



Roseau River Watershed District

2017 Annual Report

www.roseauriverwd.com

714 6th street SW, Roseau MN 56751

2017 DISTRICT INFORMATION

OFFICE INFORMATION

The Roseau River Watershed District (RRWD) office is located at 108 3rd Ave. SW, Roseau and is open 8 a.m. - 4 p.m., Monday - Friday. The phone number is (218) 463-0313, the fax number is (218) 463-0315 and the e-mail address is rrwd@mncable.net.

In 2017 the Board held regular business meetings, on the first Wednesday of each month, at 8:00 a.m. (April – Dec.0 and 1 p.m. (Jan. – 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 2017 members were:

Chairman – Tony Wensloff
37232 240th St
Roseau, Minnesota 56751

Secretary - Cody Schmalz
4529 400th Street
Lancaster, Minnesota 56756

Vice -chair – Jason Braaten
30957 340th St
Badger, Minnesota 56714

Treasurer- Carter Diesen
40141 160th St
Wannaska, MN 56761

Manager – LeRoy Carriere
504 4th Ave NE
Roseau, MN 56751

EMPLOYEES AND CONSULTANTS

The District has a full time Administrator, a full time Watershed Specialist and a part-time Watershed Assistant. Citizens are encouraged to contact the staff, a manager, or the consultants at any time with their concerns or suggestions.

Administrator – Tracy Halstensgard

Watershed Specialist – Torin McCormack

Watershed Assistant – Tracy Bergstrom

Attorney – Michelle Moren, Roseau

Accounting Firm – Brady Martz, Crookston

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 Waters 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.

DISTRICT ACTIVITY

Website

The RRWD Board contracted with dot.com Connections 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 2017, the Board held 12 regular monthly meetings, 1 special meeting, 1 public hearing and various Project Team meetings.

Non-District Meetings:

MAWD - In December of 2017, Manager LeRoy Carriere, Administrator Halstensgard and Technician McCormack, 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.

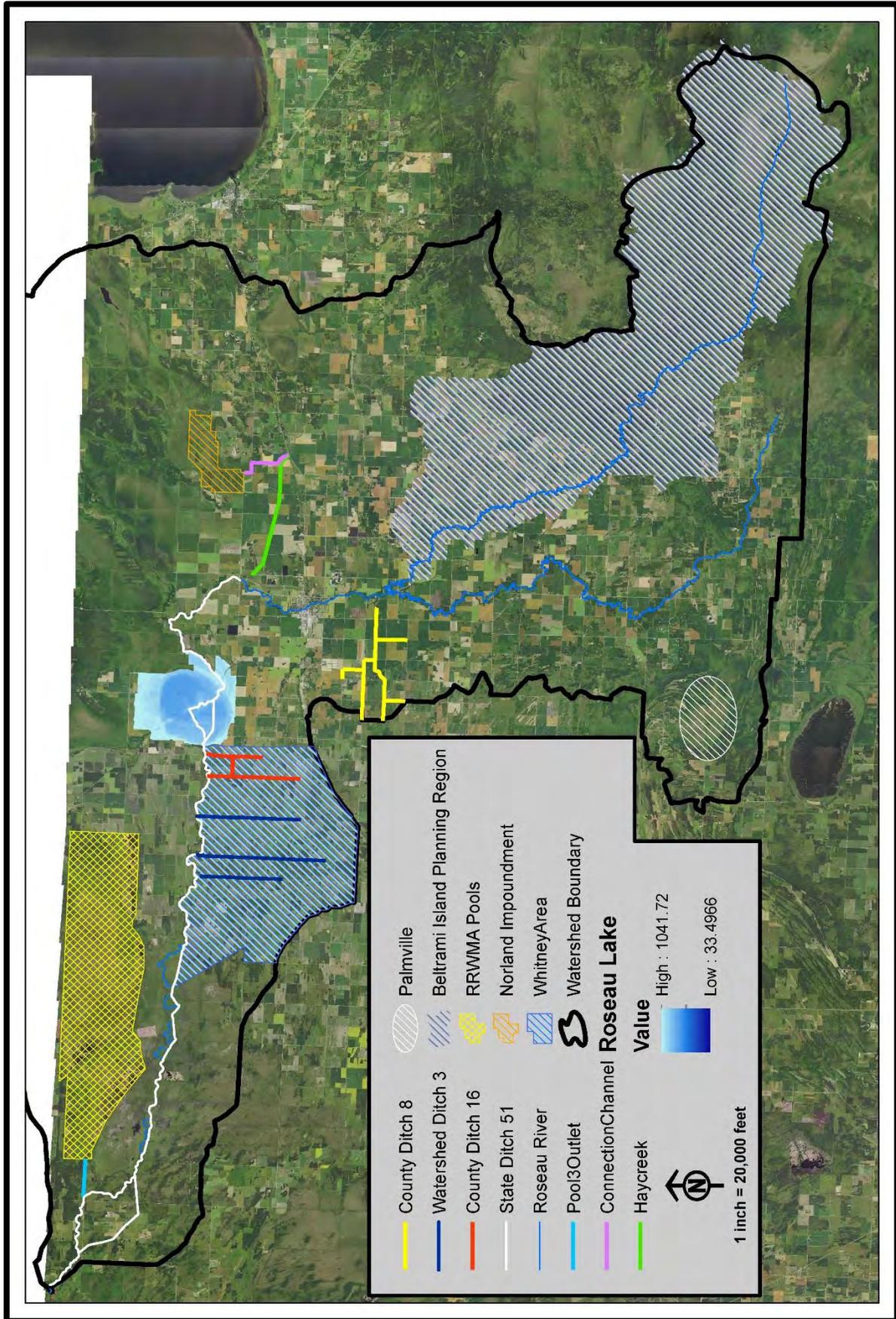
RRWMB - The Red River Watershed Management Board (RRWMB) delegate in 2017 was Manager LeRoy Carriere. The District also participates in an annual conference sponsored by RRWMB and FDRWG held in March of each year.

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 2017 were Managers Cody Schmalz and LeRoy Carriere.

Citizens Advisory Committee (CAC) - On February 15th, 2017 the Citizens Advisory Committee held its annual meeting. The group discussed several of the District's proposed projects and outlined suggestions for the RRWD Board of Managers. For a list of committee members, please contact the office.

Beltrami Island LUP Citizens Input Panel – Administrator Halstensgard was appointed by the DNR Commissioner to this panel. There were two meetings held in 2017 where various topics concerning the LUP (Land Utilization Project) lands were discussed.

Existing Projects & Drainage Systems

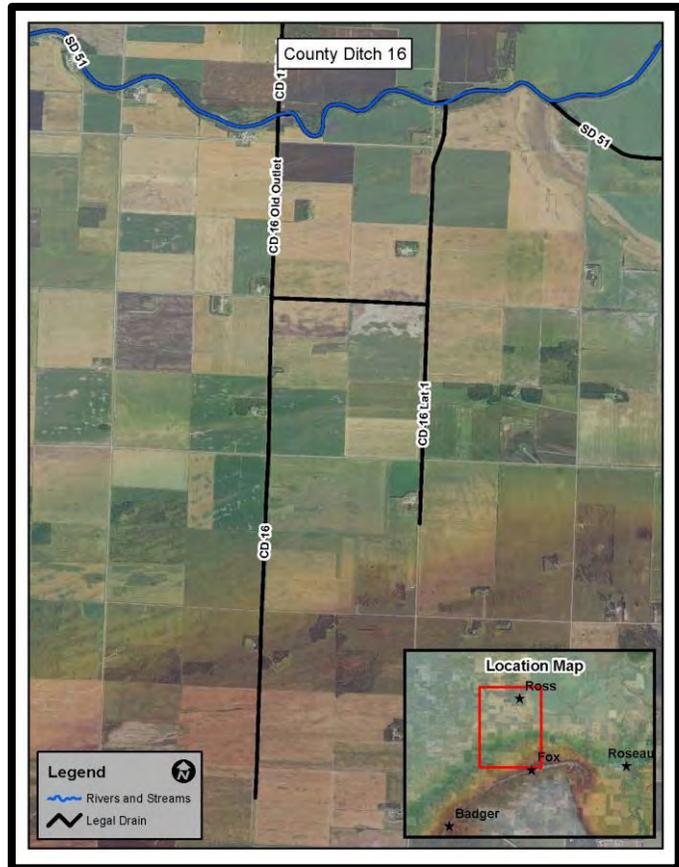


DRAINAGE SYSTEMS

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

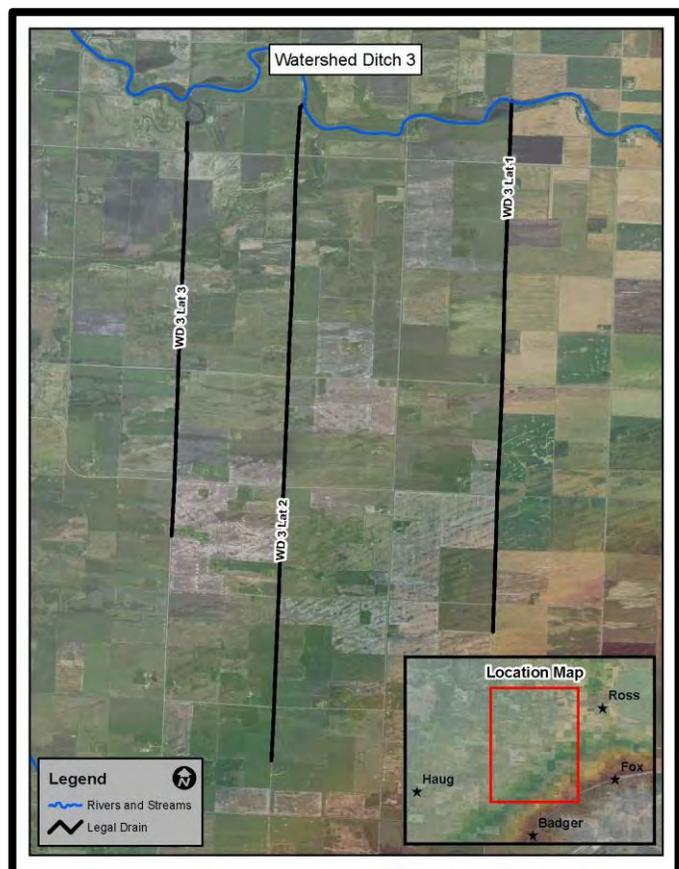
Watershed Ditch No.1 and Roseau County Ditch No. 16

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.



Watershed Ditch No.3

This ditch system consists of three laterals draining lands in Ross, Moose, Dieter, and Pohlitz Townships.



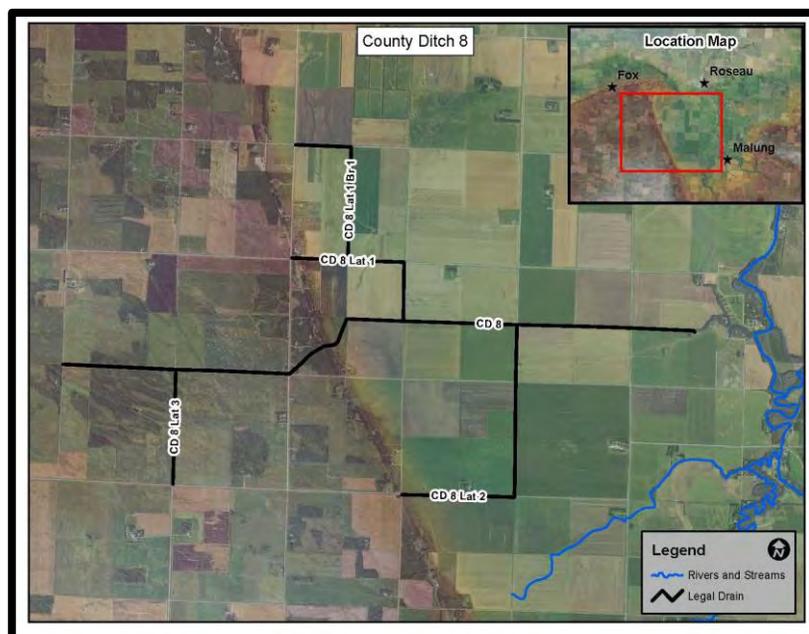


State Ditch No. 51

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.

Roseau County Ditch No.8

This ditch, located in Jadis and Stafford Townships, was turned over for administration and management to the Watershed District. In 2015 the RRWD Board of Managers received a BWSR grant for sediment reduction work in the system (see Programs).



PROGRAMS

Permits

In 2017 there were a total of 47 permit applications for the following activities: installation of culverts for field drainage and driveway accesses, ditch slope repair, ag tiling and ag diking.

Roseau River Water Trail Plan

In 2017 the RRWD along with community partners, initiated a planning process to map the Roseau River, improve accesses and amenities and seek designation as a State Water Trail. In late 2017 a Stakeholder Group was formed. The mission of the group is as follows: The Roseau River Water Trail promotes enjoyment and conservation of natural, cultural, and historical resources of the Roseau River by encouraging responsible, high quality public access opportunities through partnerships and stakeholder advocacy.

The goals were set as follows:

Short Term: 12 – 18 Months

- Establish stakeholder group
- Secure planning funding
- Adopt charter or mission statement
- Identify potential launch sites, points of interest and hazards
- Develop project implementation phases
- Public outreach / civic engagement

Mid-term: 18 months – 3 years

- Map reaches of the river
- Secure implementation funding
- Implement project phases
- Public outreach / civic engagement
- Develop sustainability plan

Long Term:

- Establishment of the Roseau River from the headwaters to the Canadian border as a mapped Water Trail.
- Establish the Roseau River as an international water trail

The following are objectives laid out by the Stakeholder Group:

- **Promote the Roseau River as a trail of regional significance in Northwest Minnesota:** Water trails connect individuals, families, and groups with a variety of hiking trails, bikeways, museums, historic sites, parks, and public lands. They cultivate a sense of place and love of community.
- **Promote the Roseau City Park and Hayes Lake SP as premier camping destinations in Northwest Minnesota:** Outdoor enthusiast will appreciate all these campgrounds have to offer as they explore the water trail.
- **Stewardship:** Water trails utilize minimum-impact practices and cultivate stewards of the water, land, vegetation, wildlife, and other resources.
- **Education:** Serving as outdoor classrooms, water trails promote an awareness of the natural and cultural attributes of the area through experiences.
- **Conservation:** Water Trail activities support conservation of aquatic ecosystems and contiguous lands building a constituency of resource protection and restoration advocates.
- **Diversity:** Through shared work and play, water trails benefit community members from all walks of life promoting access to natural resources and educational opportunities thereby fostering tolerance and understanding.

- **Wellness and well-being:** Water trails provide wholesome, fresh-air activities promoting overall fitness and health of participants.

Board of Water and Soil Resources Competitive Grants Program Participation

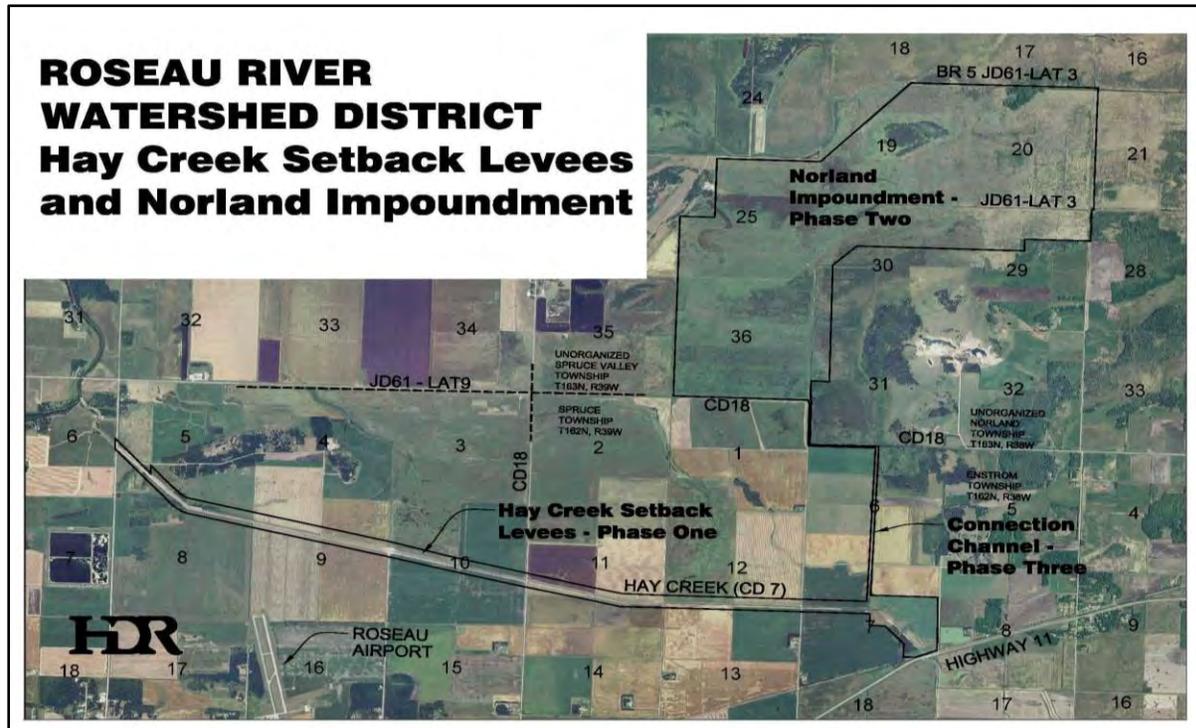
In 2015 the RRWD applied for and received two grants totaling \$259,500. The CD8 Subwatershed Sediment Reduction Project grant, in the amount of \$147,700, will be used to install 2 rock drop structures, 320+ feet of bank stabilization work and 20+ side water inlets in the County Ditch 8 system. As of the end of 2017, the bank stabilization, drop structures and several side inlets have been installed with the remaining side inlets to be installed in the 2018 construction season.



The other grant, the Roseau Lake Water Quality Improvement Report, was for \$111,800. The goal of this project is to develop a report that will include a prioritized, targeted, and measurable implementation plan that will improve water quality in the Roseau Lake subwatershed. The project will result in development of site specific implementation actions through use of the Prioritize, Targeting, and Measuring Application (PTMApp) and the Drained Wetland Basin Inventory terrain analysis methods. The PTMApp will be used to identify and evaluate the suitability and effectiveness of best management/conservation practices in the watershed including treatment train scenarios, and provide estimates of sediment, nitrogen and phosphorus delivered (and subsequently treated) to the lake. The Drained Wetland Basin Inventory will identify the location of restorable wetlands in the watershed along with their volume, depth, and drainage area, which will be used to prioritize and target restoration efforts for multiple purposes including water quality, habitat, and flood damage reduction. Final project outcomes will be a targeted water quality improvement plan that includes the 100 most effective projects to improve water quality in the watershed based on cost and total load reduction to the lake. Because of the value of this type of information, the RRWD is funding this work beyond Roseau Lake to the Canadian border. Our Canadian counterparts also see the benefit of this work and decided to partner with the RRWD, International Water Institute and Houston Engineering to create a report for the Canadian portion of the Roseau River watershed as well. This has become a multi-agency, international endeavor to help promote clean water and best management practices.

PROJECTS

Hay Creek-Norland



Description/Location: The project area includes the lower portion of the Hay Creek watershed and adjacent 37 square mile Norland sub-basin. Hay Creek drains into the Roseau River immediately downstream from the City of Roseau. The project includes three features: 7-mile corridor restoration and floodway enclosed by setback levees, an off-channel impoundment site, and a connection channel. This site provides a total of at least 9,500 acre-feet of gated and un-gated runoff storage.

Project Benefits

Flood Control

- 50% reduction in the 10-yr & a 30% reduction in the 100-yr discharges from Hay Creek/Norland drainage area.
- Reducing backwater and flood durations in the City of Roseau.
- Reduce flooding to 13,300 acres of ag land, 24 miles of roads, 131 miles of ditches, and 27 culverts and bridges.

Habitat Restoration

- Stream flow augmentation, improved dissolved oxygen levels, enhanced fish habitat, riparian buffer corridor and wetland restorations.

Erosion Reduction

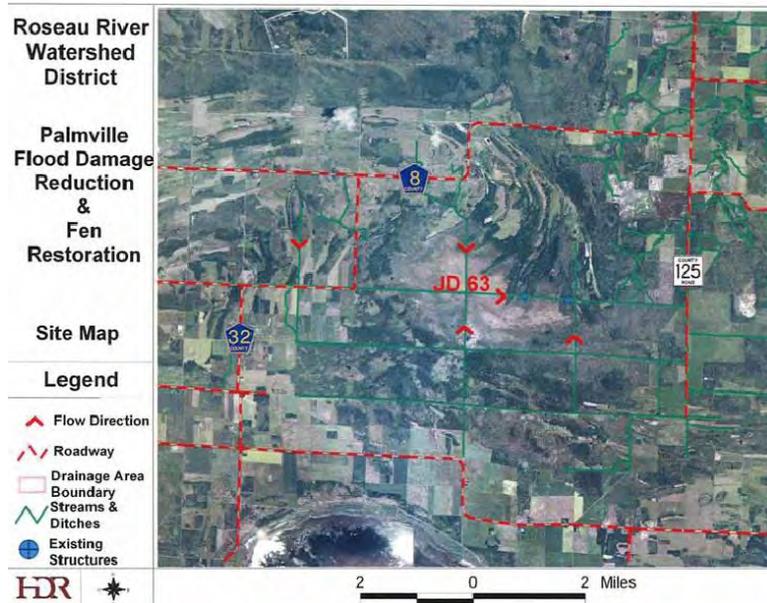
- Reduction in bank erosion on downstream ditches and the Roseau River

Partners: Red River Watershed Management Board and State of Minnesota Flood Damage Reduction Program

Status: The project was operated in 2017. In 2017 additional field work was completed as part of the mitigation plan. Haying and mowing activities are part of the ongoing maintenance.



Palmville Flood Damage Reduction and Fen Restoration Project



Description/Location: The Palmville Fen is a major wetland area covering approximately 3,000 acres located in the upper watershed of the South Fork of the Roseau River, primarily on land owned and managed by the State of Minnesota Department of Natural Resources. The Fen has been degraded by the construction of judicial and county ditch systems over the last one hundred years. The Palmville project is a flood damage reduction (FDR) and natural resource enhancement (NRE) project. Flood control benefits will be provided to immediate areas downstream, the village of Wannaska and the city of Roseau. Fen restoration will hopefully be accomplished by encouraging a greater depth and duration of surface and subsurface flow to spill from the main channel and seep into the adjacent fen.

Project Benefits

Flood Damage Reduction (FDR)

- Reduce frequency of high water events to agricultural lands downstream
- Provide FDR downstream at Wannaska and Roseau;

Habitat Restoration

- Restore fen to a more natural hydrologic condition.
- Streamflow augmentation, improved dissolved oxygen levels, enhanced fish habitat, improve water management capability

Erosion Reduction

- Reduction in riverbank erosion and bank sloughing on the Roseau River.

Partners: Red River Watershed Management Board, Minnesota Department of Natural Resources and State of Minnesota Flood Damage Reduction Program

Status: The project is operational and functioning as designed. In 2017 mowing and rodent management took place.



Roseau River Wildlife Management Area Pool 3 Outlet Project



Description/Location: The Roseau River Wildlife Management (RRWMA) is located in northwestern Minnesota along the Canadian Border. This wildlife impoundment was constructed in 1952 and 1953. The stated purpose of the project was wildlife enhancement and flood control. The RRWMA project was modified in the late 1980's to extend its life and to increase its flood control benefits.

This impoundment has provided many years of flood control benefits to the area, but over the years of operations it has become evident that having the ability to transfer waters between the pools to aid in flood control is beneficial. Experience has also been shown that being able to discharge large volumes of water, from the impoundment, before the Roseau River flood reaches this area, would increase the flood damage reduction effectiveness of the available water storage, thereby lessening damages downstream on the Roseau River and the Two Rivers.

Project Benefits

Flood Damage Reduction (FDR)

- Address the need to repair or replace the failing control structure between Pools 2 & 3;
- Improve water level management for vegetation management;
- Control pool bounce to improve nesting success;
- Provide more efficient flood storage and improve the timing of 8,000 A-F of flood storage in the RRWMA
- Provide FDR downstream at Caribou;
- Manage storage and flow release in beneficial consideration of Red River peak flows;
- Provide FDR in agricultural areas upstream and south of the Big Swamp along the Roseau River in Moose, Soler, Dieter and Pohlitz Townships.

Habitat Restoration

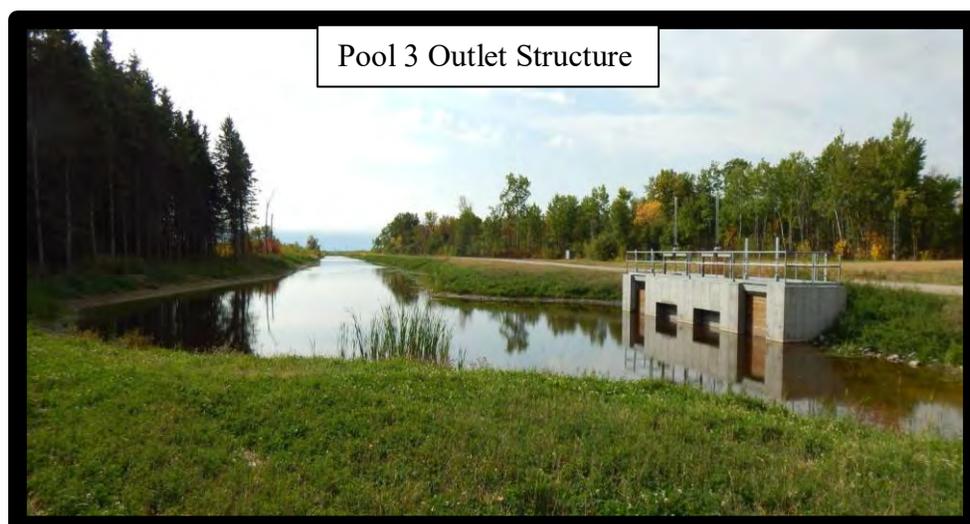
- Stream flow augmentation, improved dissolved oxygen levels, enhanced fish habitat, improve water management capability

Erosion Reduction

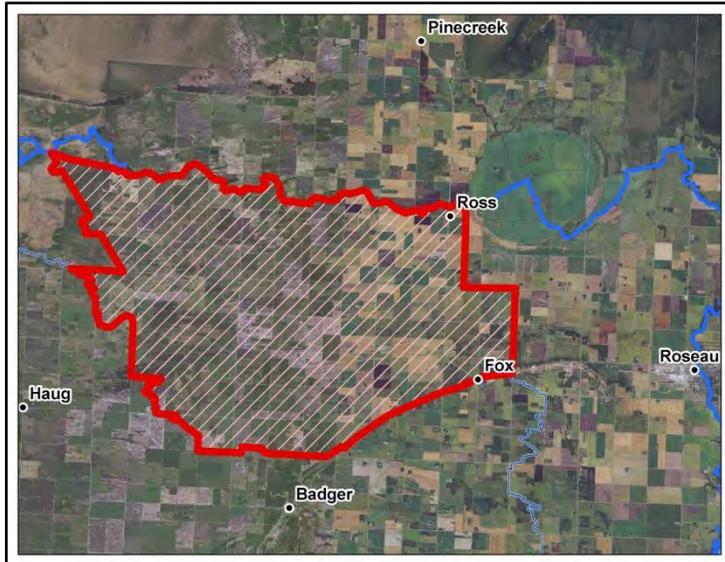
- Reduction in riverbank erosion and bank sloughing on the Roseau River.

Partners: Red River Watershed Management Board, Minnesota Department of Natural Resources and State of Minnesota Flood Damage Reduction Program.

Status: The final phases of construction took place in 2017 with finishing work to be completed in 2018.



Whitney Lake Watershed Management



The Whitney Lake sub-watershed is located in northwest Minnesota. Agricultural producers in the area suffer frequent (every 1-2 years) inundation from even minor events in both the spring and summer causing crop loss and/or damage. The Project Team has identified problem areas, defined strategic solutions, and provided planning guidance to implement construction of retention and drainage projects.

Purpose and Need: To reduce flood damages. The RRWD will work with local, regional and state agencies and landowners to define the water management problems in the watershed.

Alternative Analysis: Various retention, diversion and drainage alternatives will be vetted using technical, scientific and economic means to determine the best course of action to alleviate the water issues that have historically plagued the area.

Preferred Alternative(s): The Watershed Plan will guide future project construction of drainage and retention projects.

Goal(s): Construction of a multi-purpose water management project that will meet the purpose and needs identified, meet permitting requirements and be economically feasible. The District will utilize the Project Team process as identified in the *Red River Basin Flood Damage Reduction Work Group Agreement*.

Project Benefits:

Flood Damage Reduction

- Reduce agricultural and private land damages
- Reduce risk of road damages

Flood Detention

- Reduce peak flows during high runoff events
- Contribute to regional goal of reducing peak flows to the Red River

Erosion Reduction

- Improve stability of watercourses
- Reduce sediment and nutrient loading from upland sources
- Improve water quality
- Positive impact for wildlife and fish

Partners: Red River Watershed Management Board (RRWMB), Natural Resource Conservation Service (NRCS), Minnesota Department of Natural Resources (MN DNR) and State of Minnesota Flood Damage Reduction Program.

Status: The project is in the planning phase following the NRCS Regional Conservation Partnership Program (RCPP) process.

Upper Roseau and Hay Creek Water Management Project – Phase 1 Beltrami Island State Forest Region

Description/Location:

The Roseau River Watershed and its project team are working to develop an overall water management plan for this approximately 477 square mile subwatershed. This area is located in the upper portion of the Roseau River Watershed generally above the City of Roseau. This plan will identify both flood damage reduction and natural resource needs within the subwatershed. The plan will provide additional flood storage to assist with local, regional and basin flood damage reduction efforts. Due to the size of the planning region, it is anticipated that the project(s) will be implemented in 3-5 phases.



Project Benefits:

Flood Control

The overall project will provide approximately 55,000 ac-ft of gated retention within the Upper Roseau and Hay Creek Subwatersheds. This will provide both local and Red River flood damage reduction and is consistent with the Red River Basin Commission – Long-Term Flood Solutions Plan for reducing flows on the Red River.

Water Quality

The Roseau River is currently listed as impaired water for turbidity. In addition, to reducing bank erosion, the retention site(s) will improve downstream water quality by allowing suspended sediment to settle out and reduce turbidity in the river.

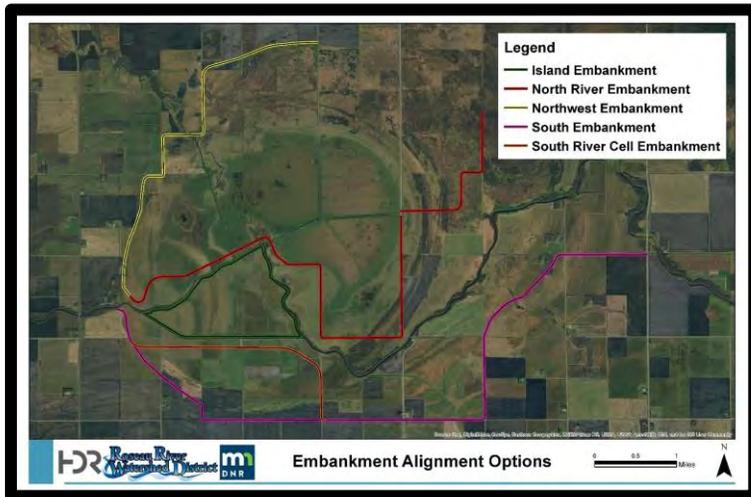
Wildlife and Habitat:

The establishment of the permanent vegetation within portions of the watershed will improve wildlife habitat.



Status: The District applied for federal funds available in the Regional Conservation Partnership Program and continued planning in 2017 under that program.

Roseau Lake Rehabilitation Project



Description/Location: The Roseau River Wildlife Management (RRWMA) and Lake Bottom Unit area are located in northwestern Minnesota. The stated purpose of the project is wildlife enhancement and flood control.

The Lake Bottom Unit has provided many years of flood control benefits to the area, but over the years it has become evident that having the ability to control the timing of when the Roseau River floods the Lake Bottom would be beneficial. The Lake Bottom Unit currently floods with “early water”, which diminishes or eliminates the available flood storage when the flood peak of the Roseau River moves through the area.

This is a multi-purpose project intended to provide the following benefits:

Flood Control

- Provide more efficient flood storage and improve the timing of 60,000 A-F of flood storage in the Roseau River Wildlife Management Area – Lake Bottom Unit;
- Provide flood damage reduction downstream at Caribou by decreasing peak flows at Caribou;
- Manage storage and flow release in beneficial consideration of Red River peak flows;
- Provide flood damage reduction in agricultural areas upstream and south of the Big Swamp along the Roseau River in Moose, Soler, Dieter, and Pohlitz Townships.

Habitat Restoration

- Streamflow augmentation, improved dissolved oxygen levels, enhanced habitat, and improved water level management.
- Improve water level management in the Lake Bottom Unit for vegetation management;
- Control pool bounce to improve nesting success;

Erosion Reduction

- Reduction in riverbank erosion and bank sloughing on the Roseau River.

The status of the project at the end of 2017 is as follows:

Planning

- Project Team is actively meeting every other month
- Final engineering and design is underway
- Operation & Maintenance Plan being developed
- Initial Access and Recreation Plans being drafted

Permitting

- COE Concurrence Points (CP) 1 & 2 have been approved.
- CP 3 is being drafted
- Environmental Assessment Worksheet is being completed

Funding - Projected Project Cost: \$13,000,000

- \$200K FDR grant agreement in Sept 2017
- 2.67 M in LOSHC funding
- RRWMB Step II approval
- RRWD local construction funds

Partners: Red River Watershed Management Board; State of Minnesota Flood Damage Reduction Program, Department of Natural Resources and Lessard-Sams Outdoor Heritage Council.

FINANCIAL

Budget

The budget adopted at the September 2016 meeting for 2017 locally funded expenditures is as follows:

Following discussion, a **motion** was made by Manager Carriere seconded by Manager Braaten to approve the proposed 2017 budget. Motion carried unanimously.

Administrative Budget:

1.	Salaries and benefits	\$140,000.00
2.	Manager's per diem and expenses	\$ 10,000.00
3.	Dues & conference registrations	\$ 2,500.00
4.	Engineering	\$ 5,000.00
5.	Legal & professional services	\$ 15,000.00
6.	Real estate taxes	\$ 10,000.00
7.	Rent and Utilities	\$ 6,000.00
8.	Insurance	\$ 10,000.00
9.	Telephone and internet	\$ 2,250.00
10.	Office supplies, postage & printing	\$ 6,000.00
11.	Capital Outlay	\$ 10,000.00
12.	Stream gaging	\$ 12,000.00
13.	RRWD projects / maintenance	\$ 21,250.00
	Total	\$250,000.00

Construction Budget:

1.	Red River Watershed Management Board	\$ 114,349.68
2.	RRWD Construction Fund	\$ 114,349.68
	Total	\$ 228,699.36

Ditch system levees for the year 2017:

- \$ 8,000.00 levy on WD#3 Ditch System
- \$10,000.00 levy on Ditch #8
- \$ 1,500.00 levy on Ditch #16
- \$ 2,500.00 levy on West Interceptor

A one percent assessment on redetermined benefits on State Ditch #51: approximate figures are as follows;

Roseau County	\$88,177.69
Kittson County	\$ 1,155.02
Marshall County	\$ 641.92
Beltrami County	\$ 899.65
Lake of the Woods County	\$ 648.60

Financial Summary

This section summarizes the District's financial activity for 2017. 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 0.003627 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

These are 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 provided by the District's accountant for the year (January 1, through December 31, 2017) as augmented with the Legal Compliance.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Roseau River Watershed District
Roseau, Minnesota

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund and remaining fund information of the Roseau River Watershed District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District'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 the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and remaining fund information of the Roseau River Watershed District, as of December 31, 2017, and the respective changes in cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Roseau River Watershed District's basic financial statements. The management's discussion and analysis on pages 5 - 8 and supplementary information on pages 23 - 27, as listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis and supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis and supplementary information are fairly stated, in all material respects, in relation to the financial statements as described in the basis of accounting in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018 on our consideration of the Roseau River Watershed District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Roseau River Watershed District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

June 22, 2018

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2017

As management of the Roseau River Watershed District, we offer readers of the Roseau River Watershed District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements following this section. Certain reclassifications have been made to the 2016 financial statements in order to conform with the 2017 presentation.

FINANCIAL HIGHLIGHTS

- The cash position of Roseau River Watershed District exceeded its liabilities at the close of the recent fiscal year by \$2,443,728 (net position).
- The District's total net cash position decreased by \$294,912.
- The District's general fund ended the year with a fund balance of \$525,456.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Roseau River Watershed District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basis of Accounting. The District has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's cash basis of accounting, revenues and expenses are recognized when cash transactions occur.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts and taxes receivable and related revenue not collected yet) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not paid yet) are not recorded in these financial statements. Therefore when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Government-Wide Financial Statements. The government-wide financial statements are designed to display information about the Roseau River Watershed District taken as a whole.

Over time, increases or decreases in net position – cash basis may serve as a useful indicator of whether the financial cash position of the Roseau River Watershed District is improving or deteriorating.

The government-wide financial statements can be found on pages 9 and 10 of this report.

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF DECEMBER 31, 2017

Fund Financial Statements. The fund financial statements focus on the individual parts of the District. 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. Roseau River Watershed District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of Roseau River Watershed District are governmental funds.

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Roseau River Watershed District maintains three major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of receipts, disbursements, and changes in fund balances for the General Fund, Special Revenue Fund, and Capital Projects Fund.

The basic government fund financial statements can be found on pages 11 through 13 of this report.

Notes to the financial statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 22 of this report.

ROSEAU RIVER WATERSHED DISTRICT'S NET CASH POSITION

	2017	2016
ASSETS:		
Current assets	\$ 2,443,728	\$ 2,738,640
Total Assets	\$ 2,443,728	\$ 2,738,640
 NET CASH POSITION		
Restricted for ditch maintenance	\$ 1,742,116	\$ 1,735,039
Unrestricted	701,612	1,003,601
Total Net Cash Position	\$ 2,443,728	\$ 2,738,640

At the end of 2017 and 2016, the Roseau River Watershed District is able to report positive balances in net cash position.

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF DECEMBER 31, 2017

ROSEAU RIVER WATERSHED DISTRICT'S CHANGE IN NET CASH POSITION

Governmental activities resulted in a decrease of Roseau River Watershed District's net position from the year ended December 31, 2016 to the year ended December 31, 2017 in the amount of \$294,912. The details of the change are as follows:

	<u>2017</u>	<u>2016</u>
RECEIPTS		
Special assessments and charges for services	\$ 663,136	\$ 183,289
Operating grants	383	233,772
Capital grants	614,128	2,188,453
General revenues:		
Property taxes	356,984	368,139
Other intergovernmental	11,488	9,790
Interest	<u>17,122</u>	<u>13,736</u>
Total Receipts	<u>1,663,241</u>	<u>2,997,179</u>
DISBURSEMENTS		
General & administration	548,295	625,856
Maintenance projects	83,945	51,191
Flood control projects	<u>1,325,913</u>	<u>2,150,803</u>
Total Disbursements	<u>1,958,153</u>	<u>2,827,850</u>
Change in Net Cash Position	<u>(294,912)</u>	<u>169,329</u>
Net Position - January 1	<u>2,738,640</u>	<u>2,569,311</u>
Net Position - December 31	<u>\$ 2,443,728</u>	<u>\$ 2,738,640</u>

Financial Analysis of the Government's Funds

At the end of the current fiscal year, Roseau River Watershed District's governmental funds reported combined ending fund balances (cash basis) of \$ 2,443,728. The total fund balance can be attributed to 1) General Fund, \$525,456, 2) Special Revenue Fund, \$1,742,116 and 3) Capital Projects Fund, \$176,156.

The general fund increased by \$41,215 in 2017, which was due to reclassifying equity from capital projects administrative construction to the general fund that was offset by an office building purchase.

BUDGETARY HIGHLIGHTS

General Fund. The General Fund actual receipts were more than budget by \$1 3,874 and actual disbursements were over budget by \$130,065 for the year ended December 31, 2017. The purchase of the office building was not included in the budget.

ROSEAU RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF DECEMBER 31, 2017

ADDITIONAL INFORMATION

Requests for Information. This financial report is designed to provide a general overview of Roseau River Watershed District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Roseau River Watershed District, 108 3rd Avenue SW, Roseau, Minnesota 56751 or contacting Tracy Halstensgard at (218) 463-0313.

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF NET CASH POSITION
AS OF DECEMBER 31, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 2,443,728
TOTAL ASSETS	<u><u>\$ 2,443,728</u></u>
NET CASH POSITION	
Restricted for ditch maintenance	\$ 1,742,116
Unrestricted	<u>701,612</u>
TOTAL NET POSITION	<u><u>\$ 2,443,728</u></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, 2017

FUNCTION	Disbursements	Program Receipts and Sources			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 Total
Governmental Activities:					
Administration	\$ 429,929	\$ 6,343	\$ 383	\$ -	\$ (423,203)
Administrative construction	118,366	-	-	-	(118,366)
General maintenance projects	83,945	174,137	-	-	90,192
Flood control projects	<u>1,325,913</u>	<u>482,656</u>	<u>-</u>	<u>614,128</u>	<u>(229,129)</u>
Total Governmental Activities	<u>\$ 1,958,153</u>	<u>\$ 663,136</u>	<u>\$ 383</u>	<u>\$ 614,128</u>	<u>(680,506)</u>
General Receipts:					
Property taxes					356,984
Intergovernmental (not restricted for special program)					
MV Credits					11,488
Interest earnings					<u>17,122</u>
Total General Receipts					<u>385,594</u>
Changes in Net Cash Position					(294,912)
Net Cash Position, January 1					<u>2,738,640</u>
Net Cash Position, December 31					<u>\$ 2,443,728</u>

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2017

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 525,456	\$ 1,742,116	\$ 176,156	\$ 2,443,728
TOTAL ASSETS	<u>\$ 525,456</u>	<u>\$ 1,742,116</u>	<u>\$ 176,156</u>	<u>\$ 2,443,728</u>
 CASH FUND BALANCE				
Restricted for ditch maintenance	\$ -	\$ 1,742,116	\$ -	\$ 1,742,116
Committed for capital projects	-	-	176,156	176,156
Unassigned	<u>525,456</u>	<u>-</u>	<u>-</u>	<u>525,456</u>
TOTAL CASH FUND BALANCE	<u>\$ 525,456</u>	<u>\$ 1,742,116</u>	<u>\$ 176,156</u>	<u>\$ 2,443,728</u>

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
RECEIPTS				
Taxes	\$ 246,055	\$ -	\$ 110,929	\$ 356,984
Special assessments	-	121,251	2,500	123,751
Intergovernmental:				
State	7,293	-	626,117	633,410
RRWMB	383	-	43,924	44,307
Federal	-	-	430,938	430,938
Interest	3,800	11,125	2,197	17,122
Other	6,343	-	50,386	56,729
TOTAL RECEIPTS	<u>263,874</u>	<u>132,376</u>	<u>1,266,991</u>	<u>1,663,241</u>
DISBURSEMENTS				
Administration	240,392	6,159	69,662	316,213
Administrative construction	-	-	118,366	118,366
General maintenance projects	25,957	49,825	8,163	83,945
Flood control projects	-	-	1,325,913	1,325,913
Capital outlay - administration office building	113,716	-	-	113,716
TOTAL DISBURSEMENTS	<u>380,065</u>	<u>55,984</u>	<u>1,522,104</u>	<u>1,958,153</u>
Receipts Over (Under) Disbursements	(116,191)	76,392	(255,113)	(294,912)
OTHER SOURCES AND USES:				
Transfers in	-	-	69,315	69,315
Transfers out	-	(69,315)	-	(69,315)
NET OTHER SOURCES AND USES	<u>-</u>	<u>(69,315)</u>	<u>69,315</u>	<u>-</u>
Receipts Over Disbursements and Other Sources and Uses	(116,191)	7,077	(185,798)	(294,912)
Cash Fund Balance - January 1	484,241	1,735,039	519,360	2,738,640
Fund Equity Transfer	157,406	-	(157,406)	-
Cash Fund Balance - January 1, restated	<u>641,647</u>	<u>1,735,039</u>	<u>361,954</u>	<u>2,738,640</u>
Cash Fund Balance - December 31	<u>\$ 525,456</u>	<u>\$ 1,742,116</u>	<u>\$ 176,156</u>	<u>\$ 2,443,728</u>

See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
AGENCY FUND
AS OF DECEMBER 31, 2017

ASSETS

Cash	<u>\$ 5,287</u>
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LIABILITIES

Due to Red River Management Board	<u>\$ 5,287</u>
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See Notes to the Basic Financial Statements

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

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). Under the cash basis of accounting, all relevant Governmental Accounting Standards Board (GASB) pronouncements are followed.

Reporting Entity

The financial statements of the District include all organizations, funds and account groups over which the Board of Managers exercises significant influence or financial accountability. The District uses criteria established by GASB in determining financial accountability, which includes: the District's appointment of an entity's governing board; ability of the District to impose its will on that entity; or the potential for the entity to provide specific financial benefits or financial burdens on the District. Currently, the District does not have any component units.

Basis of Presentation

Government-Wide Financial Statements

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 governmental activities are generally 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 (receipts) and expenditures (disbursements). Funds are typically organized into three categories: governmental, fiduciary and proprietary. The District currently has no proprietary funds.

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:

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Total assets, liabilities, revenues (receipts) or expenditures (disbursements) of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that type, AND

Total assets, liabilities, revenues (receipts) or expenditures (disbursements) 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.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than capital projects) where the expenditures are legally restricted for purposes specified in the grant or project agreements. The reporting entity includes the special revenue fund as a major fund.

Capital Projects Fund

The capital projects fund is used to account for the financial resources to be used for 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.

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 the government-wide Statement of Net Cash Position and 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.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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.

Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balances as their measure of available spendable 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 position, revenues and expenditures when they result from cash transactions, therefore revenues and expenditures are referred to as receipts and disbursements, respectively. 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 goods 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.

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 levy in the administrative fund, which is limited by state statute at \$250,000 and set by the Board for 2017 at \$250,000.

Revenues

In the Statement of Activities Arising From Cash Transactions, cash basis revenues (receipts) 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.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Property Taxes

The District levies property taxes on property owners within the District, which is set by the Board in September and are certified to the County for collection in the subsequent year. In Minnesota, counties act as collection agents for all property taxes.

The approved levy becomes an enforceable lien as of January 1 in the subsequent year. Property taxes may be paid by taxpayers in two equal installments on May 15 and October 15 (November 15 for farm property). The counties typically provide tax settlements to the District in January, June and December. 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.

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. It is the policy of the District in which funds with deficit averages are not charged with the investment earnings lost in financing the deficits.

Equity

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

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.

Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Cash Fund Balance

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.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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 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 classifications could be used like assigned or unassigned.

Interfund Balances

In the process of aggregating the fund information for the government-wide Statement of Net Cash 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.

Estimates

The preparation of financial statements, in conformity with a comprehensive basis of accounting other than generally 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.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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).

At December 31, 2017, the District's carrying amount of deposits was \$2,449,015 and the bank balance was \$2,458,751. All of the deposits were covered by Federal Depository Insurance or with securities held by the pledging financial institution's agent in the government's name.

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 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

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state 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%

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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.

1. General Employees Plan Benefits

General Employees Plan 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.

Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017.

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 report may be obtained on the Internet at www.mnpera.org.

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. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The Roseau River Watershed District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.5% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the year ended December 31, 2017 was \$11,214.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 4 TRANSFERS

The composition of transfers as of December 31, 2017, is as follows:

Transfer In	Transfer Out	Amount
Capital Projects Fund	Special Revenue Fund	\$ 69,315

The purpose of the transfer is to finance part of the WMA project with Ditch #51 funds. In addition to this transfer, beginning equity balances totaling \$157,406 were moved to the capital projects fund to properly account for past completed projects with a deficit balance that were included in the general fund.

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. Costs 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, 2017, 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.

NOTE 6 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; injuries to employees; and natural disasters. The District carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 7 DEFICIT FUND BALANCES

The following special revenue and capital projects had deficit fund balances as of December 31, 2017:

<u>Fund</u>	<u>Project</u>		
Special Revenue	Ditch #16	\$	9,597
Capital Projects	Palmville Maintenance		19,429
Capital Projects	Beltrami		123,006
Capital Projects	Whitney Lake		86,079
Capital Projects	Lake Bottom		303,098
Capital Projects	WMA		275,036
Capital Projects	Side Water Inlets		20,382

The deficits are expected to be eliminated through future revenues or transfers.

ROSEAU RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Original & Final Budgeted Amounts	Actual Amounts	Final Budget to Actual Variance
RECEIPTS			
Property taxes:			
Roseau County	\$ 243,951	\$ 239,887	\$ (4,064)
Kittson County	2,988	3,081	93
Marshall County	2,224	2,350	126
Lake of the Woods County	258	255	(3)
Beltrami County	579	482	(97)
Total property taxes	<u>250,000</u>	<u>246,055</u>	<u>(3,945)</u>
Intergovernmental:			
RRWMB	-	383	383
State:			
Other state aid	-	7,293	7,293
Total Intergovernmental	<u>-</u>	<u>7,676</u>	<u>7,676</u>
Other:			
Interest	-	3,800	3,800
Other	-	6,343	6,343
Total Other	<u>-</u>	<u>10,143</u>	<u>10,143</u>
TOTAL RECEIPTS	<u>250,000</u>	<u>263,874</u>	<u>13,874</u>
DISBURSEMENT			
Administrative:			
Salaries and benefits	140,000	128,950	(11,050)
Manager's per diem and expenses	10,000	19,208	9,208
Dues and subscriptions	2,500	1,057	(1,443)
Engineering	5,000	26,206	21,206
Legal and accounting	15,000	19,619	4,619
Repairs and maintenance	21,250	3,900	(17,350)
Rent and utilities	6,000	4,392	(1,608)
Insurance	10,000	11,254	1,254
Telephone and internet	2,250	2,213	(37)
Office	-	11,888	11,888
Real estate taxes	10,000	9,886	(114)
Postage and delivery	6,000	290	(5,710)
Printing and advertising	-	1,529	1,529
Capital outlay - office building	-	113,716	113,716
Total Administrative	<u>228,000</u>	<u>354,108</u>	<u>126,108</u>

See Notes to the Budgetary Comparison Schedule

ROSEAU RIVER WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

	Original & Final Budgeted Amounts	Actual Amounts	Final Budget to Actual Variance
	<u> </u>	<u> </u>	<u> </u>
Projects:			
Roseau River projects	\$ 10,000	\$ -	\$ (10,000)
Stream gauging	12,000	21,896	9,896
Capital outlay	-	4,061	4,061
	<u>22,000</u>	<u>25,957</u>	<u>3,957</u>
 TOTAL DISBURSEMENTS	 <u>250,000</u>	 <u>380,065</u>	 <u>130,065</u>
 Excess Receipts Over Disbursements	 -	 (116,191)	 (116,191)
 Cash Fund Balance, January 1	 484,241	 484,241	 -
Fund Equity Transfer	<u>-</u>	<u>157,406</u>	<u>157,406</u>
Cash Fund Balance - January 1, restated	<u>484,241</u>	<u>641,647</u>	<u>157,406</u>
 Fund Balance, December 31	 <u>\$ 484,241</u>	 <u>\$ 525,456</u>	 <u>\$ 41,215</u>

See Notes to the Budgetary Comparison Schedule

ROSEAU RIVER WATERSHED DISTRICT
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 – BUDGETARY COMPARISON

The budget is prepared using the same method of accounting as the financial statements. The budget presented for the general fund 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 of watershed districts of \$250,000.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2017, expenditures exceeded appropriations in the general fund by \$130,065 mainly due to a purchase of an office building. Funds were set aside for purchase in prior years.

ROSEAU RIVER WATERSHED DISTRICT
SCHEDULE OF FUND BALANCES BY PROJECT- CASH BASIS
AS OF DECEMBER 31, 2017

	Fund Balance 1/1/2017	Fund Equity Transfer	Receipts and Other Sources					Disbursements			Fund Balance 12/31/2017	
			Taxes and Special Assessments	Capital & Operating Grants	Other Receipts	Allocated Interest	Total	Administrative	Direct Project	Total		Transfers
GENERAL FUND:												
Administrative	\$ 484,241	\$ 157,406	\$ 246,055	\$ 7,676	\$ 6,343	\$ 3,800	\$ 263,874	\$ 354,108	\$ 25,957	\$ 380,065	\$ -	\$ 525,456
SPECIAL REVENUE FUND:												
Watershed Ditch #3	3,975	-	10,525	-	-	-	10,525	718	67	785	-	13,715
County Ditch #8	(6,429)	-	12,076	-	-	-	12,076	562	70	632	-	5,015
Ditch #16	(4,028)	-	2,879	-	-	-	2,879	228	8,220	8,448	-	(9,597)
State Ditch #51	1,741,521	-	95,771	-	-	11,125	106,896	4,651	41,468	46,119	(69,315)	1,732,983
Total Special Project Fund	1,735,039	-	121,251	-	-	11,125	132,376	6,159	49,825	55,984	(69,315)	1,742,116
CAPITAL PROJECTS FUND:												
Administrative Construction	1,027,275	(157,406)	110,929	4,195	-	2,197	117,321	4,533	118,366	122,899	(27,734)	836,557
Maintenance:												
Palmville Maintenance	(18,596)	-	-	-	-	-	-	608	225	833	-	(19,429)
Malung Dam Maintenance	(5,670)	-	-	-	-	-	-	-	-	-	5,670	-
West Intercept Maintenance	(1,896)	1,351	2,500	-	-	-	2,500	752	6	758	-	1,197
CR 112	(16,544)	-	-	-	-	-	-	-	-	-	16,544	-
Hay Creek Norland	(6,047)	-	-	-	49,578	-	49,578	174	7,932	8,106	-	35,425
Weed Management	(76)	-	-	-	808	-	808	-	-	-	-	732
Other	18,331	-	-	-	-	-	-	-	-	-	-	18,331
Flood Control:												
Beltrami	(89,104)	-	-	2,723	30,776	-	33,499	2,942	64,459	67,401	-	(123,006)
Whitney Lake	(4,336)	-	-	7,402	188,209	-	195,611	7,025	270,329	277,354	-	(86,079)
Lake Bottom	(331,799)	135,000	-	33,799	211,953	-	245,752	30,327	186,724	217,051	-	(303,098)
WMA	(136,717)	(135,000)	-	570,204	-	-	570,204	3,937	773,901	777,838	69,315	(275,036)
Hay Creek Norland	104,572	-	-	-	51,718	-	51,718	19,364	25,982	45,346	-	110,944
West Intercept	1,351	(1,351)	-	-	-	-	-	-	-	-	-	-
Side Water Inlets	(15,864)	-	-	-	-	-	-	-	4,518	4,518	-	(20,382)
Drainage Projects:												
Palmville	(5,520)	-	-	-	-	-	-	-	-	-	5,520	-
Total Capital Project Fund	519,360	(157,406)	113,429	618,323	533,042	2,197	1,266,991	69,662	1,452,442	1,522,104	69,315	176,156
TOTAL	\$ 2,738,640	\$ -	\$ 480,735	\$ 625,999	\$ 539,385	\$ 17,122	\$ 1,663,241	\$ 429,929	\$ 1,528,224	\$ 1,958,153	\$ -	\$ 2,443,728

ROSEAU RIVER WATERSHED DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN AMOUNT DUE TO (FROM) OTHER GOVERNMENTS –
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

RECEIPTS

Taxes

Beltrami County	\$ 238
Kittson County	1,431
Lake of the Woods County	211
Marshall County	1,106
Roseau County	107,943

Intergovernmental:

State Aid, Other	<u>4,195</u>
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TOTAL RECEIPTS	<u>115,124</u>
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DISBURSEMENTS

Payments to RRWMB	<u>126,755</u>
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Receipts Over Disbursements	(11,631)
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Due from Other Government - January 1	<u>16,918</u>
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Due to Other Government - December 31	<u>\$ 5,287</u>
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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Roseau River Watershed District
Roseau, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of Roseau River Watershed District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2018. Roseau River Watershed District prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. 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 that we did not test for compliance with the provisions for tax increment financing which did not apply to the District.

In connection with our audit, nothing came to our attention that caused us to believe that Roseau River Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 22, 2018



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

Board of Managers
Roseau River Watershed District
Roseau, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of Roseau River Watershed District, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 22, 2018. Roseau River Watershed District prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Roseau River Watershed District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-002 to be a significant deficiency.

Compliance and Other Matters

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

Roseau River Watershed District's Response to Findings

The Roseau River Watershed District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Roseau River Watershed District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

June 22, 2018

**ROSEAU RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Deficiency 2017-001 – Material Weakness

Criteria: Segregation of duties.

Condition: The District has one employee responsible for the majority of the accounting functions. The employee handles incoming monies, prepares the receipt documents, prepares deposits, issues checks and distributes them and receives and reconciles the bank statements. The employee maintains the general ledger.

Cause: Size and cost constraints limit the number of personnel available to perform accounting duties within the District.

Effect: The lack of segregated duties reduces the level of internal controls over financial reporting which could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The areas should be reviewed periodically and consideration given to improving the segregation of duties in the most effective manner possible.

View of Responsible Officials: The District is aware of this situation and will continue to monitor operations and has added a staff member in 2017. The Board believes the most effective control lies in its awareness and oversight of this situation.

ROSEAU RIVER WATERSHED DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Deficiency 2017-002 – Significant Deficiency

Criteria: The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with the cash basis of accounting.

Condition: An internal control deficiency over financial reporting may be determined present in the absence of the District's ability to identify all journal entries required and the preparation of its financial statements and accompanying notes to the financial statements in accordance with the cash basis of accounting. This control deficiency could result in a material misstatement to the financial statements that would not be detected or prevented.

Cause: Due to limited personnel, as auditors we were requested to propose journal entries and draft the financial statements and accompanying notes to the financial statements and propose journal entries needed in accordance with the cash basis of accounting.

Effect: A material misstatement in the District's financial statements may go undetected.

Recommendation: It is the decision of the board charged with the governance to evaluate the degree of risk associated with this condition upon consideration of benefits received and cost associated with making the necessary changes.

View of Responsible Officials: The planned correction action will be implemented when it becomes cost effective.