. The District has the following program revenues; direct project cost reimbursements and project special assessments, rental income and operating and capital grants specific to projects. All other governmental revenues and general tax levies are classified as general revenue.

F. Property Taxes

The District levies property taxes on property owners within the District, which becomes an enforceable lien as of January 1. Taxes are levied in September and are payable to counties on May 15 and October 15 (November 15 for farm property). The District levies the tax, while the respective counties collect and remit the tax collections to the District. Property taxes are recognized when received from the counties under the cash basis of accounting.

The District also levies special assessments through the counties against property owners who obtain direct benefits from projects or property owners who request, through the petition process, to have a project undertaken. The special assessment collections are recorded in a manner similar to that for property taxes.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

G. Cash and Investments

Cash balances from all funds are pooled and invested to the extent available in authorized investments authorized by Minnesota statutes. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund. Funds with deficit averages are charged with the investment earnings lost in financing the deficits.

H. Equity

In the government-wide financial statements equity is classified as “net position” and displayed in two components:

1. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The difference between assets and liabilities is “Net Position” on the government wide financial statements and “Fund Balance” on the governmental fund financial statements.

- I. In the governmental fund financial statements, cash fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable cash fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted cash fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed cash fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority which is the Board of Managers through an ordinance or resolution.

Assigned cash fund balance represents amounts constrained by the government’s intent to be used for specific purposes, but neither restricted nor committed.

Unassigned cash fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

J. Interfund Balances

In the process of aggregating the fund information for the government-wide Statement of Net Position and Statement of Activities Arising From Cash Transactions, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

K. Estimates

The preparation of financial statements, in conformity with a comprehensive basis of accounting other than general accepted, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Subsequent Events

The District has evaluated subsequent events through June 20, 2013, the date which the financial statements were available to be issued.

NOTE 2. CASH

Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC (140% if collateralized with notes secured by first mortgages).

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District is authorized by Minnesota Statutes to invest in the following: direct obligations or obligations guaranteed by the federal government or its agencies; share of investment companies registered under the Federal Investment Company Act of 1940 and is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

better, general obligations of Minnesota Housing Finance Agency rated "A" or better; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank or insurance company, domestic branch of a foreign bank and with a credit quality in one of the top two highest categories; 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. The District has no investment policy that would further limit its investment choices.

Custodial Risk

The District does not have a formal policy that would limit the amount invested in any single financial institution. Approximately 72% of the District's cash is held at Border State Bank of Roseau, Minnesota.

NOTE 3. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the Roseau River Watershed District are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's 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 GERF's Coordinated and Basic Plan members. The retiring member receives the higher of 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to May 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to May 1, 1989. Normal retirement age is the age for

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

unreduced Social Security benefits capped at 66 for Coordinated members hired on or after May 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at mnpera.com or by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. The Roseau River Watershed District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$5,276, \$5,500 and \$5,508, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 4. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance coverage's on its commercial property and for liability, personal and advertising injury, non-owned auto and a miscellaneous floater. Insurance coverage has not been reduced from the prior year, and settlements have not exceeded insurance coverage in any of the past three years.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CONTINGENCIES

Grants

The District participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Cost charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivable at December 31, 2012, may be impaired. The District is not aware of any significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

Claims and Litigation

The District may be involved in some legal actions relating to projects undertaken or attempted to be undertaken although the outcomes cannot be determined, the District believes any potential liability would not have a material impact on the financial condition of the District.

REQUIRED SUPPLEMENTARY INFORMATION

ROSEAU RIVER WATERSHED DISTRICT
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
RECEIPTS				
Property taxes:				
Roseau County	\$ 245,177	\$ 245,177	\$ 251,793	\$ 6,616
Kittson County	2,199	2,199	1,936	(263)
Marshall County	1,837	1,837	1,474	(363)
Lake of the Woods County	272	272	311	39
Beltrami County	515	515	358	(157)
Total property taxes	<u>250,000</u>	<u>250,000</u>	<u>255,872</u>	<u>5,872</u>
Intergovernmental:				
RRWMB	-	-	118	118
State:				
Other state aid	-	-	6,150	6,150
Total Intergovernmental	<u>-</u>	<u>-</u>	<u>6,268</u>	<u>6,268</u>
Other:				
CRP and rents	-	-	-	-
Interest	-	-	715	715
Other	-	-	1,642	1,642
Total Other	<u>-</u>	<u>-</u>	<u>2,357</u>	<u>2,357</u>
TOTAL RECEIPTS	<u>250,000</u>	<u>250,000</u>	<u>264,497</u>	<u>14,497</u>
DISBURSEMENT				
Administrative:				
Salaries and benefits	105,500	105,500	102,232	3,268
Manager's per diem and expenses	35,000	35,000	17,546	17,454
Due and subscriptions	2,000	2,000	1,470	530
Engineering	5,000	5,000	-	5,000
Legal and accounting	7,500	7,500	7,571	(71)
Real estate taxes	-	-	8,008	(8,008)
Rent and utilities	13,000	13,000	3,720	9,280
Repairs, maintenance	5,000	5,000	2,485	2,515
Insurance	12,500	12,500	7,496	5,004
Telephone and internet	-	-	2,429	(2,429)
Office	-	-	7,207	(7,207)
Postage and delivery	-	-	673	(673)
Printing and advertising	-	-	601	(601)
Total Administrative	<u>185,500</u>	<u>185,500</u>	<u>161,438</u>	<u>24,062</u>

ROSEAU RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final		(Negative)
Projects:				
Roseau River Projects	42,000	42,000	\$ -	\$ 42,000
Stream gauging	17,500	17,500	14,150	3,350
Capital Outlay	5,000	5,000	8,147	(3,147)
Total Projects	64,500	64,500	22,297	42,203
TOTAL DISBURSEMENTS	250,000	250,000	183,735	66,265
Excess Revenues Over (Under) Expenditures	-	-	80,762	80,762
Fund Balance, January 1	356,072	356,072	356,072	-
Fund Balance, December 31	\$ 356,072	\$ 356,072	\$ 436,834	\$ 80,762

BUDGET NOTES

Budgets are prepared by the District on the same basis of accounting used in the preparation of its financial statements. The budget presented in this report is presented in accordance with the cash basis of accounting. All appropriations lapse at year-end.

The budget is adopted through passage of a resolution by the board. Administration can authorize the transfer of budgeted amounts with the general fund. The State imposed an administrative budget limit on watershed districts of \$250,000 for the year ended December 31, 2012.