

BUFFALO - RED RIVER WATERSHED DISTRICT

Table of Contents

	Page

Officials	1
Independent Auditor's Report	2
Management's Discussion and Analysis	3-7
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets- Modified Cash Basis	8
Statement of Activities- Modified Cash Basis	9
Balance Sheet- Governmental Funds- Modified Cash Basis	10
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds- Modified Cash Basis	11
Notes to Combined Financial Statement	12-18
SUPPLEMENTARY FINANCIAL INFORMATION	
Statement of cash receipts and disbursements and changes in fund balance	19-22

BUFFALO - RED RIVER WATERSHED DISTRICT
LIST OF OFFICIALS
DECEMBER 31, 2012

Governing Board

Office

Gerald L. VanAmburg	Chairman
Breanna L. Paredeis Kobeila	Vice-chairman
Curtis M. Nelson	Treasurer
John E. Hanson	Secretary
Roger G. Ellefson	Manager
Peter V Fjestad	Manager
Troy Larson	Manager

Administration

Bruce E. Albright	Office Administrator
Julie Jerger	Administrative assistant
Ramona Barker	BRRWD Secretary

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Governing Board
Buffalo-Red River Watershed District
Barnesville, Minnesota

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Buffalo-Red River Watershed District as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinion.

As discussed in Note 1, the District prepares its financial statements on the cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my 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 the aggregate remaining fund information of the Buffalo-Red River Watershed District, as of December 31, 2012, and the respective changes in cash basis financial position thereof for the year then ended, in conformity with the cash basis of accounting described in Note 1.

The management discussion and analysis information on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and are not a required part of the financial statements of the District. The information in these schedules has been subjected to the procedures applied in the audit of the financial statements and in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

West Fargo, North Dakota
April 18, 2013

BUFFALO - RED RIVER WATERSHED DISTRICT
BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Buffalo-Red River Watershed District (District), I offer readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2012, within the limitations of the District's modified cash basis of accounting. I encourage readers to consider the information presented here in conjunction with additional information that I have furnished. The intent of this discussion and analysis is to look at the District's financial performance as a whole.

Financial Highlights

* The assets of District exceeded its liabilities at the close of the most recent fiscal year by \$212,592, (Net Assets). Of this amount, \$212,592 (Unrestricted Net Assets) may be used to meet ongoing obligations.

* The District's total net assets decreased by \$165,421 as a result of the current year's operation on the modified cash basis.

* The District's total revenues from all sources were \$6,889,329. Total expenses were \$7,054,750.

* At the close of the current fiscal year, The District's governmental funds reported combined ending fund balances of \$212,592, a net decrease of \$165,421 in comparison with the prior year. The entire balance is available for spending through an unreserved fund balance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise five components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

These financial statements are organized so the reader can understand the District as a whole.

BUFFALO - RED RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

Government-Wide financial statements.

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

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

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year resulting from the use of the modified cash basis of accounting. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three groups: governmental, proprietary, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

BUFFALO - RED RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

Notes to the Financial Statements

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's net assets resulting from modified cash basis transactions of \$212,592 are segregated into three categories. Invested in capital assets (net of related debt), restricted assets and unrestricted. Net assets invested in capital assets, net of related debt, represents 0% of the District's net assets. These assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. Restricted net assets represent 0% of the District's resources that are subject to external restrictions on how they may be used. Unrestricted net assets represent the remaining 100% of resources. The unrestricted net assets are available to meet the District's ongoing obligations.

NET ASSETS- MODIFIED CASH BASIS

Assets	<u>2012</u>	<u>2011</u>
Current and other assets	212,592	378,014
Capital assets (net of depreciation)		
Total Assets	<u>212,592</u>	<u>378,014</u>
	=====	=====
Liabilities		
Current Liabilities		
Long Term Liabilities		
Total Liabilities	<u> </u>	<u> </u>
Net Assets		
Invested in Capital Assets Net		
Restricted		
Unrestricted	<u>212,592</u>	<u>378,014</u>
Total Net Assets	<u>212,592</u>	<u>378,014</u>

BUFFALO - RED RIVER WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

Governmental activities decreased the District's net assets resulting from modified cash basis transactions by \$165,421. Key elements of this increase are as follows:

	CHANGES IN NET ASSETS- MODIFIED CASH BASIS	
	<u>2012</u>	<u>2011</u>
Revenues		
Program Revenues:		
Charges for Services		
Operating Grants and Contributions	3,786,660	5,216,138
General Revenues		
Property taxes	956,872	883,939
Assessments	1,087,777	650,049
State Aid	97,342	160,775
Debt proceeds	500,000	
Interest and Other Revenue	460,678	335,573
Total Revenues	<u>6,889,329</u>	<u>7,246,474</u>
Expenses		
Project	6,545,299	8,396,276
Support Services:		
General Administrative Services	337,305	303,067
Interest	172,146	102,576
Depreciation-Unallocated		
Total Expenses	<u>7,054,750</u>	<u>8,801,918</u>
Increase in Net Assets	(165,421)	(1,555,445)

Taxes constituted 14%, special assessments 15%, grants 55% and other revenues made up the remaining 15% of the total revenues of the governmental activities of the District for the 2012 fiscal year. Projects comprise 93% of the District's governmental expenses, while support services account for 7%.

General Fund Budgetary Highlights

The District does not prepare a formal budget for any funds. However, all funds are tracked and presented to the managers on a monthly basis through a variety of reports.

BUFFALO - RED RIVER WATERSHED DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED

Capital Asset and Debt administration

Capital Assets

As of December 31, 2012, the District had \$585,122 invested in capital assets. This investment includes land, buildings and improvements, equipment and vehicles, and construction in progress.

CAPITAL ASSETS (NET OF DEPRECIATION)		
	<u>2011</u>	<u>2012</u>
Land		
Buildings and Improvements		
Construction in Progress	50,331	585,122
Total	50,331	585,122

Under the modified cash basis the cost of fixed assets is expensed in the year incurred and no depreciation expense is recorded.

Long-Term Debt

Of this amount, \$500,000 is long-term debt. The remaining \$303,837 is a current liability due within one year. The District had a net increase in its existing debt obligation by \$612,756 from December 31, 2011.

OUTSTANDING GENERAL LONG-TERM DEBT		
	<u>2011</u>	<u>2012</u>
Bonds Payable		500,000
Line of credit payable	<u>191,081</u>	<u>303,837</u>
Total	191,081	803,837

Under the modified cash basis the debt proceeds are recorded as revenue in the year received and the repayment of principal is recorded as expense in the year paid.

Economic Factors and Next Year's Budget

While the current financial condition of the District is strong, careful planning and financial stewardship must be followed to ensure that stability remains in future years.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all their citizens, taxpayers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Bruce E. Albright, Office Administrator.

BUFFALO - RED RIVER WATERSHED DISTRICT
STATEMENT OF NET ASSETS- MODIFIED CASH BASIS
DECEMBER 31, 2012

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	212 592
Fixed assets	<u> </u>
Total assets	<u>212 592</u> =====
<u>LIABILITIES AND FUND EQUITY</u>	
LIABILITIES	
Deferred revenue	<u> </u>
FUND EQUITY	
Fund balance:	
Unreserved-	
Designated	
Undesignated	<u>212 592</u>
Total fund equity	<u>212 592</u>
Total liabilities and fund equity	<u>212 592</u> =====

See notes to financial statements.

BUFFALO - RED RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2012

	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>NET EXPENSE GOVERNMENTAL ACTIVITY</u>
Governmental activities:				
Administration	337 305			(337 305)
Project expense	6 545 299		3 786 660	(2 758 639)
Interest expense	<u>172 146</u>			<u>(172 146)</u>
Total governmental act	<u>7 054 750</u>		<u>3 786 660</u>	<u>(3 268 090)</u>
General revenues				
Property taxes				956 872
Special assessments				1 087 777
State aid not restricted				97 342
Debt proceeds				500 000
Interest income and other				<u>460 078</u>
Total general revenues				<u>2 030 336</u>
Change in net assets				(165 421)
NET ASSETS:				
BEGINNING OF YEAR				<u>378 014</u>
END OF YEAR				<u>212 592</u> =====

See notes to financial statements.

BUFFALO - RED RIVER WATERSHED DISTRICT
 BALANCE SHEET- CASH BASIS
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2012

	GENERAL	CONSTRUCTION FUND	103 D FUND	PROJ 49	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS:						
Cash and investments	117 430	1 284 253	276 768	(500 684)	(965 175)	212 592
Receivables- Property taxes						
Total assets	<u>117 430</u>	<u>1 284 253</u>	<u>276 768</u>	<u>(500 684)</u>	<u>(965 175)</u>	<u>212 592</u>
	=====	=====	=====	=====	=====	=====
LIABILITIES						
Deferred revenue						
Total liabilities	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance:						
Unreserved- Undesignated	117 430	1 284 253	276 768	(500 684)	(965 175)	212 592
Total fund balance	<u>117 430</u>	<u>1 284 253</u>	<u>276 768</u>	<u>(500 684)</u>	<u>(965 175)</u>	<u>212 592</u>
	=====	=====	=====	=====	=====	=====
Total liabilities and fund balance	<u>117 430</u>	<u>1 284 253</u>	<u>276 768</u>	<u>(500 684)</u>	<u>(965 175)</u>	<u>212 592</u>
	=====	=====	=====	=====	=====	=====

See Notes to Combined Financial Statements.

BUFFALO - RED RIVER WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES- CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	GENERAL	103 D FUND	PROJECT 49 FUND	CONSTRUCT FUND	GOVERNMENTAL FUNDS	TOTAL 2012
RECEIPTS:						
Property taxes	236 768	347 474		16	372 614	956 872
Special assessments			72 736		1 015 041	1 087 777
Intergovernmental	23 422	36 436	941 049		2 883 095	3 884 002
RRWMB grant						
Interest	975	39 303		55 077	53 397	148 752
Charges for service	2 700					2 700
Miscellaneous	1 066		13 513		296 647	309 226
Total receipts	<u>264 931</u>	<u>423 213</u>	<u>1 027 298</u>	<u>55 093</u>	<u>4 618 794</u>	<u>6 389 329</u>
DISBURSEMENTS:						
Current:						
General government	337 305					337 305
Capital outlay		20 840	1 447 792	549	5 076 118	6 545 299
Debt service:						
Interest					172 146	172 146
Total disburse	<u>337 305</u>	<u>20 840</u>	<u>1 447 792</u>	<u>549</u>	<u>5 248 264</u>	<u>7 054 750</u>
RECEIPTS OVER (UNDER)						
DISBURSEMENTS	(72 374)	402 373	(420 494)	54 544	(629 470)	(665 421)
OTHER FINANCING SOURCES (USES):						
Transfers in	75 000		55 000		913 708	1 043 708
Transfers out		(956 793)	(34 396)		(52 519)	(1 043 708)
Bond proceeds					500 000	500 000
RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	2 626	(554 420)	(399 890)	54 544	731 719	(165 421)
FUND BALANCE (DEFICIT):						
BEGINNING OF YEAR	<u>114 804</u>	<u>831 188</u>	<u>(100 794)</u>	<u>1 229 709</u>	<u>(1 696 893)</u>	<u>378 014</u>
END OF YEAR	<u>117 430</u>	<u>276 768</u>	<u>(500 684)</u>	<u>1 284 253</u>	<u>(965 175)</u>	<u>212 592</u>

See Notes to Combined Financial Statements.

BUFFALO - RED RIVER WATERSHED DISTRICT
BARNESVILLE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Buffalo-Red Watershed District (District) have been prepared on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the District. The District has considered all potential component Units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

Based on these criteria, there are no component Units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

BUFFALO - RED RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS- CONTINUED

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Funds are organized into two major categories: governmental and proprietary. The District currently has no enterprise or fiduciary funds.

The District reports the following major governmental fund types:

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.

Construction fund. The Construction fund is used to record the tax levy that results from a levy in conjunction with the Red River Watershed Management Board. The fund directly pays for construction costs or supports other funds of the District.

M.S.A. 103D.905 fund. The Construction fund is used to record the tax levy that results from a levy allowed by the State. The fund directly pays for construction costs or supports other funds of the District.

Project No 49- Oakport Township Levee. The fund is used to record the grant and special assessments received for the construction of a levee in Oakport Township. The fund is also used to purchase property in the Township that is at risk for flooding.

The District also reports the following fund types:

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the District.

BUFFALO - RED RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS- CONTINUED

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements. In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus, within the limitations of the modified 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. Their operating statements presents 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.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions in the government-wide statements. This basis is a comprehensive of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) 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. All government-wide financial statements would be presented on the accrual basis of accounting.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

BUFFALO - RED RIVER WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS- CONTINUED

All governmental funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Budgets

The District does not prepare a formal budget for any funds. It goes through a process to establish the tax levy.

E. Cash and Investments

At year end, the bank balance was \$378,014. The entire bank balance was covered by federal depository insurance or was collateralized with securities by the pledging financial institution's agent in the District's name.

The District is authorized by State statutes to invest idle funds in direct or guaranteed obligations of the United States or its agencies, shares of registered investment companies, any general obligation of the state or municipalities, bankers acceptances or commercial paper of U.S. corporations.

Investments consist of certificates of deposits stated at cost.

F. Capital Assets

The District records capital assets as disbursements at the time of purchase.

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

I. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

J. Use of estimates

The preparation of financial statements in conformity with the Other comprehensive basis of accounting (OCBOA) used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The board did not amend the District's budget in 2012.

EXPENDITURES OVER APPROPRIATIONS

The District did not overspend the budget. No remedial action is required by the District.

NOTE 3 DEPOSITS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is risk associated with the failure of a depository financial institution to recover its deposits or collateralized securities that are in the possession of outside parties. The District does not have a formal policy that addresses custodial credit risk for deposits. However, in accordance with state statutes, the District maintains deposits at those depository banks and savings and loans authorized by the District, all of which are covered by federal deposit insurance. These statutes also require that the deposits be protected by insurance, collateral or surety bond. The fair value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds. As of December 31, 2012, the District's deposits were either fully insured or properly collateralized, and have no custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of debt security typically moves in the opposite direction of the change in interest rate. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. As of December 31, 2012, the District had no debt securities investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy that specifically addresses credit risk. As of December 31, 2012, the District had no debt securities investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have an investment policy that specifically addresses concentrations of credit risk in a single issuer. As of December 31, 2012, the District had no debt securities investments.

NOTE 4 DEBT

The District has incurred short-term notes payable relating to the home buyouts in Oakport. The notes are repaid when the District receives the grant funds from the State. At year end the District had \$0 in outstanding debt.

The District has established a \$200,000 operating line of credit at a local bank. The current interest rate is 8.375%. At December 31, 2012, the outstanding balance was \$0.

NOTE 5: RISK MANAGEMENT

The District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. All risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

BUFFALO - RED RIVER WATERSHED DISTRICT
 NOTES TO FINANCIAL STATEMENTS- CONTINUED

NOTE 6. DEFICIT FUND BALANCES

The following fund balances had deficits at December 31, 2012:

Project #02	46 614	Will be eliminated by specials/FEMA.
Upper red TMDL	8 249	Will be eliminated by MPCA/BRRWD.
Project #21	2 813	Will be eliminated by specials/FEMA.
Project #19	17 239	Will be eliminated by specials.
Project #33	5 972	Will be eliminated by specials.
Project #32	55 056	Will be eliminated by specials/FEMA.
Project #35	27 374	Will be eliminated by specials.
Project #73	10 957	Will be eliminated by specials/grant.
Project #38	40 541	Will be eliminated by grants/BRRWD/specials.
Project #39	126 468	Will be eliminated by specials/grant.
Project #44	26 625	Will be eliminated by specials/bond.
Project #45	23 215	Will be eliminated by specials/bond.
Project #46	69 732	Will be eliminated by specials.
Project #50	75 022	Will be eliminated by specials/grant/BRRWD.
Project #49	500 684	Will be eliminated by specials/grant/Township.
Project #70	106 834	Will be eliminated by specials/BRRWD.
Project #56	506 242	Will be eliminated by specials/grant/BRRWD.
Project #61	6 176	Will be eliminated by specials.
Project #60	43 560	Will be eliminated by specials/grant/bond/BRRWD.
Project #62	15 815	Will be eliminated by specials.
Project #52	775	Will be eliminated by specials.
Project #64	138 610	Will be eliminated by specials.
Project #65	101 000	Will be eliminated by specials/grants/BRRWD.
Project #66	12 022	Will be eliminated by specials/BRRWD/grant.
Project #67	86 402	Will be eliminated by specials/grant/BRRWD.
Project #68	70 331	Will be eliminated by specials/grant/BRRWD.
Project #72	210 717	Will be eliminated by specials.
Becker Ditch #5	2 227	Will be eliminated by specials.
Becker Ditch #7	2 445	Will be eliminated by specials.
Becker Ditch #9	40 052	Will be eliminated by specials.
Becker Ditch 10	1 376	Will be eliminated by specials.
Becker Ditch 19	12 085	Will be eliminated by specials.
Clay Ditch #9	10 773	Will be eliminated by specials.
Whisky Crk	1 113	Will be eliminated by specials.
Clay Ditch #31	10 050	Will be eliminated by specials.
Clay Ditch #33	9 543	Will be eliminated by specials.
Clay Ditch #58	5 980	Will be eliminated by specials.
Clay Ditch #20	6 274	Will be eliminated by specials.
Clay Ditch #22	12 591	Will be eliminated by specials.
Clay Ditch #28	33 107	Will be eliminated by specials.
Clay Ditch #32	17 568	Will be eliminated by specials.
Clay Ditch #36	10 434	Will be eliminated by specials.
Clay Ditch #40	55 475	Will be eliminated by specials.
Clay Ditch #49	116 629	Will be eliminated by specials.
Clay Ditch #54	34 804	Will be eliminated by specials.
Clay Ditch #59	18 968	Will be eliminated by specials.
Clay Ditch #60	21 964	Will be eliminated by specials.
Clay Ditch #63	1 377	Will be eliminated by specials.
Wilkin Ditch #22	45 623	Will be eliminated by specials/FEMA.
Wilkin Ditch #41	11 280	Will be eliminated by specials.
Wilkin Ditch #44	5 824	Will be eliminated by specials.
Wilkin Ditch #40	26 177	Will be eliminated by specials.
Wilkin Ditch #43	17 309	Will be eliminated by specials.
Wetland restor	241 648	Will be eliminated by BRRWD.
TMDL	2 840	Will be eliminated by BRRWD/MPCA.
FEMA 2006	247	Will be eliminated by BRRWD.
Redetermine ben	8 524	Will be eliminated by grant/specials.
Insurance	702	Will be eliminated by taxes.
Upper branch TMDL	10 227	Will be eliminated by grant/BRRWD.
Mediation PT	2 241	Will be eliminated by RRWMB/BRRWD.

DELAWARE COUNTY WATER SUPPLY DISTRICT
BARZILUS, THE MINNESOTA

FINANCIAL STATEMENTS
YEAR ENDING DECEMBER 31, 2022