

BUFFALO-RED RIVER WATERSHED DISTRICT
BARNESVILLE, MINNESOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

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	12-19
SUPPLEMENTARY FINANCIAL INFORMATION	
Statement of cash receipts and disbursements and changes in fund balance	20-23

BUFFALO - RED RIVER WATERSHED DISTRICT
LIST OF OFFICIALS
DECEMBER 31, 2013

Governing Board

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

Administration

Bruce E. Albright	Office Administrator
Julie Jerger	Administrative Assistant

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, 2013, 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, 2013, 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, 2014

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, 2013, 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 \$1,026,981, (Net Assets). Of this amount, \$1,026,981 (Unrestricted Net Assets) may be used to meet ongoing obligations.

* The District's total net assets increased by \$814,389 as a result of the current year's operation on the modified cash basis.

* The District's total revenues from all sources were \$9,248,511. Total expenses were \$8,434,122.

* At the close of the current fiscal year, The District's governmental funds reported combined ending fund balances of \$1,026,981, a net increase of \$814,389 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 \$1,026,981 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>2013</u>	<u>2012</u>
Current and other assets	1,026,981	212,592
Capital assets (net of depreciation)		
 Total Assets	 <u>1,026,981</u>	 <u>212,592</u>
	=====	=====
 Liabilities		
Current Liabilities		
Long Term Liabilities		
Total Liabilities	<u> </u>	<u> </u>
	=====	=====
 Net Assets		
Invested in Capital Assets Net		
Restricted		
Unrestricted	<u>1,026,981</u>	<u>212,592</u>
Total Net Assets	<u>1,026,981</u>	<u>212,592</u>

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

Governmental activities increased the District's net assets resulting from modified cash basis transactions by \$814,389. Key elements of this increase are as follows:

	CHANGES IN NET ASSETS- MODIFIED CASH BASIS	
	<u>2013</u>	<u>2012</u>
Revenues		
Program Revenues:		
Charges for Services		
Operating Grants and Contributions	4,826,296	3,786,660
General Revenues		
Property taxes	1,061,909	956,872
Assessments	897,032	1,087,777
State Aid	107,865	97,342
Debt proceeds	2,015,954	500,000
Interest and Other Revenue	339,455	460,678
Total Revenues	<u>9,248,511</u>	<u>6,889,329</u>
Expenses		
Project	7,909,027	6,545,299
Support Services:		
General Administrative Services	366,660	337,305
Interest	158,435	172,146
Depreciation-Unallocated		
Total Expenses	<u>8,434,122</u>	<u>7,054,750</u>
Increase in Net Assets	814,389	(165,421)

Taxes constituted 11%, special assessments 10%, grants 52% and other revenues made up the remaining 27% of the total revenues of the governmental activities of the District for the 2013 fiscal year. Projects comprise 94% of the District's governmental expenses, while support services account for 6%.

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, 2013, the District had \$652,738 invested in capital assets. This investment includes land, buildings and improvements, equipment and vehicles, and construction in progress.

CAPITAL ASSETS (NET OF DEPRECIATION)		
	<u>2012</u>	<u>2013</u>
Land		
Buildings and Improvements		652,738
Construction in Progress	585,122	
Total	585,122	652,738

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, \$412,000 is long-term debt. The remaining \$0 is a current liability due within one year. The District had a net decrease in its existing debt obligation by \$ 88,000 from December 31, 2012.

OUTSTANDING GENERAL LONG-TERM DEBT		
	<u>2012</u>	<u>2013</u>
Bonds Payable	500,000	412,000
Line of credit payable		
Total	500,000	412,000

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, 2013

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	1 026 981
Fixed assets	<u> </u>
Total assets	1 026 981 =====
<u>LIABILITIES AND FUND EQUITY</u>	
LIABILITIES	
Deferred revenue	<u> </u>
FUND EQUITY	
Fund balance:	
Unreserved-	
Designated	
Undesignated	<u>1 026 981</u>
Total fund equity	<u>1 026 981</u>
Total liabilities and fund equity	1 026 981 =====

See notes to financial statements.

BUFFALO - RED RIVER WATERSHED DISTRICT
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2013

	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>NET EXPENSE GOVERNMENTAL ACTIVITY</u>
Governmental activities:				
Administration	366 660			(366 660)
Project expense	7 909 027		4 826 296	(3 082 731)
Interest expense	<u>158 435</u>			(<u>158 435</u>)
Total governmental act	<u>8 434 122</u>		<u>4 826 296</u>	(<u>3 607 826</u>)
General revenues				
Property taxes				1 061 909
Special assessments				897 032
State aid not restricted				107 865
Debt proceeds				2 015 954
Interest income and other				<u>339 455</u>
Total general revenues				<u>4 422 215</u>
Change in net assets				814 389
NET ASSETS:				
BEGINNING OF YEAR				<u>212 592</u>
END OF YEAR				1 026 981 =====

See notes to financial statements.

BUFFALO - RED RIVER WATERSHED DISTRICT
 BALANCE SHEET- CASH BASIS
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2013

	GENERAL	CONSTRUCTION FUND	103 D FUND	PROJ 49	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS:						
Cash and investments	81 935	1 338 548	41 190	(428 914)	(5 778)	1 026 981
Receivables- Property taxes						
Total assets	81 935	1 338 548	41 190	(428 914)	(5 778)	1 026 981
LIABILITIES						
Deferred revenue						
Total liabilities						
Fund balance:						
Restricted for general		1 338 548	41 190		2 242 276	3 622 014
Unassigned	81 935			(428 914)	(2 248 054)	(2 595 033)
Total fund balance	81 935	1 338 548	41 190	(428 914)	(5 778)	1 026 981
Total liabilities and fund balance	81 935	1 338 548	41 190	(428 914)	(5 778)	1 026 981

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, 2013

	<u>GENERAL</u>	<u>103 D FUND</u>	<u>PROJECT 49 FUND</u>	<u>CONSTRUCT FUND</u>	<u>GOVERNMENTAL FUNDS</u>	<u>TOTAL 2013</u>
RECEIPTS:						
Property taxes	227 833	345 562		1	488 513	1 061 909
Special assessments			40 726		856 306	897 032
Intergovernmental	24 087	36 483	569 618		4 303 974	4 934 162
RRWMB grant					52 471	52 471
Interest				56 839	96 426	153 265
Charges for service	3 300				39 177	42 477
Miscellaneous	<u>945</u>	<u>15 992</u>	<u>1 916</u>		<u>72 388</u>	<u>91 241</u>
Total receipts	<u>256 165</u>	<u>398 037</u>	<u>612 260</u>	<u>56 840</u>	<u>5 909 255</u>	<u>7 232 557</u>
DISBURSEMENTS:						
Current:						
General government	366 660		2 107			368 767
Capital outlay		37 818	561 294	2 545	7 305 263	7 906 920
Debt service:						
Interest			<u>32 089</u>		<u>126 346</u>	<u>158 435</u>
Total disburse	<u>366 660</u>	<u>37 818</u>	<u>595 490</u>	<u>2 545</u>	<u>7 431 609</u>	<u>8 434 122</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(110 495)	360 219	16 770	54 295	(1 522 354)	(1 201 565)
OTHER FINANCING SOURCES (USES):						
Transfers in	75 000		55 000		465 797	595 797
Transfers out		(595 797)				(595 797)
Bond proceeds					<u>2 015 954</u>	<u>2,015 954</u>
RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(35 495)	(235 578)	71 770	54 295	959 397	814 389
FUND BALANCE (DEFICIT):						
BEGINNING 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>
END OF YEAR	<u>81 935</u>	<u>41 190</u>	<u>(428 914)</u>	<u>1 338 548</u>	<u>(5 778)</u>	<u>1 026 981</u>

See Notes to Combined Financial Statements.

BUFFALO - RED RIVER WATERSHED DISTRICT
BARNESVILLE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

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

H. Fund Balance

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council-the City's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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.

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

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 2013.

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, 2013, 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, 2013, 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, 2013, 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, 2013, 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 \$600,000 operating line of credit at a local bank. The current interest rate is 4.5%. At December 31, 2013, 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, 2013:

Project #02	50 844	Will be eliminated by specials/FEMA.
Project #31	42	Will be eliminated by specials.
Project #32	29 632	Will be eliminated by specials/FEMA.
Project #33	36 186	Will be eliminated by specials.
Project #34	5 240	Will be eliminated by specials.
Project #35	76 954	Will be eliminated by specials.
Project #38	2 876	Will be eliminated by grants/BRRWD/specials.
Project #39	298 706	Will be eliminated by specials/grant.
Project #44	27 869	Will be eliminated by specials/bond.
Project #45	24 299	Will be eliminated by specials/bond.
Project #46	59 132	Will be eliminated by specials.
Project #49	428 914	Will be eliminated by specials/grant/Township.
Project #50	2 889	Will be eliminated by specials/grant/BRRWD.
Project #52	2 685	Will be eliminated by specials.
Project #60	7 582	Will be eliminated by specials/grant/bond/BRRWD.
Project #61	41 011	Will be eliminated by specials.
Project #62	10 872	Will be eliminated by specials.
Project #64	78 250	Will be eliminated by specials.
Project #65	10 399	Will be eliminated by specials/grants/BRRWD.
Project #66	2 440	Will be eliminated by specials/BRRWD/grant.
Project #67	66 252	Will be eliminated by specials/grant/BRRWD.
Project #68	50 185	Will be eliminated by specials/grant/BRRWD.
Project #70	19 731	Will be eliminated by specials/BRRWD.
Project #71	319 407	Will be eliminated by specials/grant.
Project #72	6 053	Will be eliminated by specials.
Project #75	4 458	Will be eliminated by specials/grant/bond/BRRWD.
Project #76	13 584	Will be eliminated by specials/grant/bond/BRRWD.
Becker Ditch #7	2 560	Will be eliminated by specials.
Becker Ditch #9	31 205	Will be eliminated by specials.
Becker Ditch 10	12 252	Will be eliminated by specials.
Becker Ditch 19	20 148	Will be eliminated by specials.
Clay Ditch #9	181 007	Will be eliminated by specials.
Clay Ditch #20	8 493	Will be eliminated by specials.
Clay Ditch #22	4 926	Will be eliminated by specials.
Clay Ditch #28	29 655	Will be eliminated by specials.
Clay Ditch #31	10 040	Will be eliminated by specials.
Clay Ditch #32	184 774	Will be eliminated by specials.
Clay Ditch #33	111 077	Will be eliminated by specials.
Clay Ditch #36	6 394	Will be eliminated by specials.
Clay Ditch #40	46 972	Will be eliminated by specials.
Clay Ditch #49	83 072	Will be eliminated by specials.
Clay Ditch #54	11 219	Will be eliminated by specials.
Clay Ditch #58	8 997	Will be eliminated by specials.
Clay Ditch #59	50 321	Will be eliminated by specials.
Clay Ditch #60	9 936	Will be eliminated by specials.
Wilkin Ditch #22	35 029	Will be eliminated by specials/FEMA.
Wilkin Ditch #40	28 676	Will be eliminated by specials.
Wilkin Ditch #41	22 894	Will be eliminated by specials.
Wilkin Ditch #43	9 391	Will be eliminated by specials.
Wilkin Ditch #44	10 449	Will be eliminated by specials.
Upper red TMDL	229	Will be eliminated by MPCA/BRRWD.
Whisky Crk	10 534	Will be eliminated by specials.
BWSR CWF grant	53 745	Will be eliminated by grant.
Watershed enlarge	1 928	Will be eliminated by BRRWD.
FEMA 2006	259	Will be eliminated by BRRWD.
MAWQCP	13 939	Will be eliminated by grant/specials.

BUFFALO- RED RIVER WATERSHED DISTRICT
 FUND EQUITY
 DECEMBER 31, 2013

	BEGINNING BALANCE	REVENUES	EXPENSES	TRANSFERS IN (OUT)	ENDING BALANCE
GENERAL	117,429.96	256,164.93	366,659.71	75,000.00	81,935.18
NEW OFFICE	13,873.07	101,706.22	177,487.31	70,000.00	8,091.98
RRWMB	62.72	0.76			63.48
CLAY COUNTY BUYOUT	41,017.01	1,418.17	9,959.81		32,475.37
CONSTRUCTION	1,284,252.70	56,839.69	2,544.19		1,338,548.20
MSA 103D	276,768.30	398,036.57	37,818.15	(595,796.95)	41,189.77
INSURANCE	(702.44)	24,757.59	21,433.20		2,621.95
UPPER S BRANCH BMP	(10,227.14)	174,137.57	46,750.08		117,160.35
WOLVERTON CREEK	194,163.82	7,398.61	64,634.34		136,928.09
BECKER DITCH #5	(2,227.53)	9,794.05	1,500.49		6,066.03
BECKER DITCH #6	3.55	0.16			3.71
BECKER DITCH #7	(2,445.43)		114.22		(2,559.65)
BECKER DITCH #9	(40,052.10)	11,364.42	2,517.22		(31,204.90)
BECKER DITCH#10	(1,376.60)	1,168.54	12,044.42		(12,252.48)
BECKER DITCH#15	27,733.82	10,584.13	1,679.55		36,638.40
BECKER DITCH#19	(12,084.95)	8,433.44	16,496.69		(20,148.20)
CLAY DITCH #03	11,436.20	8,058.70	11,165.02		8,329.88
CLAY DITCH #05	34,872.44	5,625.28	3,409.43		37,088.29
CLAY DITCH #09	(10,772.97)	7,435.88	177,669.88		(181,006.97)
CLAY DITCH #11	-				-
CLAY DITCH #16	3,512.78	1,306.94	41.50		4,778.22
CLAY DITCH #17	5,988.38	2,080.64	3,023.38		5,045.64
CLAY DITCH #20	(6,273.71)	5,398.59	7,618.38		(8,493.50)
CLAY DITCH #21	26,253.03	13,481.47	4,190.18		35,544.32
CLAY DITCH #22	(12,591.45)	8,363.75	698.19		(4,925.89)
CLAY DITCH #23	13,283.69	581.61	298.85		13,566.45
CLAY DITCH #28	(33,107.17)	8,078.27	4,625.89		(29,654.79)
CLAY DITCH #31	(10,049.59)	2,817.38	2,807.51		(10,039.72)
CLAY DITCH #32	(17,568.25)	6,030.74	173,236.39		(184,773.90)
CLAY DITCH #33	(9,543.28)	2,963.28	104,496.80		(111,076.80)
CLAY DITCH #34	25,522.70	1,051.24	5,917.11		20,656.83
CLAY DITCH #35	22,007.02	1,856.22	910.91		22,952.33
CLAY DITCH #36	(10,433.68)	6,405.56	2,366.31		(6,394.43)
CLAY DITCH #39	34,813.66	4,032.80	6,764.52		32,081.94
CLAY DITCH #40	(55,474.96)	21,382.95	12,879.70		(46,971.71)
CLAY DITCH #49	(116,629.47)	52,296.02	18,738.78		(83,072.23)

BUFFALO- RED RIVER WATERSHED DISTRICT
 FUND EQUITY
 DECEMBER 31, 2013

	BEGINNING BALANCE	REVENUES	EXPENSES	TRANSFERS IN (OUT)	ENDING BALANCE
CLAY DITCH #51	18,523.96	769.01	2,662.70		16,630.27
CLAY DITCH #53	5,827.79	3,259.80	994.33		8,093.26
CLAY DITCH #54	(16,392.21)	6,034.11	860.76		(11,218.86)
CLAY DITCH #57	4,116.49	2,722.47	495.88		6,343.08
CLAY DITCH #58	(5,980.17)	5,010.13	8,027.36		(8,997.40)
CLAY DITCH 59	(18,967.63)	159.92	31,513.87		(50,321.58)
CLAY DITCH #60	(21,964.22)	13,026.78	998.41		(9,935.85)
CLAY DITCH #63	(1,376.59)	7,395.65	1,274.73		4,744.33
CLAY DITCH #65	7,589.37	5,890.21	3,824.66		9,654.92
WILKIN DITCH#22	(45,622.57)	38,731.82	28,138.07		(35,028.82)
WILKIN DITCH#26	2,385.98	2,173.37	951.73		3,607.62
WILKIN DITCH#40	(26,177.49)	4,448.70	6,947.12		(28,675.91)
WILKIN DITCH#41	(11,279.90)	831.40	12,445.66		(22,894.16)
WILKIN DITCH#42	12,242.22	498.71	1,969.87		10,771.06
WILKIN DITCH#43	(17,309.09)	9,963.09	2,045.10		(9,391.10)
WILKIN DITCH#44	(5,823.94)	799.65	5,425.00		(10,449.29)
WILKIN DITCH#5A	23,680.34	2,095.44	17,769.98		8,005.80
PROJECT #02	(46,614.09)	1,213.95	5,444.14		(50,844.28)
PROJECT #04	8,322.16	363.20	287.75		8,397.61
PROJECT #05	3,069.66	133.08	354.70		2,848.04
PROJECT #08	1,321.19		6,185.91	5,000.00	135.28
PROJECT #09	-				-
PROJECT #13	1,396.58	9.28	2,196.46	1,000.00	209.40
PROJECT #14	390.50	42,239.92	10,152.88		32,477.54
PROJECT #17	-				-
PROJECT #16	156.76		6,552.55	7,000.00	604.21
PROJECT #19	(17,239.33)	24,978.35	1,042.50		6,696.52
PROJECT #20	44,134.51	1,961.35	3,102.48		42,993.38
PROJECT #21	(2,813.48)	9,976.24	141.45		7,021.31
PROJECT #27	12,861.23	501.81	6,145.24		7,217.80
PROJECT #28	53,227.95	2,556.18	3,329.53		52,454.60
PROJECT #29	-		10,698.29	10,698.29	-
PROJECT #30	38,760.15	38,476.47	56,993.93		20,242.69
PROJECT #31	42.65		10,084.99	10,000.00	(42.34)
PROJECT #32	(55,056.35)	27,866.78	2,442.17		(29,631.74)
PROJECT #33	(5,972.33)	6,232.49	36,445.88		(36,185.72)

BUFFALO- RED RIVER WATERSHED DISTRICT
 FUND EQUITY
 DECEMBER 31, 2013

	BEGINNING BALANCE	REVENUES	EXPENSES	TRANSFERS IN (OUT)	ENDING BALANCE
PROJECT #34	8,089.60	24,796.58	38,126.41		(5,240.23)
PROJECT #35	(27,373.64)	48,403.87	97,984.10		(76,953.87)
PROJECT #36	936.73	6,698.96	5,540.31		2,095.38
PROJECT #37	2,900.32	20,452.42	15,512.68		7,840.06
PROJECT #38	(40,541.30)	41,387.82	3,722.97		(2,876.45)
PROJECT #39	(126,468.01)	1,079,610.99	1,251,849.01		(298,706.03)
PROJECT #40	23,799.92	1,053.41	124.50		24,728.83
HAY CREEK STINKING LAKE	-	242.24	283.50	41.26	-
PROJECT #42	21,303.65	621.27	9,102.58		12,822.34
PROJECT #43	27,002.84	16,356.86	3,455.08		39,904.62
PROJECT #44	(26,625.11)		1,243.61		(27,868.72)
PROJECT #45	(23,214.85)		1,084.33		(24,299.18)
PROJECT #46- TLO	(69,732.01)	56,972.17	46,371.70		(59,131.54)
PROJECT #49-OAK	(500,683.82)	612,260.11	595,489.92	55,000.00	(428,913.63)
PROJECT #50	(75,022.58)	77,071.76	4,937.78		(2,888.60)
PROJECT #51	14,808.75	3,270.88	854.33		17,225.30
PROJECT #52	(775.26)		1,909.65		(2,684.91)
PROJECT #54	71,756.14	3,281.64	12,824.21		62,213.57
PROJECT #55	12,933.75	552.24	1,017.06		12,468.93
PROJECT #56	(506,241.94)	2,107,391.74	1,240,693.78		360,456.02
PROJECT #57	7,974.27	4,744.24	6,220.35		6,498.16
PROJECT #58	12,995.15	724.40	801.83		12,917.72
TMDL	(2,840.38)	135,986.25	132,346.87		799.00
PROJECT #60	(43,559.91)	5,000.00	1,959.50	32,936.58	(7,582.83)
PROJECT #61	(6,175.97)	11,041.63	45,876.92		(41,011.26)
PROJECT #62	(15,815.16)	5,664.40	721.24		(10,872.00)
PROJECT #64	(138,610.03)	85,211.40	24,851.61		(78,250.24)
PROJECT #65	(101,000.06)	96,499.06	5,898.41		(10,399.41)
PROJECT #66	(12,022.17)	10,112.51	530.05		(2,439.71)
HAWLEY BUFF RIV RES	-	500.00	19,347.96	18,847.96	-
MEDIATION PT	(2,240.70)	9,245.15	20,585.42	13,580.97	-
BWSR DRAINAGE	34,338.09	1,406.52	3,463.33		32,281.28
STREAMBANK EROSION-PT	11,212.96	496.45	16.25		11,693.16
RIVERKEEPERS	44,947.61	1.39	45,002.41	45,053.41	45,000.00
COMP PLANNING	-	68,115.66	37,688.92		30,426.74
COE FMUS	-	272.80	6,277.21	6,004.41	-

BUFFALO- RED RIVER WATERSHED DISTRICT
 FUND EQUITY
 DECEMBER 31, 2013

	BEGINNING BALANCE	REVENUES	EXPENSES	TRANSFERS IN (OUT)	ENDING BALANCE
PROJECT #67	(86,402.15)	26,116.31	5,966.56		(66,252.40)
PROJECT #68	(70,330.86)	24,315.86	4,169.52		(50,184.52)
BWSR CWF GRANT	(27,515.59)		26,229.83		(53,745.42)
FEMA 2009	379,512.57	16,587.50	5,224.55		390,875.52
FEMA 2010	101,667.91	4,496.52	207.50		105,956.93
FEMA 2006	(247.22)		11.55		(258.77)
PROJECT #63	25,323.46	11,666.32	2,772.66		34,217.12
WETLAND RESTORATION	(241,648.16)	204,111.54	118,544.55	156,081.17	-
RED RIVER BASIN	24,548.94	73.12	25,040.50	25,418.44	25,000.00
S&D ACQUISITIONS	21,647.56	304.51	44,481.66	22,529.59	-
BLUE EAGLE LAKE	-		1,545.25	1,545.25	-
WATERSHED ENLARGE	(228.23)	21,133.62	42,832.94	20,000.00	(1,927.55)
BRRWD RRBC DETENTION	-	38,691.76	42,683.85	3,992.09	0.00
PROJECT #70	(106,834.33)	100,000.00	12,897.14		(19,731.47)
PROJECT #71	(1,006.70)	2,189,065.47	2,507,465.89		(319,407.12)
PROJECT #72	(210,717.24)	310,001.86	105,337.79		(6,053.17)
RED RIVER RETENTION	-				-
MAWQCP	-		13,939.21		(13,939.21)
PROJECT #75	-		4,457.36		(4,457.36)
PROJECT #76	-		13,583.96		(13,583.96)
REDETERMINE BENEFITS	(8,524.14)	171,826.15	70,766.77		92,535.24
WHISKY CRK EROSION	(1,113.06)		9,421.25		(10,534.31)
UPPER RED TMDL	(8,248.84)	27,553.16	27,032.90	7,500.00	(228.58)
PROJECT #73	(10,956.58)	60,000.00	41,958.01		7,085.41
PROJECT #74	7,801.79	20,090.92	23,187.70		4,705.01
RIM/WRP FLOOD INVEST			6,331.85	6,331.85	-
STAKKE LAKE			2,235.69	2,235.69	-
FEMA 2011	128,911.91	5,658.50	1,635.85		132,934.56
TOTAL	212,592.15	9,248,511.47	8,434,122.27	0.01	1,026,981.36

BUFFALO RED WATERSHED DISTRICT
STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2013

	TOTAL 2013	TOTAL 2012	TOTAL 2011	TOTAL 2010	TOTAL 2009	TOTAL 2008	TOTAL 2007	TOTAL 2006	TOTAL 2005
PROPERTY TAXES	1,061,908.96	956,871.85	883,938.79	741,417.76	1,023,702.57	938,619.17	830,328.16	381,561.01	313,103.56
SPECIAL ASSESSMENTS	897,032.19	1,087,776.51	650,048.53	658,589.81	877,169.31	400,223.30	1,216,946.57	611,599.13	529,640.28
GRANTS	4,826,296.36	3,786,660.06	5,216,137.72	11,512,776.49	6,099,915.26	2,599,807.95	2,235,742.71	1,717,760.05	187,285.38
STATE AID	107,865.35	97,341.95	160,775.20	126,384.47	180,208.81	172,782.78	166,233.06	79,371.48	73,997.16
RRWMB SHARE	52,470.53	26,989.93	-	59,905.36	3,998.36	15,000.00	11,955.74	15,000.00	9,785.33
INTEREST	153,265.35	148,751.53	110,256.43	114,035.14	160,220.88	131,563.75	172,493.16	158,632.20	155,964.30
CHARGES FOR SERVICE	42,477.29	2,700.00	5,547.62	39,702.53	2,700.00	2,700.00	2,700.00	79,602.27	48,390.48
MOORHEAD	-	-	-	346,603.08	-	-	-	-	-
MISCELLANEOUS	91,241.44	282,236.77	219,769.23	492,959.49	516,053.29	65,060.49	277,517.93	1,468.44	8.33
TOTAL REVENUE	7,232,557.47	6,389,328.60	7,246,473.52	14,092,374.13	8,863,968.48	4,325,757.44	4,913,917.33	3,044,994.58	1,318,174.82
GENERAL GOVERNMENT	193,084.01	175,312.59	91,457.48	89,795.03	70,830.68	92,305.62	69,431.91	113,711.72	95,923.78
LEGAL FEES	58,187.84	43,401.86	61,318.32	206,020.68	126,186.60	37,976.26	27,682.24	12,979.27	5,398.92
ENGINEERING	1,648,979.04	1,507,813.94	1,049,746.09	1,173,919.85	899,518.39	745,646.78	807,490.35	631,894.82	568,927.26
OTHER	1,878,587.28	437,495.81	1,252,641.58	880,854.39	1,550,188.86	704,295.75	721,709.72	501,256.51	317,950.48
CAPITAL OUTLAY	4,252,528.04	3,259,223.76	5,101,495.69	8,265,461.65	2,228,641.84	753,131.26	1,153,105.13	516,236.61	776,756.46
BUY OUT COSTS	244,321.41	1,459,356.30	1,170,706.99	4,149,156.81	3,703,453.80	1,095,915.96	1,601,545.84	1,580,516.63	152,292.24
INTEREST	158,434.64	172,145.66	102,575.59	106,201.73	153,354.48	115,173.49	167,672.83	160,520.11	1,453.91
PAYMENTS TO RRWMB	-	-	-	130.80	94.79	-	-	830.92	-
TOTAL EXPENSES	8,434,122.26	7,054,749.92	8,829,941.74	14,871,540.94	8,732,269.44	3,544,445.12	4,548,638.02	3,517,946.59	1,918,703.05
EXCESS REVENUE (EXPEN	(1,201,564.79)	(665,421.32)	(1,583,468.22)	(779,166.81)	131,699.04	781,312.32	365,279.31	(472,952.01)	(600,528.23)
TRANSFERS IN	595,796.95	1,043,708.18	868,663.35	661,102.28	693,439.80	220,841.43	603,387.89	474,357.44	236,070.38
TRANSFERS OUT	(595,796.95)	(1,043,708.18)	(868,663.35)	(661,102.28)	(693,439.80)	(220,841.43)	(603,041.75)	(474,357.44)	(236,070.38)
BOND PROCEEDS	2,015,954.00	500,000.00	-	-	1,461,500.00	-	440,000.00	-	-
EXCESS REVENUE (EXPEN	814,389.21	(165,421.32)	(1,583,468.22)	(779,166.81)	1,593,199.04	781,312.32	805,625.45	(472,952.01)	(600,528.23)
BEGINNING FUND BALANC	212,592.15	378,013.68	1,961,481.90	2,740,648.71	1,147,449.13	366,136.81	(439,488.64)	33,463.37	633,991.60
ENDING FUND BALANCE	1,026,981.36	212,592.36	378,013.68	1,961,481.90	2,740,648.17	1,147,449.13	366,136.81	(439,488.64)	33,463.37

