

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**SIBLEY COUNTY**  
**GAYLORD, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2012**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**Year Ended December 31, 2012**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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GAYLORD, MINNESOTA**

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GAYLORD, MINNESOTA**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2012**

Office	Name	Term	
		From	To
<b>Commissioners</b>			
1st District	Jim Nytes	January 2011	January 2015
2nd District	William "Bill" Pinske	January 2003	January 2017
3rd District	Jim Swanson**	January 2009	January 2017
4th District	Joy Cohrs	January 2011	January 2015
5th District	Harold Pettis*	January 1999	January 2015
<b>Officers</b>			
<b>Elected</b>			
Attorney	David E. Schauer	February 1988	January 2015
Auditor	Lisa Pfarr	January 1999	January 2015
Recorder	Kathy Dietz	February 2005	January 2015
Registrar of Titles	Kathy Dietz	February 2005	January 2015
Sheriff	Bruce Ponath	January 2003	January 2015
Treasurer	Mary Fisher	January 1999	January 2015
<b>Appointed</b>			
Assessor	Calvin Roberts	November 1978	December 2013
County Administrator***	Matthew Jaunich		Indefinite
Court Administrator	Karen Messner (State)		Indefinite
Court Services Director	Niel Willmsen (State)		Indefinite
Emergency Management Director	Bryan Gorman		Indefinite
Environmental Services Director	Jeffrey Majeski		Indefinite
Examiner of Titles	Ross Arneson		Indefinite
Economic Development Director	Tim Dolan****		Indefinite
Extension Educator	Julie Sievert		Indefinite
Human Resources Director	Roseann Nagel		Indefinite
Public Health and Human Services Director	Vicky Stock		Indefinite
Information Service Director	Beth Wilson		Indefinite
Medical Examiner	A. Quinn Strobl, MD	January 2010	December 2014
Public Works Director	Darin Mielke	March 2005	June 2013
Surveyor	Avery Grochow	January 2011	December 2014
Veterans Services Officer	Lisa Klenk	August 2008	August 2013

\*Chair

\*\*Vice Chair

\*\*\*New County position, effective February 2013

\*\*\*\*Retired March 2013, position responsibilities assumed by the County Administrator

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Sibley County

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Sibley County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County'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 County'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 financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Sibley County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sibley County's basic financial statements. The supplementary information and other information section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Tax Capacity, Tax Rates, Tax Levies, and Percentage of Collections exhibit has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of Sibley County'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 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 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 Sibley County's internal control over financial reporting and compliance.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 25, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012  
(Unaudited)**

The financial management of Sibley County offers the readers of Sibley County's financial statements this narrative overview and analysis of the financial activity of Sibley County for the year ended December 31, 2012. We encourage our readers to consider the information presented here in conjunction with additional information that we have provided in our notes to the financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of Sibley County's governmental activities exceeded its liabilities at the close of the most recent fiscal year by \$73,747,215, of which \$50,507,197 is the net investment in capital assets; \$6,476,294 is restricted for specific purposes; and \$16,763,724 is available to spend at the discretion of the County Board.
- Sibley County's net position increased by \$2,890,952 in 2012. This increase can be attributed to additional capital assets and budgeted savings from operations.
- At the close of 2012, the unassigned fund balance for the General Fund was \$6,158,180, or 73.78 percent, of the total General Fund expenditures. This amount will be available for 2013 budgeting purposes.
- The net cost of governmental activities in 2012 decreased by \$340,679 from the previous year to \$9,160,208. The net cost was funded by general revenues totaling \$12,051,160.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. Sibley County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A, certain budgetary comparisons, and a schedule of funding progress for other postemployment benefits are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a long-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, fund statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of Sibley County's finances in a manner that is similar to a private-sector business.

The Statement of Net Position (Exhibit 1) presents information on all of Sibley County's assets and liabilities. The difference of these two items is called net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of Sibley County has improved or deteriorated.

The Statement of Activities (Exhibit 2) presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. For that reason, some revenues and/or expenses reported in this statement are for items that will result in cash flows in future periods (delinquent taxes and earned but unused vacation and severance leave).

Both of the government-wide financial statements distinguish functions of Sibley County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of Sibley County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide financial statements include not only Sibley County itself (known as the primary government), but also a legally separate component unit, Sibley County Library System, for which Sibley County is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Government-wide financial statements can be found on Exhibits 1 and 2.

## **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. Sibley County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The County Board may also establish some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. All of the funds of Sibley County can be divided into two categories: governmental funds and fiduciary funds.

The analysis of the County's major funds begins with Exhibit 3.

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

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

Sibley County maintains seven individual major governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund, Public Works Special Revenue Fund, Public Health and Human Services Special Revenue Fund, Ditch Special Revenue Fund, Sub-Surface Sewage Treatment System Loans Special Revenue Fund, Debt Service Fund, and Capital Projects Fund. The Revolving Loan (SEDCO) and Water Projects Special Revenue Funds, along with the Federal Lands Permanent Fund, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements within the Supplementary Information section of this report.

Governmental fund financial statements can be found on Exhibits 3 through 6.

## Reporting the County's Fiduciary Responsibilities

Fiduciary Funds - The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on Exhibits 7 and 8. These activities are excluded from the County's other financial statements because the County cannot use these assets to finance its ongoing operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The basic fiduciary fund financial statements can be found on Exhibits 7 and 8.

## Government-Wide Financial Analysis

A useful tool for analyzing financial statements is by comparing information from the previous years. Sibley County's assets exceeded liabilities by \$73,747,215 at the close of the current fiscal year. Table I shows a two-year Net Position comparison.

**Table I**  
**Net Position**

	2012	2011 (Restated)	\$ Change	% Change
Current and noncurrent assets	\$ 28,563,072	\$ 26,343,771	\$ 2,219,301	8.424
Capital assets	54,319,850	52,009,312	2,310,538	4.443
Total Assets	<u>\$ 82,882,922</u>	<u>\$ 78,353,083</u>	<u>\$ 4,529,839</u>	5.781
Long-term debt outstanding	\$ 4,955,617	\$ 4,773,655	\$ 181,962	3.812
Other liabilities	4,180,090	2,723,165	1,456,925	53.501
Total Liabilities	<u>\$ 9,135,707</u>	<u>\$ 7,496,820</u>	<u>\$ 1,638,887</u>	21.861
Net Position				
Net investment in capital assets	\$ 50,507,197	\$ 49,971,679	\$ 535,518	1.072
Restricted	6,476,294	3,138,944	3,337,350	106.321
Unrestricted	16,763,724	17,745,640	(981,916)	(5.533)
Total Net Position	<u>\$ 73,747,215</u>	<u>\$ 70,856,263</u>	<u>\$ 2,890,952</u>	4.080

Net investment in capital assets (land, building, machinery and equipment, improvements other than buildings, infrastructure, and construction in progress, less any related debt used to acquire these assets still outstanding) at the end of the current fiscal year was \$50,507,197. This represents 68.487 percent of total net position. Sibley County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, though, that these assets are reported net of related debt, and other resources are needed to repay this debt, since the capital assets themselves cannot be used to liquidate these liabilities.



An additional part of Sibley County's net position represents resources/assets subject to external restrictions on how they may be used. At the end of the current fiscal year, the County's restricted assets were \$6,476,294; this is a \$3,337,350 increase from 2011. The remaining unrestricted net position of \$16,763,724 may be used to meet the County's ongoing obligations to citizens and creditors.

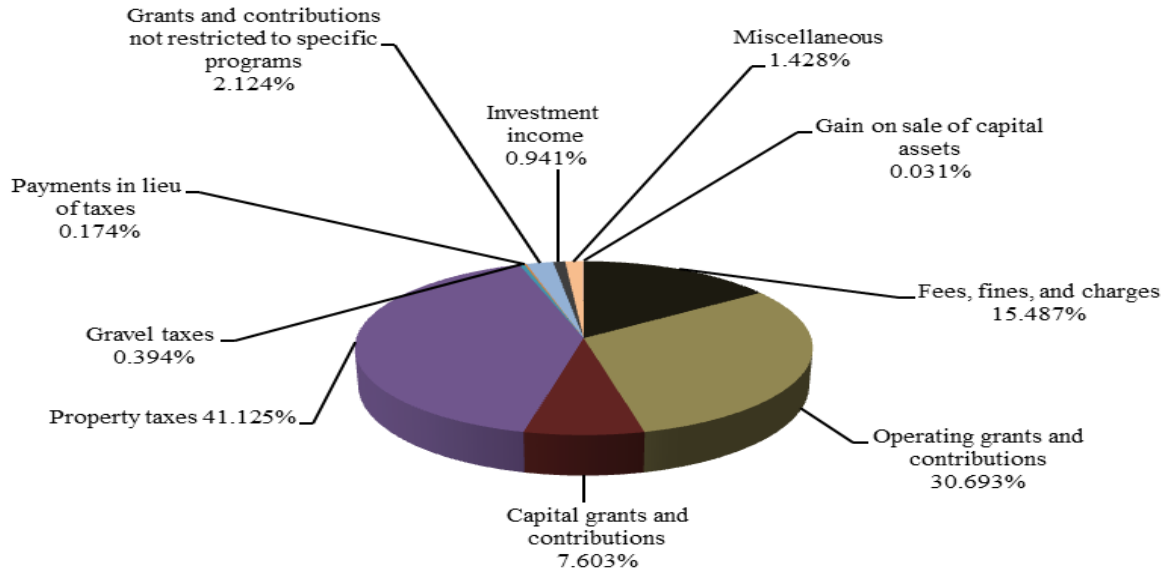
Sibley County's net position increased \$2,890,952, or 4.080 percent, from 2011; this increase can be attributed to an increase in infrastructure (roads and bridges) of about \$3.3 million. Table II illustrates the change in net position:

**Table II**  
**Change in Net Position**

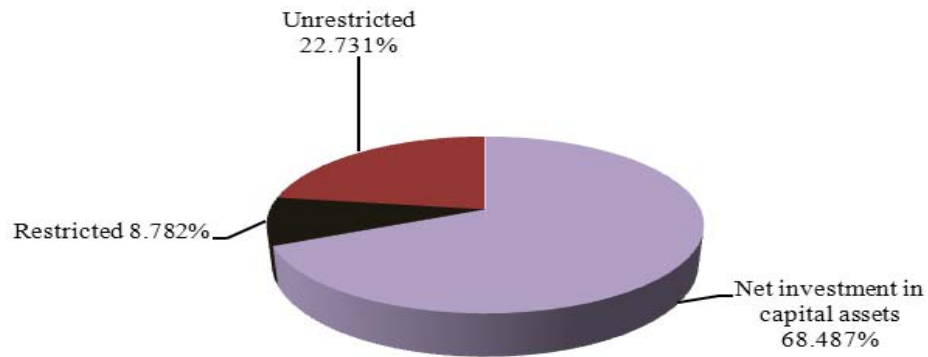
	2012	2011 (Restated)	\$ Change	% Change
<b>Revenues</b>				
<b>Program revenues</b>				
Fees, fines, and charges	\$ 4,038,292	\$ 4,495,481	\$ (457,189)	(10.170)
Operating grants and contributions	8,003,043	7,169,271	833,772	11.630
Capital grants and contributions	1,982,403	898,821	1,083,582	120.556
<b>General revenues</b>				
Property taxes	10,723,377	10,080,634	642,743	6.376
Gravel taxes	102,700	81,558	21,142	25.923
Payments in lieu of tax	45,356	45,502	(146)	(0.321)
Grants and contributions not restricted to specific programs	553,907	934,327	(380,420)	(40.716)
Investment income	245,345	378,406	(133,061)	(35.164)
Miscellaneous	372,462	335,002	37,460	11.182
Gain on sale of capital assets	8,013	1,403	6,610	471.133
<b>Total Revenues</b>	<b>\$ 26,074,898</b>	<b>\$ 24,420,405</b>	<b>\$ 1,654,493</b>	<b>6.775</b>
<b>Expenses</b>				
<b>Governmental activities</b>				
General government	\$ 3,461,028	\$ 3,728,263	\$ (267,235)	(7.168)
Public safety	3,040,142	2,563,756	476,386	18.582
Highways and streets	7,096,731	5,564,183	1,532,548	24.543
Sanitation	593,103	527,390	65,713	12.460
Human services	3,979,903	3,717,306	262,597	7.064
Health	1,403,434	1,533,708	(130,274)	(8.494)
Culture and recreation	331,905	339,599	(7,694)	(2.266)
Conservation of natural resources	2,871,889	3,029,247	(157,358)	(5.195)
Economic development	267,073	246,279	20,794	8.443
Interest	138,738	133,371	5,367	4.024
<b>Total Expenses</b>	<b>\$ 23,183,946</b>	<b>\$ 21,383,102</b>	<b>\$ 1,800,844</b>	<b>8.422</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ 2,890,952</b>	<b>\$ 3,037,303</b>	<b>\$ (146,351)</b>	<b>(4.818)</b>
<b>Net Position - Beginning January 1 - Restated</b>	<b>70,856,263</b>	<b>67,818,960</b>	<b>3,037,303</b>	<b>4.479</b>
<b>Net Position - Ending December 31</b>	<b>\$ 73,747,215</b>	<b>\$ 70,856,263</b>	<b>\$ 2,890,952</b>	<b>4.080</b>

The County's expenses increased \$1,800,844, or 8.422 percent, from 2011. This increase is mainly a result of increased spending on roads and bridges as well as public safety. Sibley County expects spending on roads and bridges to stay the same and public safety is expected to decrease a little in the next fiscal year. The following tables represent the 2012 revenues by revenue source and net position.

**2012 Revenues by Source**



**2012 Net Position**



## GOVERNMENTAL ACTIVITIES

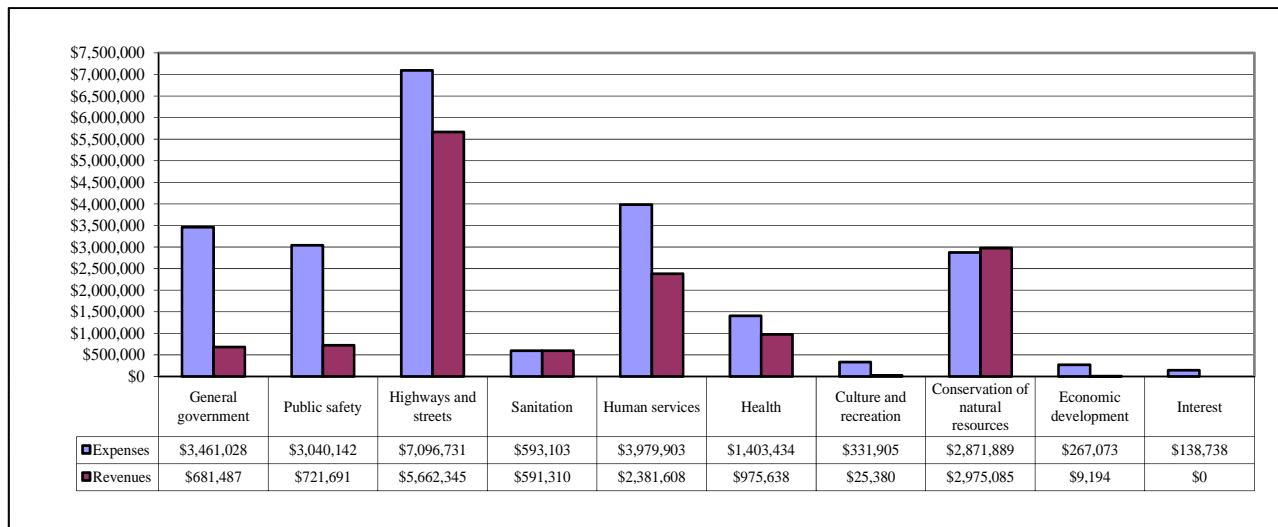
As shown in the Statement of Activities (Exhibit 2), the amount that taxpayers ultimately financed for these activities through County taxes and non-program revenues was \$9,160,208 because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with operating or capital grants and contributions.

Table III represents the cost of each of the County's program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

**Table III  
Governmental Activities**

	Total Cost of Services			Net Cost of Services		
	2012	2011	\$ Change	2012	2011	\$ Change
<b>Expenses</b>						
Governmental activities						
General government	\$ 3,461,028	\$ 3,728,263	\$ (267,235)	\$ 2,779,541	\$ 2,838,776	\$ (59,235)
Public safety	3,040,142	2,563,756	476,386	2,318,451	1,354,711	963,740
Highways and streets	7,096,731	5,564,183	1,532,548	1,434,386	1,512,765	(78,379)
Sanitation	593,103	527,390	65,713	1,793	(141,347)	143,140
Human services	3,979,903	3,717,306	262,597	1,598,295	1,342,601	255,694
Health	1,403,434	1,533,708	(130,274)	427,796	71,342	356,454
Culture and recreation	331,905	339,599	(7,694)	306,525	339,599	(33,074)
Conservation of natural resources	2,871,889	3,029,247	(157,358)	(103,196)	1,146,755	(1,249,951)
Economic development	267,073	246,279	20,794	257,879	220,956	36,923
Interest	138,738	133,371	5,367	138,738	133,371	5,367
<b>Total Expenses</b>	<b>\$ 23,183,946</b>	<b>\$ 21,383,102</b>	<b>\$ 1,800,844</b>	<b>\$ 9,160,208</b>	<b>\$ 8,819,529</b>	<b>\$ 340,679</b>

### 2012 Program Cost and Program Revenues



## THE COUNTY'S FUNDS

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

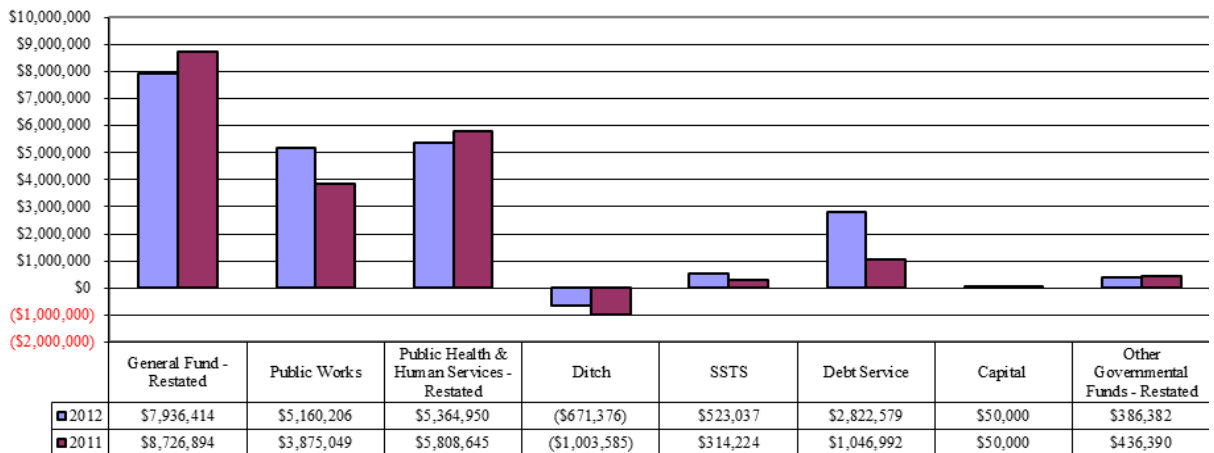
As of the end of the current fiscal year, Sibley County's governmental funds reported a combined ending fund balance of \$21,572,192. This is an increase of \$2,317,583 in comparison to the prior fiscal year. Of the \$21,572,192 total fund balances, \$4,877,084 constitutes unassigned fund balances, which are available for spending at the government's discretion.

The General Fund is the chief operating fund for Sibley County. At the end of the fiscal year, unassigned fund balance of the General Fund was \$6,158,180 (or 77.594 percent of the total General Fund's fund balance). As a measure of the General Fund's liquidity, it may be useful to compare the assigned and unassigned fund balance to total expenditures. The assigned and unassigned fund balance represents 75.128 percent of total General Fund expenditures, while total fund balance represents 95.088 percent of that same amount. In 2012, the fund balance amount in the General Fund decreased \$790,480 and is, in part, due to a transfer of funds to the Public Works Special Revenue Fund for road projects and unbudgeted expenditures for the ARMER radio system.

The Public Works Special Revenue Fund had a total fund balance of \$5,160,206 at the end of 2012. The increase of \$1,285,157 is, in part, the General Fund and the Public Health and Human Services Fund transferring funds to cover road projects and increased funding for anticipated projects.

The Public Health and Human Services Special Revenue Fund had a total fund balance of \$5,364,950 at the end of the current fiscal year. This is a decrease of \$443,695 due, in part, to the transfer of funds to the Public Works Special Revenue Fund for road projects.

**Governmental Funds - Fund Balance**



(Unaudited)

## GENERAL FUND BUDGETARY HIGHLIGHTS

The actual revenues exceeded budgeted revenues by \$614,453, and actual expenditures were more than expected by \$372,048. The reason behind actual revenues exceeding budgeted revenues was unbudgeted state and federal revenues. The major reason expenditures exceeded the budgeted amount was unbudgeted ARMER radio system expenditures.

The original budget was amended to reflect two unplanned and unbudgeted projects in the General Fund and Public Works Special Revenue Fund. The General Fund's budget decreased by \$430,000.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Table IV illustrates a two-year comparison on the County's capital assets (net of depreciation).

**Table IV**  
**Capital Assets at Year-End**  
**(Net of Depreciation)**

	Governmental Activities			% Change
	2012	2011	\$ Change	
Land	\$ 1,662,183	\$ 1,646,870	\$ 15,313	0.930
Construction in progress	142,218	-	142,218	100.000
Infrastructure	44,668,249	42,929,695	1,738,554	4.050
Buildings	5,483,728	5,536,016	(52,288)	(0.945)
Machinery, furniture, and equipment	2,340,545	1,881,977	458,568	24.366
Improvements other than buildings	22,927	14,754	8,173	55.395
Total Capital Assets	\$ 54,319,850	\$ 52,009,312	\$ 2,310,538	4.443

The County's investment in capital assets for its governmental activities as of December 31, 2012, was \$54,319,850 (net of accumulated depreciation). This investment in capital assets includes a broad range of capital assets including, but not limited to, land, buildings, highways and streets, furniture, and equipment. The total increase in the County's investment in capital assets net of accumulated depreciation, for the current fiscal year was 4.443 percent, or \$2,310,538. The most significant increase in capital assets was in the area of infrastructure. The 2012 increase amounted to about \$1.7 million, about a 4.050 percent increase.

### Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$7,396,522 versus \$5,439,151 last year--an increase of 35.987 percent--as shown in Table V. The increase is due in part to increased AgBMP loans, as well as the refunding of the 2005 Capital improvement Refunding Bond.

**Table V**  
**Outstanding Debt at Year-End**

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>
Bonds payable			
General obligation bonds	\$ 3,740,000	\$ 2,120,000	\$ 1,620,000
Special assessment debt with governmental commitment	645,000	675,000	(30,000)
Revenue notes	82,970	93,300	(10,330)
Less: unamortized discounts	(29,130)	(32,367)	3,237
Plus: unamortized premium	1,894	-	1,894
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total bonds and notes payable	\$ 4,440,734	\$ 2,855,933	\$ 1,584,801
MnPCA Loans	1,379,537	1,425,183	(45,646)
AgBMP Loans	384,382	-	384,382
Compensated absences	1,010,484	1,019,751	(9,267)
Net OPEB obligation	181,385	138,284	43,101
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Long-Term Liabilities	\$ 7,396,522	\$ 5,439,151	\$ 1,957,371

The County maintains a general obligation bond rating of “Aa3”. This rating is assigned by national rating agencies. The state limits the amount of net debt counties can issue to three percent of the total taxable market value of all property. In 2012, the taxable market value was \$2,295,462,400 and, in 2011, the amount was \$2,364,575,200. The County’s outstanding net debt of \$7,396,522 is significantly below the state-imposed limit of \$68,863,872.

The County does not purchase commercial insurance for employee health coverage and has claims and judgments of \$45,877 outstanding at year-end compared with \$107,947 last year.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The County’s elected and appointed officials considered many factors when setting the fiscal year 2013 budget and the tax rates and fees that will be charged for government services.

- State aid from the State of Minnesota has been reduced dramatically over the past several years. The potential for more 2013 state aid cuts with little mandate relief will put significant pressure on Sibley County’s 2013 budget and beyond.
- For fiscal year 2013, Sibley County’s total taxable market value is \$2,464,605,000. This is an increase of \$169,142,600, or 7.369 percent, over the 2012 total taxable market value of \$2,295,462,400. This increase is a result of the County Sales Ratio Study conducted by the Sibley County Assessor’s Office. These studies are used to update market values on a yearly basis and are based on actual land transactions in the County from year to year.
- The unemployment rate for Sibley County is currently 4.3 percent. Sibley County’s unemployment rate is slightly lower than the state unemployment rate of 5.8 percent.

- On December 26, 2012, the Sibley County Board of Commissioners approved the 2013 budget for \$23,207,862. The 2013 total levy is \$11,620,088, and the total net tax levy was \$11,258,427, which was an increase from the 2012 total net tax levy of \$10,825,411. The 2013 budget includes a 4.000 percent overall property tax levy increase.
- In 2013, Sibley County is expecting to invest in the Allied Radio Matrix for Emergency Response (ARMER) system. The ARMER system is a robust, scalable, state-of-the-art system that will be capable of serving the radio communications needs for every city, county, state agency, tribal government, and nongovernment public safety entity operating in the state. The County is currently considering different financing options such as grants, use of fund balance, and/or using restricted funds to fund this project.

### **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Office of the Sibley County Auditor, Sibley County Courthouse, 400 Court Avenue, P. O. Box 171, Gaylord, Minnesota 55334, [Finance@co.sibley.mn.us](mailto:Finance@co.sibley.mn.us), or you can visit our website at [www.co.sibley.mn.us](http://www.co.sibley.mn.us).

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	<u>Primary Government Governmental Activities</u>	<u>Sibley County Library System Component Unit</u>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and pooled investments	\$ 19,981,700	\$ 126,264
Petty cash and change funds	6,150	20
Departmental cash	29,766	-
Cash with fiscal agent	673,243	-
Investments	25,000	-
Taxes receivable - delinquent - net	153,591	-
Special assessments receivable - delinquent - net	15,211	-
Accounts receivable - net	37,049	262
Accrued interest receivable	82,871	-
Due from other governments	1,665,625	20,378
Loans receivable	140,025	-
Inventories	718,835	-
Prepaid items	94,576	23
<b>Noncurrent assets</b>		
Special assessments - noncurrent - net	3,493,045	-
Advance to other governments	190,370	-
Advance to other agencies	25,000	-
Deferred charges	81,011	-
Long-term receivables	95,873	-
Investment in joint venture	1,054,131	-
<b>Capital assets</b>		
Non-depreciable	1,804,401	-
Depreciable - net of accumulated depreciation	<u>52,515,449</u>	<u>-</u>
<b>Total Assets</b>	<b><u>\$ 82,882,922</u></b>	<b><u>\$ 146,947</u></b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	<b>Primary Government Governmental Activities</b>	<b>Sibley County Library System Component Unit</b>
<b><u>Liabilities</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 559,247	\$ 16,051
Salaries payable	451,402	16,155
Contracts payable	33,109	-
Retainage payable	118,674	-
Due to other governments	369,655	2,667
Accrued interest payable	31,293	-
Unearned revenue	129,928	4,256
Claims payable	45,877	-
Compensated absences payable - current	272,831	7,808
General obligation bonds payable - current	1,940,000	-
General obligation special assessment debt payable - current	70,000	-
Revenue notes payable - current	10,330	-
MnPCA loans payable - current	147,744	-
<b>Noncurrent liabilities</b>		
Compensated absences payable	737,653	21,113
General obligation bonds payable	1,770,870	-
General obligation special assessment debt payable	576,894	-
Revenue notes payable	72,640	-
MnPCA loans payable	1,231,793	-
AgBMP loans payable	384,382	-
Net OPEB obligation	181,385	-
<b>Total Liabilities</b>	<b>\$ 9,135,707</b>	<b>\$ 68,050</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 50,507,197	\$ -
Restricted for		
General government	357,885	-
Public safety	608,450	-
Highways and streets	769,328	-
Sanitation	500,184	-
Culture and recreation	49,693	-
Conservation of natural resources	1,077,699	-
Economic development	290,476	-
Debt service	2,822,579	-
Unrestricted	16,763,724	78,897
<b>Total Net Position</b>	<b>\$ 73,747,215</b>	<b>\$ 78,897</b>

The notes to the financial statements are an integral part of this statement.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Governmental activities</b>		
General government	\$ 3,461,028	\$ 595,530
Public safety	3,040,142	189,659
Highways and streets	7,096,731	272,772
Sanitation	593,103	526,954
Human services	3,979,903	295,989
Health	1,403,434	338,026
Culture and recreation	331,905	2,725
Conservation of natural resources	2,871,889	1,813,762
Economic development	267,073	2,875
Interest	138,738	-
	<b>\$ 23,183,946</b>	<b>\$ 4,038,292</b>
<b>Total</b>		
<b>Component Unit</b>		
Sibley County Library System	<b>\$ 424,622</b>	<b>\$ 153,825</b>

**General Revenues**

Property taxes  
Gravel taxes  
Payments in lieu of tax  
Grants and contributions not restricted to specific programs  
Investment income  
Miscellaneous  
Gain on sale of capital assets

**Total general revenues**

**Change in net position**

**Net Position - January 1  
Restatement (Note 1.F.)**

**Net Position - January 1, as restated**

**Net Position - December 31**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>	
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government Governmental Activities</b>	<b>Sibley County Library System Component Unit</b>
\$ 85,957	\$ -	\$ (2,779,541)	
532,032	-	(2,318,451)	
3,407,170	1,982,403	(1,434,386)	
64,356	-	(1,793)	
2,085,619	-	(1,598,295)	
637,612	-	(427,796)	
22,655	-	(306,525)	
1,161,323	-	103,196	
6,319	-	(257,879)	
-	-	(138,738)	
<b>\$ 8,003,043</b>	<b>\$ 1,982,403</b>	<b>\$ (9,160,208)</b>	
<b>\$ 281,305</b>	<b>\$ -</b>		<b>\$ 10,508</b>
		\$ 10,723,377	\$ -
		102,700	-
		45,356	-
		553,907	-
		245,345	-
		372,462	-
		8,013	-
		<b>\$ 12,051,160</b>	<b>\$ -</b>
		<b>\$ 2,890,952</b>	<b>\$ 10,508</b>
		<b>\$ 70,797,464</b>	<b>\$ 68,389</b>
		<b>58,799</b>	<b>-</b>
		<b>\$ 70,856,263</b>	<b>\$ 68,389</b>
		<b>\$ 73,747,215</b>	<b>\$ 78,897</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<b>General</b>	<b>Public Works</b>	<b>Public Health and Human Services</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 5,810,939	\$ 4,459,367	\$ 5,434,184
Petty cash and change funds	5,900	-	250
Departmental cash	11,789	821	17,156
Cash with fiscal agent	673,243	-	-
Investments	-	-	-
Taxes receivable			
Delinquent	74,746	45,695	28,076
Special assessments receivable			
Delinquent	6,056	-	-
Noncurrent	-	-	-
Accounts receivable	4,794	32,103	50
Accrued interest receivable	82,871	-	-
Due from other funds	1,689,880	-	4,243
Due from other governments	56,450	791,819	310,301
Loans receivable	-	-	-
Inventories	-	718,835	-
Prepaid items	21,974	143	1,597
Advances to other governments	190,370	-	-
Advances to other agencies	-	-	-
Long-term receivables	95,873	-	-
	<b>\$ 8,724,885</b>	<b>\$ 6,048,783</b>	<b>\$ 5,795,857</b>
<b>Total Assets</b>	<b>\$ 8,724,885</b>	<b>\$ 6,048,783</b>	<b>\$ 5,795,857</b>

**EXHIBIT 3**

<b>Ditch</b>	<b>Sub-Surface Sewage Treatment System Loans</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 640,616	\$ 529,764	\$ 2,822,699	\$ 50,000	\$ 234,131	\$ 19,981,700
-	-	-	-	-	6,150
-	-	-	-	-	29,766
-	-	-	-	-	673,243
-	25,000	-	-	-	25,000
-	-	5,074	-	-	153,591
2,579	6,576	-	-	-	15,211
2,059,019	1,434,026	-	-	-	3,493,045
102	-	-	-	-	37,049
-	-	-	-	-	82,871
-	-	-	-	-	1,694,123
444,069	-	-	-	62,986	1,665,625
-	-	-	-	140,025	140,025
-	-	-	-	-	718,835
75,173	-	-	-	-	98,887
-	-	-	-	-	190,370
-	-	-	-	25,000	25,000
-	-	-	-	-	95,873
<b>\$ 3,221,558</b>	<b>\$ 1,995,366</b>	<b>\$ 2,827,773</b>	<b>\$ 50,000</b>	<b>\$ 462,142</b>	<b>\$ 29,126,364</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<b>General</b>	<b>Public Works</b>	<b>Public Health and Human Services</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 224,767	\$ 95,636	\$ 122,944
Salaries payable	192,865	84,784	171,341
Contracts payable	-	33,109	-
Retainage payable	-	118,674	-
Due to other funds	4,243	-	890
Due to other governments	91,127	64,328	107,656
Matured interest payable	-	-	-
Deferred revenue - unavailable	123,923	492,046	28,076
Deferred revenue - unearned	105,669	-	-
Claims payable	45,877	-	-
<b>Total Liabilities</b>	<b>\$ 788,471</b>	<b>\$ 888,577</b>	<b>\$ 430,907</b>
<b>Fund Balances (Note 3.D.)</b>			
Nonspendable	\$ 308,217	\$ 718,978	\$ 1,597
Restricted	1,018,175	392,603	-
Committed	339,593	-	-
Assigned	112,249	4,048,625	5,363,353
Unassigned	6,158,180	-	-
<b>Total Fund Balances</b>	<b>\$ 7,936,414</b>	<b>\$ 5,160,206</b>	<b>\$ 5,364,950</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,724,885</b>	<b>\$ 6,048,783</b>	<b>\$ 5,795,857</b>

**EXHIBIT 3**  
**(Continued)**

<u>Ditch</u>	<u>Sub-Surface Sewage Treatment System Loans</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 99,438	\$ 10,825	\$ -	\$ -	\$ 5,637	\$ 559,247
-	-	-	-	2,412	451,402
-	-	-	-	-	33,109
-	-	-	-	-	118,674
1,688,990	-	-	-	-	1,694,123
42,190	-	-	-	64,354	369,655
718	-	120	-	-	838
2,061,598	1,440,602	5,074	-	-	4,151,319
-	20,902	-	-	3,357	129,928
-	-	-	-	-	45,877
<b>\$ 3,892,934</b>	<b>\$ 1,472,329</b>	<b>\$ 5,194</b>	<b>\$ -</b>	<b>\$ 75,760</b>	<b>\$ 7,554,172</b>
\$ -	\$ 25,000	\$ -	\$ -	\$ 80,917	\$ 1,134,709
609,720	498,037	2,822,579	-	305,465	5,646,579
-	-	-	50,000	-	389,593
-	-	-	-	-	9,524,227
(1,281,096)	-	-	-	-	4,877,084
<b>\$ (671,376)</b>	<b>\$ 523,037</b>	<b>\$ 2,822,579</b>	<b>\$ 50,000</b>	<b>\$ 386,382</b>	<b>\$ 21,572,192</b>
<b>\$ 3,221,558</b>	<b>\$ 1,995,366</b>	<b>\$ 2,827,773</b>	<b>\$ 50,000</b>	<b>\$ 462,142</b>	<b>\$ 29,126,364</b>

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**Fund balance - total governmental funds (Exhibit 3) \$ 21,572,192**

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 54,319,850

Investments in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds. 1,054,131

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred or not reported in the governmental funds.

Deferred revenue	\$ 4,151,319	
Deferred debt issuance charges	81,011	
Less: prepaid interest reported as a fund asset	<u>(4,311)</u>	4,228,019

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:

General obligation bonds, net of discounts	\$ (4,357,764)	
Revenue notes payable	(82,970)	
MnPCA loans payable	(1,379,537)	
AgBMP loans payable	(384,382)	
Compensated absences	(1,010,484)	
Net OPEB obligation	(181,385)	
Accrued interest payable	(31,293)	
Plus: matured interest payable reported as a fund liability	<u>838</u>	<u>(7,426,977)</u>

**Net Position of Governmental Activities (Exhibit 1) \$ 73,747,215**

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Public Works</u>	<u>Public Health and Human Services</u>
<b>Revenues</b>			
Taxes	\$ 5,172,201	\$ 3,441,653	\$ 2,001,080
Special assessments	135,245	-	-
Licenses and permits	25,976	-	-
Intergovernmental	1,106,961	5,545,795	2,828,378
Charges for services	834,924	220,455	557,555
Fines and forfeits	32,365	-	-
Gifts and contributions	-	-	845
Investment earnings	227,602	-	-
Miscellaneous	258,088	182,489	99,579
<b>Total Revenues</b>	<b>\$ 7,793,362</b>	<b>\$ 9,390,392</b>	<b>\$ 5,487,437</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 3,552,590	\$ -	\$ -
Public safety	2,946,945	-	-
Highways and streets	-	8,261,721	-
Sanitation	174,734	-	-
Human services	-	-	4,166,022
Health	-	-	1,437,239
Culture and recreation	330,296	-	-
Conservation of natural resources	434,693	-	-
Economic development	267,073	-	-
Capital outlay	640,023	253,673	17,871
Intergovernmental	-	276,022	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Bond issue costs	-	-	-
Administrative charges	-	-	-
<b>Total Expenditures</b>	<b>\$ 8,346,354</b>	<b>\$ 8,791,416</b>	<b>\$ 5,621,132</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (552,992)</b>	<b>\$ 598,976</b>	<b>\$ (133,695)</b>

**EXHIBIT 5**

<b>Ditch</b>	<b>Sub-Surface Sewage Treatment System Loans</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 269,489	\$ -	\$ -	\$ 10,884,423
1,605,127	311,822	-	-	-	2,052,194
-	-	-	-	-	25,976
922,935	-	4,961	-	142,932	10,551,962
164,440	-	-	-	-	1,777,374
-	-	-	-	-	32,365
-	-	-	-	13,600	14,445
-	-	-	-	575	228,177
20,201	-	-	-	3,514	563,871
<b>\$ 2,712,703</b>	<b>\$ 311,822</b>	<b>\$ 274,450</b>	<b>\$ -</b>	<b>\$ 160,621</b>	<b>\$ 26,130,787</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,552,590
-	-	-	-	-	2,946,945
-	-	-	-	-	8,261,721
-	418,369	-	-	-	593,103
-	-	-	-	-	4,166,022
-	-	-	-	-	1,437,239
-	-	-	-	-	330,296
2,279,722	-	-	-	146,130	2,860,545
-	-	-	-	-	267,073
-	-	-	-	-	911,567
-	-	-	-	-	276,022
675,000	155,163	180,000	-	-	1,010,163
46,609	13,046	77,623	-	-	137,278
25,654	-	40,815	-	-	66,469
578	-	425	-	-	1,003
<b>\$ 3,027,563</b>	<b>\$ 586,578</b>	<b>\$ 298,863</b>	<b>\$ -</b>	<b>\$ 146,130</b>	<b>\$ 26,818,036</b>
<b>\$ (314,860)</b>	<b>\$ (274,756)</b>	<b>\$ (24,413)</b>	<b>\$ -</b>	<b>\$ 14,491</b>	<b>\$ (687,249)</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Public Works</u>	<u>Public Health and Human Services</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 64,499	\$ 620,000	\$ -
Transfers out	(310,000)	-	(310,000)
Premium on bonds	-	-	-
Loans issued	-	-	-
Refunding bonds issued	-	-	-
Proceeds from the sale of capital assets	8,013	2,676	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (237,488)</b>	<b>\$ 622,676</b>	<b>\$ (310,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (790,480)</b>	<b>\$ 1,221,652</b>	<b>\$ (443,695)</b>
Fund Balance - January 1, as previously reported	\$ 9,933,591	\$ 3,875,049	\$ 4,601,948
Restatement (Note 1.F.)	(1,206,697)	-	1,206,697
<b>Fund Balance - January 1, as restated</b>	<b>\$ 8,726,894</b>	<b>\$ 3,875,049</b>	<b>\$ 5,808,645</b>
<b>Increase (decrease) in inventories</b>	<b>\$ -</b>	<b>\$ 63,505</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 7,936,414</b>	<b>\$ 5,160,206</b>	<b>\$ 5,364,950</b>

**EXHIBIT 5**  
**(Continued)**

<b>Ditch</b>	<b>Sub-Surface Sewage Treatment System Loans</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 684,499
-	-	-	-	(64,499)	(684,499)
2,069	-	-	-	-	2,069
-	483,569	-	-	-	483,569
645,000	-	1,800,000	-	-	2,445,000
-	-	-	-	-	10,689
<b>\$ 647,069</b>	<b>\$ 483,569</b>	<b>\$ 1,800,000</b>	<b>\$ -</b>	<b>\$ (64,499)</b>	<b>\$ 2,941,327</b>
<b>\$ 332,209</b>	<b>\$ 208,813</b>	<b>\$ 1,775,587</b>	<b>\$ -</b>	<b>\$ (50,008)</b>	<b>\$ 2,254,078</b>
\$ (1,003,585)	\$ 314,224	\$ 1,046,992	\$ 50,000	\$ 377,591	\$ 19,195,810
-	-	-	-	58,799	58,799
<b>\$ (1,003,585)</b>	<b>\$ 314,224</b>	<b>\$ 1,046,992</b>	<b>\$ 50,000</b>	<b>\$ 436,390</b>	<b>\$ 19,254,609</b>
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 63,505</b>
<b>\$ (671,376)</b>	<b>\$ 523,037</b>	<b>\$ 2,822,579</b>	<b>\$ 50,000</b>	<b>\$ 386,382</b>	<b>\$ 21,572,192</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 2,254,078**

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

In the funds, distributions of joint venture equity interest are reported as revenue. In the statement of net position, an asset is reported for the equity interest, and distributions, increases, and decreases in joint venture equity are reported in the statement of activities. The adjustment is the increase or decrease in equity in the joint venture. 217,669

In the funds, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 4,151,319	
Deferred revenue - January 1	<u>(4,217,860)</u>	(66,541)

Funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on disposal of assets is reported; whereas, in the fund, the proceeds increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets disposed of.

Expenditures for general capital assets	\$ 4,380,103	
Net effect of adjustments to capital asset system	199,401	
Current year depreciation	<u>(2,268,966)</u>	2,310,538

Issuing long-term debt provides current financial resources, while debt repayment uses current financial resources. Neither transaction has any effect on net position. Funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

Proceeds of new debt		
General obligation refunding bonds	\$ (2,445,000)	
Premium on bonds	(2,069)	
New debt bond issuance costs	66,469	
MnPCA loans payable	(99,187)	
AgBMP loans payable	<u>(384,382)</u>	(2,864,169)

Repayment of debt principal		1,010,163
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Amortization of premium/discount on bonds and issuance costs		(7,493)
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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

***EXHIBIT 6***  
***(Continued)***

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Change in accrued interest	\$ 10,509	
Change in matured interest	838	
Change in prepaid interest	(4,311)	
Change in compensated absences	9,267	
Change in net OPEB obligation	(43,101)	
Change in inventories	<u>63,505</u>	<u>36,707</u>
<b>Change in Net Position of Governmental Activities (Exhibit 2)</b>		<b><u><u>\$ 2,890,952</u></u></b>

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**FIDUCIARY FUNDS**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012**

	<b>Private-Purpose Trust</b>	<b>Agency</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 24,951	\$ 333,036
Investments	36,837	-
Accrued interest	202	-
Due from other governments	-	2,887
	<b>\$ 61,990</b>	<b>\$ 335,923</b>
<b><u>Liabilities</u></b>		
Cash overdraft	\$ -	\$ 2,887
Accounts payable	-	106,346
Due to other governments	-	226,690
	<b>\$ -</b>	<b>\$ 335,923</b>
<b><u>Net Position</u></b>		
Net position, held in trust	<b>\$ 61,990</b>	

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

***EXHIBIT 8***

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Private-Purpose Trust</u>
<b><u>Additions</u></b>	
Interest	\$ 605
<b><u>Deductions</u></b>	
Payments in accordance with trust agreements	<u>428</u>
<b>Change in Net Position</b>	<b>\$ 177</b>
<b>Net Position - Beginning of the Year</b>	<b><u>61,813</u></b>
<b>Net Position - End of the Year</b>	<b><u><u>\$ 61,990</u></u></b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Sibley County was established March 5, 1853, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Sibley County (primary government) and its component unit. The County is governed by a five-member Board of Commissioners elected from the five districts within the County. The Board is organized with a chair and vice chair elected at the annual organizational meeting in January of each year.

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Sibley County has one discretely presented component unit.

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Sibley County Library System	The Sibley County Library System is a financial burden to Sibley County.	Separate financial statements are not prepared.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures described in Note 5.C. The County also participates in the jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

The government-wide statement of net position: (a) is presented on a consolidated basis; and (b) is reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements are on major individual governmental funds, with each displayed as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The Public Works Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Public Health and Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Ditch Special Revenue Fund accounts for special assessments revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

The Sub-Surface Sewage Treatment System Loans Special Revenue Fund accounts for revenues restricted for loans provided to private landowners for installation and replacement of individual sewage treatment systems or mound systems.

The Debt Service Fund accounts for financial resources restricted, committed, or assigned to be used for principal and interest payments on County debt.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Capital Projects Fund accounts for financial resources restricted, committed, or assigned to be used for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Additionally, the County reports the following fund types:

The Permanent Fund is used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support County programs.

Private-Purpose Trust Funds are used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Sibley County considers property taxes and special assessments to be available if collected within 30 days of the end of the current period. Sibley County considers licenses, interest, and all other revenues susceptible to accrual as available if collected within 90 days after the end of the current period. Expenditures are recorded when the related fund liability is



**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. In 2012, the County recorded total investment earnings of \$228,177. Total pooled investment earnings in the General Fund were \$227,602.

Sibley County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2A-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R § 270.2a-7). The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "interfund receivables/interfund payables."

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

2. Receivables and Payables (Continued)

When appropriate, all receivables are shown net of an allowance for uncollectibles.

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including all cities, townships, schools, and special taxing districts within the County. Property taxes are levied as of January 1 on property values assessed as of the same date by the County Assessor. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories

Most inventories are valued using the weighted average method. However, Sibley County is working on switching to the first in/first out method. As of 2012, first in/first out is being used for the culverts and culvert-related items since these inventory items are used more quickly. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are reported as expenses when consumed.

4. Capital Assets

The County's capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are completed.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

4. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	35 - 75
Infrastructure	25 - 75
Furniture, equipment, and vehicles	3 - 15

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive separation pay and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee retirements and resignations.

Under the County's personnel policies and union contracts, County employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual for full-time (part-time employees' accruals are prorated) employees varies from 12 to 21 days based on years of service. Sick leave accrual is 12 days per year (13 days per year for Law Enforcement Labor Services union members).

6. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

6. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - the amount of net position that is not included in the net investment in capital assets or restricted components.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

8. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor who has been designated that authority by Board resolution.

Unassigned - the residual classification for the General Fund includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Classification of Fund Balances (Continued)

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The County has adopted a minimum fund balance policy for the General Fund, Public Works Special Revenue Fund, and Public Health and Human Services Special Revenue Fund. The policy requires that the combined unrestricted fund balance of the General Fund, Public Works Special Revenue Fund, and Public Health and Human Services Special Revenue Fund maintain a minimum fund balance at year-end of 35 percent of the subsequent year's combined expenditure budget. The County does not have a minimum fund balance policy for its other funds.

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

E. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principle characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Revenues (Continued)

1. Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on non-governmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied. Fines and penalties and property forfeitures are recognized in the period received.

2. Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. Subject to the availability criterion, state-aid highway allotments or unallotments for highway maintenance and construction are recognized as revenue in the year of allotment.

3. Exchange Transactions

Special assessments levied against benefiting properties are recognized when levied. Other revenues, such as licenses and permits, charges for services, and investment income, are recognized as revenue when earned.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

F. Restatement of Fund Balance

1. Restatement of Public Health Fund Balance

The Public Health Department was previously reported as part of the General Fund. Beginning in 2012, the Public Health Department was combined with Human Services, and the activity will be reported in the Special Revenue Fund. The following table summarizes the restatement.

	General Fund	Public Health and Human Services Special Revenue Fund
Fund Balance - January 1, as previously reported	\$ 9,933,591	\$ 4,601,948
Restatement	(1,206,697)	1,206,697
Fund Balance - January 1, as restated	\$ 8,726,894	\$ 5,808,645

2. Restatement of Housing Rehab Program

Prior to 2012, the County was not reporting the loans receivable balance relating to the Housing Rehab Program in the Revolving Loan (SEDCO) Special Revenue Fund. The following table summarizes the restatement.

	Governmental Activities	Revolving Loan (SEDCO) Special Revenue Fund
Net Position/Fund Balance - January 1, as previously reported	\$ 70,797,464	\$ 228,804
Restatement	58,799	58,799
Net Position/Fund Balance - January 1, as restated	\$ 70,856,263	\$ 287,603



**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Ditch Special Revenue Fund Equity

On the full accrual basis of accounting, 17 of the 91 drainage systems have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance as of December 31, 2012, using the full accrual basis of accounting.

Account balances	\$ 1,062,710
Account deficits	<u>(317,488)</u>
Fund Balance - Accrual Basis	<u>\$ 745,222</u>

Using the modified accrual basis of accounting, noncurrent receivables and bonds payable do not affect fund balance. Noncurrent receivables are deferred, and bonds payable are not reported. Using this basis of accounting, 41 ditches had fund deficits.

Account balances	\$ 609,720
Account deficits	<u>(1,281,096)</u>
Fund Balance - Modified Accrual Basis	<u>\$ (671,376)</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total deposits, petty cash, change funds, and investments to the basic financial statements follows:

Governmental funds	
Cash and pooled investments	\$ 19,981,700
Petty cash and change funds	6,150
Departmental cash	29,766
Cash with fiscal agent	673,243
Fund investments	25,000
Fiduciary funds	
Private-purpose trust funds	
Cash and pooled investments	24,951
Fund investments	36,837

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Agency funds	
Cash and pooled investments	333,036
Cash overdraft	(2,887)
Library cash held by the Treasurer	125,065
	<hr/>
Total Cash and Investments	\$ 21,232,861
	<hr/>
Deposits	\$ 10,196,965
Petty cash and change funds	6,150
Departmental cash	29,766
Cash with fiscal agent	673,243
Investments	10,326,737
	<hr/>
Total	\$ 21,232,861
	<hr/>

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**SIBLEY COUNTY  
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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, County deposits may not be returned to it. The County's policy regarding custodial credit risk for deposits is to obtain collateral or bond to cover any uninsured portion of the County's deposits and to comply with state law. As of December 31, 2012, Sibley County's deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Investments of the County are reported at fair value.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is the County's policy to minimize its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for day-to-day operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County invests only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has a custodial credit risk policy that permits the County's brokers to hold the County's investments to the extent that the brokers have Securities Investor Protection Corporation insurance. At December 31, 2012, none of the County's investments were subject to custodial credit risk.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to diversify its investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The following table presents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment - Issuer	Credit Risk		Concentration Risk (%)	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency		Maturity Date	
Federal Home Loan Bank					
Wells Fargo Advisors					
Federal Home Loan Bank	Aaa	Moody's		07/19/2022	\$ 375,112
Federal Home Loan Bank	Aaa	Moody's		07/26/2022	299,214
Federal Home Loan Bank	Aaa	Moody's		12/20/2022	247,185
Federal Home Loan Bank	Aaa	Moody's		12/27/2022	246,700
Northland Securities					
Federal Home Loan Bank	Aaa	Moody's		11/09/2021	200,032
Total Federal Home Loan Bank			13.25		\$ 1,368,243
Federal Home Loan Mortgage Corporation					
Wells Fargo Advisors					
Federal Home Loan Mortgage Corporation	Aaa	Moody's		01/11/2022	\$ 200,032
Federal Home Loan Mortgage Corporation	Aaa	Moody's		02/22/2022	501,000
Northland Securities					
Federal Home Loan Mortgage Corporation	Aaa	Moody's		11/23/2021	236,356
Total Federal Home Loan Mortgage Corporation			9.08		\$ 937,388
Federal Farm Credit Bank Bond					
Wells Fargo Securities					
Federal Farm Credit Bank Bond	Aaa	Moody's	2.42	05/06/2021	\$ 250,039
Municipal Bonds					
Northland Securities					
Scott County Community Dev. - GO Bond	Aa1	Moody's	1.24	02/01/2015	\$ 128,238
City Of North Mankato - GO Bond	AA	S&P	0.56	02/01/2016	58,026
City of Glencoe - GO Bond	A1	Moody's	0.97	02/01/2018	100,186
Total Municipal Bonds					\$ 286,450

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment - Issuer	Credit Risk		Concentration Risk (%)	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency		Maturity Date	
Negotiable certificates of deposit					
Northland Securities					
Mizuho Corporate Bank (USA)	N/A	N/A	2.32	03/13/2013	\$ 240,053
Bank Hapoalim B.M.	N/A	N/A	2.37	10/23/2013	244,956
Wells Fargo Securities					
Bank of Baroda	N/A	N/A	2.37	03/04/2013	245,000
Apple Bank for Savings	N/A	N/A	2.18	03/12/2013	224,959
Homebanc National Association	N/A	N/A	2.18	03/26/2013	224,950
Goldman Sachs Bank USA	N/A	N/A	0.93	04/30/2013	96,223
American Express Centurion Bank	N/A	N/A	2.18	05/20/2013	225,492
BMW Bank of North America	N/A	N/A	0.97	05/28/2013	100,249
Sallie Mae Bank	N/A	N/A	1.23	06/10/2013	126,607
Capmark Bank	N/A	N/A	1.96	07/08/2013	202,855
Tradition Capital Bank	N/A	N/A	1.96	07/15/2013	202,700
Beal Bank USA	N/A	N/A	2.37	08/21/2013	245,056
Goldman Sachs Bank USA	N/A	N/A	1.36	09/03/2013	140,302
Compass Bank	N/A	N/A	2.41	09/30/2013	248,907
Sallie Mae Bank	N/A	N/A	0.97	11/25/2013	100,386
Bank of India	N/A	N/A	1.94	12/04/2013	199,866
Barclays Bank Delaware	N/A	N/A	1.94	12/16/2013	200,782
Bank of China	N/A	N/A	2.33	01/27/2014	240,687
Discover Bank	N/A	N/A	2.20	07/21/2014	227,246
Graystone Tower Bank	N/A	N/A	0.95	07/22/2014	98,583
Citizens Union Bank of Shelbyville	N/A	N/A	0.95	07/28/2014	98,612
Banco Bilbao	N/A	N/A	1.46	08/14/2014	150,969
Sovereign Bank	N/A	N/A	1.94	09/12/2014	200,270
State Bank of India	N/A	N/A	1.96	09/23/2014	201,968
Safra National Bank of New York	N/A	N/A	1.24	01/30/2015	128,193
GE Money Bank	N/A	N/A	2.22	07/22/2015	229,765
Ally Bank	N/A	N/A	2.42	10/19/2015	249,981
UBS Bank	N/A	N/A	2.43	10/29/2015	250,990
BMW Bank of North America	N/A	N/A	1.39	11/12/2015	144,033
GE Capital Financial	N/A	N/A	2.36	08/26/2016	243,990
CIT Bank	N/A	N/A	2.39	09/08/2016	247,014
Total negotiable certificates of deposit					\$ 5,981,644
Mutual Funds/Investment pools					
Federated - Prime Cash Obligations	Aaa	Moody's	N/A	N/A	\$ 801,973
MAGIC	N/A	N/A	N/A	N/A	701,000
Total mutual funds/investment pools					\$ 1,502,973
Total investments					\$ 10,326,737
Deposits					10,196,965
Petty cash and change funds					6,150
Departmental cash					29,766
Cash with fiscal agent - MCIT					673,243
Total Cash and Investments					\$ 21,232,861

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

a. Deferred Revenue

All County funds and the government-wide financial statements defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities for the current period. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds are as follows:

	Deferred Unavailable	Deferred Unearned
Delinquent property taxes	\$ 153,591	\$ -
Special assessments receivable, delinquent and deferred	3,508,256	-
Highway allotments that do not provide current financial resources	446,351	-
Deferred revenue from accrued interest	43,121	-
Grant drawdowns prior to meeting all eligibility requirements	-	129,928
	\$ 4,151,319	\$ 129,928
Total Deferred/Unearned Revenue for All Governmental Funds	\$ 4,151,319	\$ 129,928

b. Long-Term Receivables

In January 2004, the County sold the Health and Human Services Building on a contract for deed. The sale price was \$200,000. The County received a down payment of \$25,000, with the balance to be paid over ten years at an interest rate of four percent. Future collections are to be received in monthly installments of \$1,200, with a balloon payment of \$85,112 to be paid on January 1, 2014. Future principal collections are to be received as follows:

Year Ending December 31	Long-Term Receivables Principal
2013	\$ 10,761
2014	85,112
Total	\$ 95,873

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,646,870	\$ 15,313	\$ -	\$ 1,662,183
Construction in progress	-	142,218	-	142,218
<b>Total capital assets not depreciated</b>	<b>\$ 1,646,870</b>	<b>\$ 157,531</b>	<b>\$ -</b>	<b>\$ 1,804,401</b>
Capital assets depreciated				
Infrastructure	\$ 55,159,434	\$ 3,281,008	\$ -	\$ 58,440,442
Buildings	8,489,108	180,435	168,358	8,501,185
Machinery, furniture, and equipment	6,541,941	748,864	216,790	7,074,015
Improvements other than buildings	34,339	12,265	7,271	39,333
<b>Total capital assets depreciated</b>	<b>\$ 70,224,822</b>	<b>\$ 4,222,572</b>	<b>\$ 392,419</b>	<b>\$ 74,054,975</b>
Less: accumulated depreciation for				
Infrastructure	\$ 12,229,739	\$ 1,542,454	\$ -	\$ 13,772,193
Buildings	2,953,092	215,866	151,501	3,017,457
Machinery, furniture, and equipment	4,659,964	508,801	435,295	4,733,470
Improvements other than buildings	19,585	1,845	5,024	16,406
<b>Total accumulated depreciation</b>	<b>\$ 19,862,380</b>	<b>\$ 2,268,966</b>	<b>\$ 591,820</b>	<b>\$ 21,539,526</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 50,362,442</b>	<b>\$ 1,953,606</b>	<b>\$ (199,401)</b>	<b>\$ 52,515,449</b>
<b>Total Capital Assets, Net</b>	<b>\$ 52,009,312</b>	<b>\$ 2,111,137</b>	<b>\$ (199,401)</b>	<b>\$ 54,319,850</b>

In 2012, the County made adjustments to capital assets and depreciation to tie its capital assets system (CAPA) to the financial statements. The net effect of the adjustments was \$199,401.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 275,964
Public safety	87,132
Highways and streets, including depreciation of infrastructure assets	1,894,866
Human services	5,468
Public health	151
Culture and recreation	1,609
Conservation of natural resources	3,776
<b>Total Depreciation Expense</b>	<b>\$ 2,268,966</b>



**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Public Health and Human Services Fund	\$ 890
General Fund	Ditch Fund	1,688,990
Public Health and Human Services Fund	General Fund	<u>4,243</u>
Total Due To/From Other Funds		<u><u>\$ 1,694,123</u></u>

The above interfund balances are for services performed and a short-term loan between the General Fund and the Ditch Special Revenue Fund.

2. Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Public Works	\$ 310,000	Fund Balance Transfer
Public Health and Human Services	Public Works	310,000	Fund Balance Transfer
Water Projects	General	<u>64,499</u>	Unused Fund Balance
Total Transfers In/Out		<u><u>\$ 684,499</u></u>	

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Operating Leases

In June 2010, the County entered into an operating lease for copiers with River Bend Business Products. In April 2012, the County amended the June 2010 operating lease agreement. Minimum future rental payments are:

	2013	\$ 18,599
	2014	16,721
	2015	9,391
	2016	4,156
	2017	<u>1,039</u>
	Total	<u>\$ 49,906</u>

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds 2005 G.O. Capital Improvement Refunding Bonds	2021	\$1,940,000	3.40	\$ 2,630,000	\$ 1,940,000
General obligation bonds 2012 G.O. Refunding Bonds	2021	\$220,000 - \$235,000	0.35- 1.30	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>
Total				<u>\$ 4,430,000</u>	\$ 3,740,000
Less: unamortized discount					<u>(29,130)</u>
Net General Obligation Bonds					<u>\$ 3,710,870</u>
2012 G.O. Special Assessment Refunding Bonds	2023	\$50,000 - \$70,000	1.20 - 2.30	<u>\$ 645,000</u>	\$ 645,000
Plus: premium on bonds					<u>1,894</u>
Net General Obligation Bonds					<u>\$ 646,894</u>
General obligation revenue notes 2001 G.O. Revenue Note - County-Wide	2021	\$103,300	-	<u>\$ 103,300</u>	<u>\$ 82,970</u>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
Minnesota Pollution Control Agency (MnPCA)					
High Island I	2017	N/A	2.00	\$ 261,561	\$ 137,282
High Island II	2021	N/A	2.00	367,955	334,366
Rush River I	2018	N/A	2.00	265,347	152,449
Rush River II	2021	N/A	2.00	577,616	524,889
Buffalo Creek I	2019	N/A	2.00	46,589	33,572
Buffalo Creek II	2022	N/A	2.00	22,411	22,411
Middle Minnesota I	2021	N/A	2.00	24,587	21,203
Middle Minnesota II	2023	N/A	2.00	42,000	42,000
Bevens Silver Creek	2023	N/A	2.00	111,365	111,365
Total MnPCA Loans				<u>\$ 1,719,431</u>	<u>\$ 1,379,537</u>
Minnesota Department of Agriculture Ag Best Management Loan Program (AgBMP)				<u>\$ 384,382</u>	<u>\$ 384,382</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	General Obligation Bonds		General Obligation Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 1,940,000	\$ 48,155	\$ 70,000	\$ 9,890
2014	220,000	14,023	70,000	8,980
2015	220,000	13,142	65,000	8,103
2016	220,000	12,042	70,000	7,260
2017	225,000	10,650	70,000	6,420
2018 - 2022	915,000	21,636	250,000	18,813
2023	-	-	50,000	587
Total	<u>\$ 3,740,000</u>	<u>\$ 119,648</u>	<u>\$ 645,000</u>	<u>\$ 60,053</u>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Debt Service Requirements (Continued)

Year Ending December 31	General Obligation Revenue Notes		MnPCA Loans	
	Principal	Interest	Principal	Interest
2013	\$ 10,330	\$ -	\$ 147,744	\$ 23,340
2014	10,330	-	150,714	20,370
2015	10,330	-	153,743	17,341
2016	10,330	-	156,833	14,251
2017	10,330	-	159,986	11,099
2018 - 2022	31,320	-	434,741	19,021
Total	\$ 82,970	\$ -	\$ 1,203,761	\$ 105,422

The \$175,776 difference between the loans outstanding of \$1,379,537 and loans principal debt service requirement of \$1,203,761 is due the County still receiving loan proceeds and not having finalized repayment schedules. The County is also still receiving loan proceeds for the AgBMP loans so no debt service requirement schedule is shown.

On April 30, 1998, the County entered into an agreement with the Minnesota Department of Agriculture for a \$50,000 1998 General Obligation Revenue Note. On August 14, 2001, the County entered into an agreement with the Minnesota Department of Agriculture Countywide ISTS and Well Loan program for a \$53,300 2001A General Obligation Revenue Note. On December 23, 2002, the County entered into a Contract Consolidation and Funding Agreement with the Minnesota Department of Agriculture to combine the two previous note agreements into one. The final repayment of the note began on April 2010 and will end October 2021.

Amounts reported as MnPCA loans are borrowed against loan agreements with the Minnesota Pollution Control Agency.

High Island Implementation Project

On November 9, 2004, the County approved a loan agreement with the MnPCA for the High Island Implementation Project loan. The loan is not to exceed the amount of \$1,000,000, but the County may draw up to \$545,000. The remaining \$455,000 will require a new or amended agreement. Payments on this loan began in 2008

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

3. Debt Service Requirements

High Island Implementation Project (Continued)

and will end in 2017. The project implementation time frame for the original \$545,000 expired on August 31, 2007, with only \$261,561 being issued, thus closing High Island Phase I. The final repayment of the loan started in June 2008 and will end in December 2021.

On November 13, 2007, the County entered into an amended loan agreement with the MnPCA for an additional \$330,000 to implement High Island Phase II. Payments on High Island Phase II are projected to start in June 2012 and end in 2021. The project implementation time frame expired on June 30, 2012. The final repayment of the loan will start June 2013 and will end December 2021.

Rush River Implementation Project

On May 23, 2006, the County approved an agreement with the MnPCA for the Rush River Project loan. The loan is not to exceed the principal amount of \$1,000,000, but the County may draw up to \$259,000 at this time. During 2007, the County reached its loan capacity. Final payment on Rush River Phase I began in June 2009 and will end in December 2018.

On September 11, 2007, the County entered into an amended note agreement with the MnPCA for an additional \$333,333. On March 10, 2009, the County entered into an amended note agreement with the MnPCA to draw an additional \$220,000 to be added to the \$333,333 for Phase II.

On April 13, 2010, the Project implementation was extended one year. Payments on Rush River Project II are projected to begin in June 2012 and end December 2021.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

3. Debt Service Requirements (Continued)

Buffalo Creek of the Crow River Watershed Implementation Project

On May 23, 2006, the County approved an agreement with MnPCA for the Buffalo Creek Project loan. The loan is not to exceed \$250,000, but the County may draw up to \$50,000 at this time. During 2009, the County reached its project implementation period and extended the implementation period 268 days to December 15, 2009. On September 8, 2009, the County amended the current loan, reducing the principal amount from \$50,000 to \$45,499. Final repayment on Buffalo Creek started in June 2010 and will end in December 2019.

On October 17, 2009, the County approved an agreement (Phase II) with MnPCA to draw up to \$50,000. Repayments are projected to start in June 2013 and end in December 2022.

Middle Minnesota Implementation

On July 10, 2007, the County approved an agreement with the MnPCA for the Middle Minnesota Watershed Project loan. The loan is not to exceed \$45,000; the County can currently draw up to \$15,000 on this loan. The remaining \$30,000 will require a new or amended agreement with the MnPCA. On April 14, 2009, the County approved amendment number one, increasing the principal amount by \$22,500 to \$37,500. On October 13, 2009, the County approved amendment number two, increasing the principal amount by \$7,500 to \$45,000. On June 8, 2010, the County approved amendment number three, extending the project implementation period one year to July 27, 2011. On December 14, 2010, the County approved amendment number four, making Sibley County Project Sponsor. Repayment began in June 2011 and is projected to end in June 2021.

On February 8, 2011, the County approved an agreement (Phase II) with MnPCA to draw up to \$42,000. Repayments are projected to start in June 2014 and end in December 2023.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

3. Debt Service Requirements (Continued)

Bevens/Creek Watershed and Silver Creek Watershed

On April 13, 2010, the County entered into a Note agreement with MnPCA for a \$1,000,000 “General Obligation Note (MnPCA) (Bevens/Silver Creek SSTS Project), Series 2010.” The aggregated principal of the Note shall not exceed \$1,000,000, and the County can only draw \$273,000 under the Note until authorized by a new or amended MnPCA Agreement. Repayment is not projected to start until December 15, 2013, and end on June 15, 2023.

Department of Agriculture Ag BMP Loan Program

In April 2012, the County entered into a Statewide Multi-Lender agreement with the Minnesota Department of Agriculture to provide Ag BMP loans to landowners.

Debt Refunding

On January 26, 2012, the County issued \$645,000 of General Obligation Refunding Bonds, Series 2012A, with an average interest rate of 1.83 percent to refund \$700,000 of the Drainage Ditch Bonds, Series 1996, with an average interest rate of 5.20 percent and \$800,000 Watershed District Bonds, Series 2002, with an average interest rate of 4.71 percent. The 1996 and the 2002 bonds were paid off directly by the bonding agent. The County refunded the Series 1996 and Series 2002 bonds to reduce its total debt service payments by \$94,048 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$85,133.

On December 4, 2012, the County issued \$1,800,000 of General Obligation Refunding Bonds, Series 2012B, with an average interest rate of 0.95 percent to refund \$2,630,000 Capital Improvement Refunding Bonds, Series 2005, with an average interest rate of 3.78 percent. The County will continue to make principal and interest payments on the Series 2005 bonds through the call date of March 1, 2013. The County refunded the bonds to reduce its total debt service payments by \$205,921 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$197,839.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities long-term liabilities					
Bonds payable					
General obligation bonds	\$ 2,120,000	\$ 1,800,000	\$ 180,000	\$ 3,740,000	\$ 1,940,000
General obligation special assessment bonds	675,000	645,000	675,000	645,000	70,000
Less: discounts	(32,367)	-	(3,237)	(29,130)	-
Plus: premium	-	2,069	175	1,894	-
<b>Total bonds payable</b>	<b>\$ 2,762,633</b>	<b>\$ 2,447,069</b>	<b>\$ 851,938</b>	<b>\$ 4,357,764</b>	<b>\$ 2,010,000</b>
General obligation revenue notes	93,300	-	10,330	82,970	10,330
MnPCA Loans	1,425,183	99,187	144,833	1,379,537	147,744
AgBMP Loans	-	384,382	-	384,382	-
Net OPEB obligation	138,284	43,101	-	181,385	-
Compensated absences	1,019,751	48,387	57,654	1,010,484	272,831
<b>Governmental Activities Long-Term Liabilities</b>	<b>\$ 5,439,151</b>	<b>\$ 3,022,126</b>	<b>\$ 1,064,755</b>	<b>\$ 7,396,522</b>	<b>\$ 2,440,905</b>

5. Other Postemployment Benefits (OPEB)

Plan Description

The County provides a defined benefit health care plan to qualifying retirees and their spouses. The plan offers medical, dental, and life coverage. As of the actuarial report, no retirees have opted to receive dental or life coverage. Medical coverage is administered by Medica. Dental coverage is administered through United Health Care. Minnesota Life is the life insurance provider. The County is self-insured for medical coverage through the McLeod/Sibley Joint Health Insurance Program. Retirees pay 100 percent of the blended active/retiree premium rate, in accordance with Minn. Stat. ch. 471.61, subd. 2b. The retirees, whose cost is statistically higher than the group average, are receiving an implicit rate "subsidy." As of January 1, 2012, there were seven retirees and one spouse receiving health benefits from the County's health plan. It is the County's policy to



**SIBLEY COUNTY  
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3. Detailed Notes on All Funds

C. Liabilities

5. Other Postemployment Benefits (OPEB) (Continued)

periodically review its medical, dental, and life insurance coverage in order to provide the most favorable benefits and premiums for County employees and retirees.

Funding Policy

Retirees and their spouses contribute to the County health care plan at the same rate as current County employees. If retirees are over age 65 and Medicare eligible, their health coverage, if elected, is considered supplemental coverage, and their premiums would be discounted. Contribution requirements for health insurance are established by the McLeod/Sibley Joint Health Insurance Committee, based on contract terms with Medica. Contribution requirements for dental and life insurance are established by the County Board along with contract requirements with United Health Care and Minnesota Life. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2012, the County contributed \$36,050 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

**SIBLEY COUNTY  
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3. Detailed Notes on All Funds

C. Liabilities

5. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	81,451
Interest on net OPEB obligation		6,223
Adjustment to ARC		(8,523)
		(8,523)
Annual OPEB cost	\$	79,151
Contributions made (pay-as-you-go)		(36,050)
		(36,050)
Increase in net OPEB obligation	\$	43,101
Net OPEB Obligation - Beginning of Year		138,284
		138,284
Net OPEB Obligation - End of Year	\$	181,385

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2010, 2011, and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 56,709	\$ 30,945	54.6%	\$ 98,120
December 31, 2011	79,860	39,696	49.7	138,284
December 31, 2012	79,151	36,050	45.5	181,385

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the County had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$627,928, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$627,928. The covered payroll (annual payroll of active employees covered by the plan) was \$5,392,445, and the ratio of the UAAL to the covered payroll was 11.64 percent.

**SIBLEY COUNTY  
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3. Detailed Notes on All Funds

C. Liabilities

5. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For January 1, 2011, the actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the investment yield expected to finance benefits. The County does not plan to pre-fund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8.0 percent initially and grading to 5.0 percent over six years.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Fund Balance

The detail of Sibley County's fund balance classification is as follows:

	<u>General Fund</u>	<u>Public Works</u>	<u>Public Health and Human Services</u>	<u>Ditch</u>	<u>Sub-Surface Sewage Treatment System Loans</u>
<b>Nonspendable</b>					
Inventories	\$ -	\$ 718,835	\$ -	\$ -	\$ -
Advances to other governments	190,370	-	-	-	-
Long-term receivables	95,873	-	-	-	-
Prepaid items	21,974	143	1,597	-	-
Federal lands	-	-	-	-	-
Loan security	-	-	-	-	25,000
<b>Total nonspendable</b>	<b>\$ 308,217</b>	<b>\$ 718,978</b>	<b>\$ 1,597</b>	<b>\$ -</b>	<b>\$ 25,000</b>
<b>Restricted</b>					
Highway maintenance and Construction- gravel tax	\$ -	\$ 257,543	\$ -	\$ -	\$ -
Debt service	-	-	-	-	-
SSTS	-	-	-	-	498,037
Economic development	-	-	-	-	-
Economic development - economic development loans	-	-	-	-	-
Economic development - housing loans	-	-	-	-	-
Conservation projects	-	-	-	-	-
Juvenile fines	14,044	-	-	-	-
Ditch maintenance and construction	-	-	-	609,720	-
Law library	12,449	-	-	-	-
Land restoration- gravel tax	-	135,060	-	-	-
Attorney's forfeited property	36,295	-	-	-	-
Recorder's equipment purchases	161,602	-	-	-	-
Land records technology	147,539	-	-	-	-
Shoreland Grant	2,147	-	-	-	-
E911	594,406	-	-	-	-
Park improvements	49,693	-	-	-	-
<b>Total restricted</b>	<b>\$ 1,018,175</b>	<b>\$ 392,603</b>	<b>\$ -</b>	<b>\$ 609,720</b>	<b>\$ 498,037</b>
<b>Committed</b>					
Capital improvements	\$ -	\$ -	\$ -	\$ -	\$ -
Tobacco ordinance	6,793	-	-	-	-
Park trail	55,000	-	-	-	-
County parks	68,336	-	-	-	-
Solid waste	209,464	-	-	-	-
<b>Total committed</b>	<b>\$ 339,593</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balance (Continued)

	General Fund	Public Works	Public Health and Human Services	Ditch	Sub-Surface Sewage Treatment System Loans
Assigned					
Public works	\$ -	\$ 4,048,625	\$ -	\$ -	\$ -
Public health and human services	-	-	5,363,353	-	-
Park trail - Arlington	81,801	-	-	-	-
Alcohol enforcement and education	30,448	-	-	-	-
<b>Total assigned</b>	<b>\$ 112,249</b>	<b>\$ 4,048,625</b>	<b>\$ 5,363,353</b>	<b>\$ -</b>	<b>\$ -</b>
Unassigned	\$ 6,158,180	\$ -	\$ -	\$ (1,281,096)	\$ -
<b>Total Fund Balance</b>	<b>\$ 7,936,414</b>	<b>\$ 5,160,206</b>	<b>\$ 5,364,950</b>	<b>\$ (671,376)</b>	<b>\$ 523,037</b>
		Debt Service	Capital Projects	Other Governmental Funds	Total
Nonspendable					
Inventories		\$ -	\$ -	\$ -	\$ 718,835
Advances to other governments		-	-	-	190,370
Long-term receivables		-	-	-	95,873
Prepaid items		-	-	-	23,714
Federal lands		-	-	80,917	80,917
Loan security		-	-	-	25,000
<b>Total nonspendable</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ 80,917</b>	<b>\$ 1,134,709</b>
Restricted					
Highway maintenance and construction- gravel tax		\$ -	\$ -	\$ -	\$ 257,543
Debt service		2,822,579	-	-	2,822,579
SSTS		-	-	-	498,037
Economic development		-	-	150,451	150,451
Economic development - economic development loans		-	-	81,226	81,226
Economic development - housing loans		-	-	58,799	58,799
Conservation projects		-	-	14,989	14,989
Juvenile fines		-	-	-	14,044
Ditch maintenance and construction		-	-	-	609,720
Law library		-	-	-	12,449
Land restoration- gravel tax		-	-	-	135,060
Attorney's forfeited property		-	-	-	36,295
Recorder's equipment purchases		-	-	-	161,602
Land records technology		-	-	-	147,539
Shoreland Grant		-	-	-	2,147
E911		-	-	-	594,406
Park improvements		-	-	-	49,693
<b>Total restricted</b>		<b>\$ 2,822,579</b>	<b>\$ -</b>	<b>\$ 305,465</b>	<b>\$ 5,646,579</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balance (Continued)

	Debt Service	Capital Projects	Other Governmental Funds	Total
Committed				
Capital improvements	\$ -	\$ 50,000	\$ -	\$ 50,000
Tobacco ordinance	-	-	-	6,793
Park trail	-	-	-	55,000
County parks	-	-	-	68,336
Solid waste	-	-	-	209,464
Total committed	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 389,593</u>
Assigned				
Public works	\$ -	\$ -	\$ -	\$ 4,048,625
Public health and human services	-	-	-	5,363,353
Park trail - Arlington	-	-	-	81,801
Alcohol enforcement and education	-	-	-	30,448
Total assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,524,227</u>
Unassigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,877,084</u>
Total Fund Balance	<u>\$ 2,822,579</u>	<u>\$ 50,000</u>	<u>\$ 386,382</u>	<u>\$ 21,572,192</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Sibley County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

**SIBLEY COUNTY  
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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund 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 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and



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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

Sibley County is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

Sibley County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 404,312	\$ 402,486	\$ 392,977
Public Employees Police and Fire Fund	93,366	91,797	90,487
Public Employees Correctional Fund	32,312	33,194	33,812

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

B. Defined Contribution Plan

Three elected officials of Sibley County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,291	\$ 4,291
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**SIBLEY COUNTY  
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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at and \$460,000 per claim in 2012 and \$470,000 in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

In 2000, the County entered into an agreement with McLeod County to provide a mechanism for utilizing a pooled self-funded health insurance program under the authority granted to the counties in Minn. Stat. § 471.59. Premiums are paid to MCIT, which provides bookkeeping services to the counties, including the payment of claims. For 2012, the County has retained risk up to \$125,000 stop-loss per covered person per year (\$1,000,000 aggregate) for the health plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2012	2011
Unpaid claims, beginning of fiscal year	\$ 107,947	\$ 34,710
Incurred claims (including IBNRs)	967,476	1,041,339
Claims payments	(1,026,957)	(947,786)
Less: Recoveries	(2,589)	(20,316)
	\$ 45,877	\$ 107,947

**SIBLEY COUNTY  
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5. Summary of Significant Contingencies and Other Items (Continued)

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Sibley County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of the housing units constructed. Sibley County's proportionate share of the operating deficit for 2012 is \$124,231. The proportionate shares of the counties may change for the years 2013 through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

C. Joint Ventures

Tri-County Solid Waste

Sibley County entered into a joint powers agreement to create and operate Tri-County Solid Waste pursuant to the Waste Management Act, Minn. Stat. § 471.59, and a joint powers agreement, effective November 3, 1987. Management of Tri-County Solid Waste is vested in the Tri-County Solid Waste Joint Powers Board, which consists of six representatives, two representatives from each Board of Commissioners from Le Sueur, Nicollet, and Sibley Counties. The primary function of Tri-County Solid Waste is to coordinate solid waste management services within the multi-county area. Emphasis is placed on planning, recycling, hazardous waste, problem materials, and education.

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Tri-County Solid Waste (Continued)

One-half of the financing is provided by appropriations from the three counties based on the ratio of their population to the total population of the member counties, and one-half is provided by an equal appropriation from the three counties. Sibley County contributed \$72,459 in 2012. Sibley County is the fiscal agent.

Current audited financial statements are not available.

Meeker-McLeod-Sibley Community Health Services Board

The Meeker-McLeod-Sibley Community Health Services Board was established pursuant to Minn. Stat. §§ 145A.09 to 145A.14, Minn. Stat. § 471.59, and a joint powers agreement, effective April 19, 1990. The Health Services Board consists of 15 members, 5 members each from Meeker, McLeod, and Sibley Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services.

The joint venture is financed primarily from state and federal grants. McLeod County is the fiscal agent.

Complete audited financial statements for the Health Services Board can be obtained at P. O. Box 398, Hutchinson, Minnesota 55350.

Minnesota River Basin

Sibley County entered into a joint powers agreement to promote the orderly water quality improvement and management of the Minnesota River Watershed pursuant to Minn. Stat. § 471.59.

The management of the Minnesota River Basin is vested in the Board of Directors consisting of one member and an alternate from each County Board of Commissioners included in this agreement. According to the latest information available, 37 counties are members under this agreement.

Financing is provided by a contribution from each member county based on its share of the annual budget. Sibley County paid dues in the amount of \$1,438 in 2012.

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota River Basin (Continued)

Complete audited financial statements for the Minnesota River Basin can be obtained from its administrative office at 184 Trafton Science Center, Minnesota State University at Mankato, Mankato, Minnesota 56001.

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. The agreement was amended in 2006 to give the original counties an equity interest in the joint venture, retroactive to 2001. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties joined the joint venture. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating member counties' health care functions, referred to as county-based purchasing.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordination of social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated to all members based on the percentage of their utilization. The County's equity interest in the SCHA at the end of 2012 was \$1,054,131. The equity interest is reported as an investment in joint venture on the government-wide statement of net position.

Complete financial statements for the SCHA can be obtained from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

**SIBLEY COUNTY  
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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Trailblazer Transit Board

Sibley County entered into a joint powers agreement creating and operating the Trailblazer Transit Board, pursuant to Minn. Stat. § 471.59, and a joint powers agreement, effective June 8, 1999. Management of the Trailblazer Transit Board is vested in the Joint Powers Board consisting of three members appointed by McLeod County and two members appointed by Sibley County from each County Board of Commissioners. The primary purpose of the Trailblazer Transit Board is to provide centralized planning and implementation of needed public transit services.

Financing is primarily provided from user fees, state and federal grants, and local tax levy. Member counties are committed to providing the local match necessary to meet the requirements for state and federal funding. For 2012, Sibley County made contributions of \$161,100.

Complete financial statements for the Trailblazer Transit Board can be obtained from the administrative office at P. O. Box 88, Gaylord, Minnesota 55334.

Crow River Joint Powers Agreement

In April 1999, the County entered into a joint powers agreement with Carver, Hennepin, Kandiyohi, McLeod, Meeker, Pope, Renville, Stearns, and Wright Counties, creating the Crow River Joint Powers Agreement. The agreement is authorized by Minn. Stat. §§ 103B.311 and 103B.315. The Board of Directors meets at least two times per year, or more often if needed, at the location to be set by the chair of the Board. The purpose of this agreement is the joint exercise of powers by the member counties to promote the orderly water quality improvement and management of the Crow River Watershed through information sharing, education, coordination, and related support to the member counties by assisting in the implementation and goal achievement of comprehensive water plans which counties may develop and implement. For 2012, Sibley County made a contribution of \$328.

The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds.

Current audited financial statements are available at 322 South Minnesota Avenue, St. Peter, Minnesota 56082.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2012, Sibley County paid \$3,000 to the Board.

Complete financial information can be obtained from the Rural Minnesota Energy Board, Slayton, Minnesota 56172.

D. Jointly-Governed Organizations

Sibley County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below.

South Central Community Based Initiative

The South Central Community Based Initiative was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Martin, Freeborn, Le Sueur, Nicollet, Rice, Sibley, and Watonwan Counties.



**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

South Central Minnesota Regional Radio Board

The South Central Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. The Board was formed for the planning, financing, development, design, construction, operation, management, control, and administration of the regional enhancement to the statewide public safety radio and communications system (ARMER) in accordance with the Statewide Public Safety Radio Plan and the operational standards of the Statewide Radio Board. The Regional Radio Board consists of one County Commissioner or City Council member of member organizations. Sibley County made no contributions to the Regional Radio Board in 2012.

Sibley County Children's Collaborative

Sibley County and Independent School District Nos. 2310 and 2365 have created the Sibley County Children's Collaborative, pursuant to Minn. Stat. § 471.59 and a joint powers agreement. The purpose of the Collaborative is to facilitate early intervention and prevention services to at-risk children and their families.

Sibley County is the fiscal agent of the Collaborative. Sibley County has no operational or financial control over the Collaborative. Audited financial statements can be obtained from the Collaborative's office at the Sibley County Courthouse, 400 Court Avenue, P. O. Box 207, Gaylord, Minnesota 55334.

Three Counties for Kids Collaborative

Brown, Sibley, and Watonwan Counties; the Sioux Trails Mental Health Center; and the River Bend Education District, representing the school districts served by River Bend, have formed the Three Counties for Kids Collaborative, pursuant to Minn. Stat. § 471.59 and a joint powers agreement. The purpose of the Collaborative is to join local units of government to ensure a unified, unduplicated, and "family friendly" system of intervention and care for families and children.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Three Counties for Kids Collaborative (Continued)

Brown County is the fiscal agent of the Collaborative. Sibley County has no operational or financial control over the Collaborative. Financial information can be obtained by contacting the Brown County Family Services Department. The Sibley County Children's Collaborative contributed \$13,699 to the Three Counties for Kids Collaborative in 2012.

South Central Minnesota Emergency Medical Services

This jointly-governed organization provides various health services to several counties. During the year, the County made no payments to the South Central Minnesota Emergency Medical Services.

State of Minnesota, Department of Public Safety, Bureau of Criminal Apprehension

On December 2011, the County entered into a joint powers agreement with the state in order to provide access to the system and tools available over the State's criminal justice data communications network. During the year, the County made no payments to the joint powers.

South Central Workforce Council

In June 2012, the County entered into a joint powers agreement with Blue Earth, Brown, Faribault, Martin, LeSueur, Nicollet, Waseca, Watonwan Counties, creating the South Central Workforce Services Area. The agreement is authorized by Minn. Stat. §§ 471.59. The Board is comprised of one voting member and one alternate member for each participating County. The goal of the Board is to develop and maintain a quality workforce for South Central Minnesota.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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6. Sibley County Library System Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

Reporting Entity

The Sibley County Library System is an organization formed by the County to provide library services to Sibley County. It has branch libraries in five cities: Arlington, Gaylord, Gibbon, Henderson, and Winthrop. The Library Board consists of seven members, one member from each of the five cities, one Sibley County Commissioner, and one at-large representative from Sibley County. Sibley County is required by Minnesota statutes to provide financial support to the Sibley County Library System, which it does by means of an appropriation each year.

Because of the significance of the financial relationship, Sibley County considers this entity a major component unit.

Basis of Presentation and Basis of Accounting

The Sibley County Library System does not prepare separate financial statements. The Sibley County Library System presents its one fund as a governmental fund.

The Sibley County Library System's General Fund is accounted for on the modified accrual basis of accounting.

B. Detailed Notes on the General Fund

1. Assets

a. Deposits

Details of the Sibley County Library System's cash and pooled investments are:

Cash held by the County Treasurer	\$ 125,065
Cash with the Henderson Branch	<u>1,199</u>
Total Cash and Pooled Investments	<u><u>\$ 126,264</u></u>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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6. Sibley County Library System Component Unit Disclosures

B. Detailed Notes on the General Fund

1. Assets

a. Deposits (Continued)

The Sibley County Library System is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. All Sibley County Library System deposits are required by Minn. Stat. § 118A.03 to be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day that is not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies, general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the Sibley County Library System's deposits may not be returned to it. As of December 31, 2012, the Sibley County Library System's deposits were not exposed to custodial credit risk.

2. Liabilities

Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Compensated absences	\$ 36,053	\$ -	\$ 7,132	\$ 28,921	\$ 7,808

**REQUIRED SUPPLEMENTARY INFORMATION**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,115,378	\$ 5,115,378	\$ 5,172,201	\$ 56,823
Special assessments	130,000	130,000	135,245	5,245
Licenses and permits	23,780	23,780	25,976	2,196
Intergovernmental	548,563	548,563	1,106,961	558,398
Charges for services	828,110	828,110	834,924	6,814
Fines and forfeits	9,400	9,400	32,365	22,965
Gifts and contributions	1,000	1,000	-	(1,000)
Investment earnings	312,061	312,061	227,602	(84,459)
Miscellaneous	210,617	210,617	258,088	47,471
<b>Total Revenues</b>	<b>\$ 7,178,909</b>	<b>\$ 7,178,909</b>	<b>\$ 7,793,362</b>	<b>\$ 614,453</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 303,203	\$ 303,203	\$ 197,479	\$ 105,724
Courts	56,600	56,600	63,554	(6,954)
Law library	26,000	26,000	30,551	(4,551)
County administrator	-	-	123	(123)
County auditor	420,712	420,712	432,500	(11,788)
County treasurer	182,012	182,012	180,426	1,586
Audit services	67,500	67,500	65,284	2,216
Information services	350,507	350,507	372,337	(21,830)
Elections/voter registration	81,463	81,463	79,133	2,330
Election and technology	3,589	3,589	-	3,589
Human resources	135,794	135,794	132,352	3,442
County attorney	437,388	437,388	403,704	33,684
County recorder	293,753	293,753	248,909	44,844
County surveyor	32,500	32,500	32,485	15
County assessor	318,610	318,610	312,167	6,443
Planning and zoning	71,269	71,269	77,323	(6,054)
Courthouse building	104,687	194,687	269,120	(74,433)
Building custodians	159,395	159,395	157,575	1,820
Sibley County food shelf	83	83	132	(49)
Jail building	88,753	88,753	86,942	1,811
Sibley County service center	70,286	70,286	82,550	(12,264)
Sheriff shed	3,000	3,000	1,947	1,053
Sibley East and West	7,374	7,374	7,373	1
Veterans service officer	101,994	101,994	86,784	15,210
Public transit	251,745	251,745	161,100	90,645
County fleet car	11,743	11,743	9,362	2,381
Shoreland ordinance	2,655	2,655	3,996	(1,341)
MPCA feedlot program	57,434	57,434	57,382	52
<b>Total general government</b>	<b>\$ 3,640,049</b>	<b>\$ 3,730,049</b>	<b>\$ 3,552,590</b>	<b>\$ 177,459</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 2,022,989	\$ 2,022,989	\$ 1,961,168	\$ 61,821
Enhanced 911 system	54,500	54,500	23,962	30,538
Court services	208,556	208,556	229,508	(20,952)
Sentenced to serve	67,878	67,878	57,834	10,044
Emergency management	67,437	67,437	53,816	13,621
South Central Minnesota Regional Radio Board	1,900	1,900	620,657	(618,757)
<b>Total public safety</b>	<b>\$ 2,423,260</b>	<b>\$ 2,423,260</b>	<b>\$ 2,946,945</b>	<b>\$ (523,685)</b>
<b>Sanitation</b>				
SCORE solid waste	\$ 201,632	\$ 201,632	\$ 173,821	\$ 27,811
County landfill	857	857	913	(56)
<b>Total sanitation</b>	<b>\$ 202,489</b>	<b>\$ 202,489</b>	<b>\$ 174,734</b>	<b>\$ 27,755</b>
<b>Culture and recreation</b>				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Sibley County Library System	252,112	252,112	251,024	1,088
Parks	45,256	45,256	29,881	15,375
County park trail project	55,000	55,000	-	55,000
County seat trail	-	-	37,760	(37,760)
Tourism	2,650	2,650	1,631	1,019
<b>Total culture and recreation</b>	<b>\$ 365,018</b>	<b>\$ 365,018</b>	<b>\$ 330,296</b>	<b>\$ 34,722</b>
<b>Conservation of natural resources</b>				
Soil and water conservation	\$ 139,092	\$ 139,092	\$ 177,159	\$ (38,067)
County extension	143,046	143,046	141,299	1,747
Agriculture ditch inspector	107,477	107,477	108,235	(758)
County fair	8,000	8,000	8,000	-
<b>Total conservation of natural resources</b>	<b>\$ 397,615</b>	<b>\$ 397,615</b>	<b>\$ 434,693</b>	<b>\$ (37,078)</b>



**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Housing and Redevelopment Authority	\$ 124,231	\$ 124,231	\$ 185,484	\$ (61,253)
Minnesota Valley Action Council	9,109	9,109	7,628	1,481
Economic Development Commission	98,428	98,428	48,961	49,467
Economic development support for municipalities	25,000	25,000	25,000	-
<b>Total economic development</b>	<b>\$ 256,768</b>	<b>\$ 256,768</b>	<b>\$ 267,073</b>	<b>\$ (10,305)</b>
<b>Capital outlay</b>				
General government	\$ 297,276	\$ 327,276	\$ 100,600	\$ 226,676
Public safety	152,138	152,138	430,158	(278,020)
Sanitation	35,000	35,000	74,557	(39,557)
Culture and recreation	84,693	84,693	34,708	49,985
<b>Total capital outlay</b>	<b>\$ 569,107</b>	<b>\$ 599,107</b>	<b>\$ 640,023</b>	<b>\$ (40,916)</b>
<b>Total Expenditures</b>	<b>\$ 7,854,306</b>	<b>\$ 7,974,306</b>	<b>\$ 8,346,354</b>	<b>\$ (372,048)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (675,397)</b>	<b>\$ (795,397)</b>	<b>\$ (552,992)</b>	<b>\$ 242,405</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 64,499	\$ 64,499
Transfers out	-	(310,000)	(310,000)	-
Proceeds from the sale of capital assets	2,000	2,000	8,013	6,013
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 2,000</b>	<b>\$ (308,000)</b>	<b>\$ (237,488)</b>	<b>\$ 70,512</b>
<b>Net Change in Fund Balance</b>	<b>\$ (673,397)</b>	<b>\$ (1,103,397)</b>	<b>\$ (790,480)</b>	<b>\$ 312,917</b>
Fund Balance - January 1, as previously reported	\$ 9,933,591	\$ 9,933,591	\$ 9,933,591	\$ -
Restatement (Note 1.F.)	(1,206,697)	(1,206,697)	(1,206,697)	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 8,726,894</b>	<b>\$ 8,726,894</b>	<b>\$ 8,726,894</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 8,053,497</b>	<b>\$ 7,623,497</b>	<b>\$ 7,936,414</b>	<b>\$ 312,917</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC WORKS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,480,366	\$ 3,480,366	\$ 3,441,653	\$ (38,713)
Intergovernmental	3,882,261	3,882,261	5,545,795	1,663,534
Charges for services	152,015	152,015	220,455	68,440
Miscellaneous	74,295	74,295	182,489	108,194
<b>Total Revenues</b>	<b>\$ 7,588,937</b>	<b>\$ 7,588,937</b>	<b>\$ 9,390,392</b>	<b>\$ 1,801,455</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Maintenance	\$ 2,640,283	\$ 2,640,283	\$ 2,417,483	\$ 222,800
Engineering/construction	3,047,292	3,667,292	4,771,255	(1,103,963)
Equipment, shop maintenance, and repairs	801,223	801,223	680,180	121,043
Administration	335,072	335,072	315,199	19,873
Township allotments	40,000	40,000	77,604	(37,604)
<b>Total highways and streets</b>	<b>\$ 6,863,870</b>	<b>\$ 7,483,870</b>	<b>\$ 8,261,721</b>	<b>\$ (777,851)</b>
<b>Capital outlay</b>				
Highways and streets	346,500	346,500	253,673	92,827
<b>Intergovernmental</b>				
Highways and streets	263,567	263,567	276,022	(12,455)
<b>Total Expenditures</b>	<b>\$ 7,473,937</b>	<b>\$ 8,093,937</b>	<b>\$ 8,791,416</b>	<b>\$ (697,479)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 115,000</b>	<b>\$ (505,000)</b>	<b>\$ 598,976</b>	<b>\$ 1,103,976</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ 620,000	\$ 620,000	\$ -
Transfers out	(324,000)	(324,000)	-	324,000
Proceeds from the sale of capital assets	89,000	89,000	2,676	(86,324)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (235,000)</b>	<b>\$ 385,000</b>	<b>\$ 622,676</b>	<b>\$ 237,676</b>
<b>Net Change in Fund Balance</b>	<b>\$ (120,000)</b>	<b>\$ (120,000)</b>	<b>\$ 1,221,652</b>	<b>\$ 1,341,652</b>
<b>Fund Balance - January 1</b>	<b>3,875,049</b>	<b>3,875,049</b>	<b>3,875,049</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>63,505</b>	<b>63,505</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,755,049</b>	<b>\$ 3,755,049</b>	<b>\$ 5,160,206</b>	<b>\$ 1,405,157</b>

The notes to the required supplementary information are an integral part of this schedule.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,028,617	\$ 2,028,617	\$ 2,001,080	\$ (27,537)
Intergovernmental	2,934,646	2,934,646	2,828,378	(106,268)
Charges for services	572,922	572,922	557,555	(15,367)
Gifts and contributions	-	-	845	845
Miscellaneous	201,061	201,061	99,579	(101,482)
<b>Total Revenues</b>	<b>\$ 5,737,246</b>	<b>\$ 5,737,246</b>	<b>\$ 5,487,437</b>	<b>\$ (249,809)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,030,152	\$ 1,030,152	\$ 1,030,288	\$ (136)
Social services	3,405,623	3,405,623	3,107,373	298,250
Miscellaneous social service programs	30,600	30,600	28,361	2,239
<b>Total human services</b>	<b>\$ 4,466,375</b>	<b>\$ 4,466,375</b>	<b>\$ 4,166,022</b>	<b>\$ 300,353</b>
<b>Health</b>				
Public health nurse	<b>\$ 1,561,438</b>	<b>\$ 1,561,438</b>	<b>\$ 1,437,239</b>	<b>\$ 124,199</b>
<b>Capital outlay</b>				
Human services	\$ -	\$ -	\$ 11,259	\$ (11,259)
Health	-	-	6,612	(6,612)
<b>Total capital outlay</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,871</b>	<b>\$ (17,871)</b>
<b>Total Expenditures</b>	<b>\$ 6,027,813</b>	<b>\$ 6,027,813</b>	<b>\$ 5,621,132</b>	<b>\$ 406,681</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (290,567)</b>	<b>\$ (290,567)</b>	<b>\$ (133,695)</b>	<b>\$ 156,872</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	(310,000)	(310,000)	-
<b>Net Change in Fund Balance</b>	<b>\$ (290,567)</b>	<b>\$ (600,567)</b>	<b>\$ (443,695)</b>	<b>\$ 156,872</b>
Fund Balance - January 1, as previously reported	\$ 4,601,948	\$ 4,601,948	\$ 4,601,948	\$ -
Restatement (Note 1.F.)	1,206,697	1,206,697	1,206,697	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 5,808,645</b>	<b>\$ 5,808,645</b>	<b>\$ 5,808,645</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,518,078</b>	<b>\$ 5,208,078</b>	<b>\$ 5,364,950</b>	<b>\$ 156,872</b>

The notes to the required supplementary information are an integral part of this schedule.

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT A- 4**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 439,762	\$ 439,762	0.0%	\$ 5,555,369	7.92%
January 1, 2011	-	627,928	627,928	0.0	5,392,445	11.6

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General, Public Works Special Revenue, and Public Health and Human Services Special Revenue Funds. The Sibley County Board of Commissioners holds several public hearings, and a final budget must be prepared and adopted no later than December 31. The appropriated budget is prepared by fund. Revisions that increase or decrease the budgeted revenues or expenditures of any fund must be approved by the Board of Commissioners. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

2. Budgetary Information

The expenditure and other financing sources (uses) budgets in the General, Public Works Special Revenue, and Public Health and Human Services Special Revenue Fund were amended as follows:

<u>Expenditures</u>	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 7,854,306	\$ 120,000	\$ 7,974,306
Public Works Special Revenue Fund	7,473,937	620,000	8,093,937
<u>Other Financing Sources (Uses)</u>	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 2,000	\$ (310,000)	\$ (308,000)
Public Works Special Revenue Fund	(235,000)	620,000	385,000
Public Health and Human Services Special Revenue Fund	-	(310,000)	(310,000)

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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3. Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2012:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 8,346,354	\$ 7,974,306	\$ 372,048
Public Works Special Revenue Fund	8,791,416	8,093,937	697,479

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance. The primary reason for the excess expenditures in the General Fund was associated with the costs of the unbudgeted ARMER radio project. The Public Works Special Revenue Fund expenditures in excess of budget were funded by transfers from the General Fund and the Public Health and Human Services Special Revenue fund.

4. Other Postemployment Benefits

Complete multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as it becomes available. See Note 3.C.5., Other Postemployment Benefits, for more information.

**SUPPLEMENTARY INFORMATION**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 273,620	\$ 273,620	\$ 269,489	\$ (4,131)
Intergovernmental	-	-	4,961	4,961
<b>Total Revenues</b>	<b>\$ 273,620</b>	<b>\$ 273,620</b>	<b>\$ 274,450</b>	<b>\$ 830</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 180,000	\$ 180,000	\$ 180,000	\$ -
Interest	77,623	77,623	77,623	-
Bond issuance costs	-	-	40,815	(40,815)
Administrative charges	15,997	15,997	425	15,572
<b>Total Expenditures</b>	<b>\$ 273,620</b>	<b>\$ 273,620</b>	<b>\$ 298,863</b>	<b>\$ (25,243)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (24,413)</b>	<b>\$ (24,413)</b>
<b>Other Financing Sources (Uses)</b>				
Refunding bonds issued	-	-	1,800,000	1,800,000
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,775,587</b>	<b>\$ 1,775,587</b>
<b>Fund Balance - January 1</b>	<b>1,046,992</b>	<b>1,046,992</b>	<b>1,046,992</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,046,992</b>	<b>\$ 1,046,992</b>	<b>\$ 2,822,579</b>	<b>\$ 1,775,587</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT B-2*

**BUDGETARY COMPARISON SCHEDULE  
CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Capital outlay</b>				
Highways and streets	\$ 50,000	\$ 50,000	\$ -	\$ 50,000
<b>Net Change in Fund Balance</b>	\$ (50,000)	\$ (50,000)	\$ -	\$ 50,000
<b>Fund Balance - January 1</b>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**NONMAJOR FUNDS**

Nonmajor Special Revenue Funds

Revolving Loan Fund (SEDCO) - To account for housing rehabilitation, working capital, expansion, renovation, or start-up financing for businesses as a result of the Economic Recovery Fund Grant and the Small Cities Development Program Grant.

Water Projects - To account for the administration of the water quality and flowage of the High Island and Rush River Watershed Districts.

Nonmajor Permanent Fund

Federal Land - To account for all funds related to land purchased by the federal government.

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT C-1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<u>Special Revenue Funds</u>			<u>Permanent Fund Federal Lands</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
	<u>Revolving Loan Fund (SEDCO)</u>	<u>Water Projects</u>	<u>Total</u>		
<b><u>Assets</u></b>					
Cash and pooled investment	\$ 125,451	\$ 27,763	\$ 153,214	\$ 80,917	\$ 234,131
Due from other governments	-	62,986	62,986	-	62,986
Loans receivable	140,025	-	140,025	-	140,025
Advance to other agencies	25,000	-	25,000	-	25,000
<b>Total Assets</b>	<b><u>\$ 290,476</u></b>	<b><u>\$ 90,749</u></b>	<b><u>\$ 381,225</u></b>	<b><u>\$ 80,917</u></b>	<b><u>\$ 462,142</u></b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 5,637	\$ 5,637	\$ -	\$ 5,637
Salaries payable	-	2,412	2,412	-	2,412
Due to other governments	-	64,354	64,354	-	64,354
Deferred revenue - unearned	-	3,357	3,357	-	3,357
<b>Total Liabilities</b>	<b><u>\$ -</u></b>	<b><u>\$ 75,760</u></b>	<b><u>\$ 75,760</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 75,760</u></b>
<b>Fund Balances</b>					
Nonspendable for					
Federal lands	\$ -	\$ -	\$ -	\$ 80,917	\$ 80,917
Restricted for					
Economic development	150,451	-	150,451	-	150,451
Economic development - economic development loans	81,226	-	81,226	-	81,226
Economic development - housing loans	58,799	-	58,799	-	58,799
Conservation projects	-	14,989	14,989	-	14,989
<b>Total Fund Balances</b>	<b><u>\$ 290,476</u></b>	<b><u>\$ 14,989</u></b>	<b><u>\$ 305,465</u></b>	<b><u>\$ 80,917</u></b>	<b><u>\$ 386,382</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 290,476</u></b>	<b><u>\$ 90,749</u></b>	<b><u>\$ 381,225</u></b>	<b><u>\$ 80,917</u></b>	<b><u>\$ 462,142</u></b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT C-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Special Revenue Funds</u>			<u>Permanent Fund Federal Lands</u>	<u>Total Nonmajor Governmental Funds (Exhibit 5)</u>
	<u>Revolving Loan Fund (SEDCO)</u>	<u>Water Projects</u>	<u>Total</u>		
<b>Revenues</b>					
Intergovernmental	\$ -	\$ 137,604	\$ 137,604	\$ 5,328	\$ 142,932
Gifts and contributions	-	13,600	13,600	-	13,600
Investment earnings	-	-	-	575	575
Miscellaneous	2,873	641	3,514	-	3,514
<b>Total Revenues</b>	<b>\$ 2,873</b>	<b>\$ 151,845</b>	<b>\$ 154,718</b>	<b>\$ 5,903</b>	<b>\$ 160,621</b>
<b>Expenditures</b>					
<b>Current</b>					
Conservation of natural resources	-	140,227	140,227	5,903	146,130
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,873</b>	<b>\$ 11,618</b>	<b>\$ 14,491</b>	<b>\$ -</b>	<b>\$ 14,491</b>
<b>Other Financing Sources (Uses)</b>					
Transfers out	-	(64,499)	(64,499)	-	(64,499)
<b>Net Change in Fund Balance</b>	<b>\$ 2,873</b>	<b>\$ (52,881)</b>	<b>\$ (50,008)</b>	<b>\$ -</b>	<b>\$ (50,008)</b>
Fund Balance - January 1, as previously reported	\$ 228,804	\$ 67,870	\$ 296,674	\$ 80,917	\$ 377,591
Restatement (Note 1.F.)	58,799	-	58,799	-	58,799
<b>Fund Balance - January 1, as restated</b>	<b>\$ 287,603</b>	<b>\$ 67,870</b>	<b>\$ 355,473</b>	<b>\$ 80,917</b>	<b>\$ 436,390</b>
<b>Fund Balance - December 31</b>	<b>\$ 290,476</b>	<b>\$ 14,989</b>	<b>\$ 305,465</b>	<b>\$ 80,917</b>	<b>\$ 386,382</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT C-3*

**BUDGETARY COMPARISON SCHEDULE  
WATER PROJECTS NONMAJOR SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 166,859	\$ 166,859	\$ 137,604	\$ (29,255)
Gifts and contributions	18,600	18,600	13,600	(5,000)
Miscellaneous	-	-	641	641
<b>Total Revenues</b>	<b>\$ 185,459</b>	<b>\$ 185,459</b>	<b>\$ 151,845</b>	<b>\$ (33,614)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Bevens Silver Creek	\$ -	\$ -	\$ 1,310	\$ (1,310)
High Island TMDL Implementation	91,940	91,940	65,452	26,488
Rush River TMDL Implementation	93,519	93,519	73,465	20,054
<b>Total Expenditures</b>	<b>\$ 185,459</b>	<b>\$ 185,459</b>	<b>\$ 140,227</b>	<b>\$ 45,232</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,618</b>	<b>\$ 11,618</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(64,499)	(64,499)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (52,881)</b>	<b>\$ (52,881)</b>
<b>Fund Balance - January 1</b>	<b>67,870</b>	<b>67,870</b>	<b>67,870</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 67,870</b>	<b>\$ 67,870</b>	<b>\$ 14,989</b>	<b>\$ (52,881)</b>

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

TRUST AND AGENCY FUNDS

Private-Purpose Trust Funds

Nurse Development - To account for a donation to be used to foster the personal and professional growth of the nursing staff.

Missing Heirs - To account for all unclaimed legacies held by the County.

Agency Funds

Other Agency - To account for collection and payment of fines and fees due to the state and other government and non-government entities.

Taxes and Penalties - To account for the collection of taxes and penalties and their payment to the various taxing districts.

Tri-County Solid Waste - To account for collections and disbursements for the Tri-County Solid Waste joint venture.

Forfeited Tax - To account for all funds collected under state statute for the sale of property forfeited for unpaid tax.

Sibley County Children's Collaborative - To account for all funds used in the implementation and administration of services for at-risk children and their families.

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT D-1*

**COMBINING STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE-PURPOSE TRUST FUNDS  
DECEMBER 31, 2012**

	<u>Nurse Development</u>	<u>Missing Heirs</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 1,579	\$ 23,372	\$ 24,951
Investments	5,500	31,337	36,837
Accrued interest	<u>1</u>	<u>201</u>	<u>202</u>
<b>Total Assets</b>	<b><u>\$ 7,080</u></b>	<b><u>\$ 54,910</u></b>	<b><u>\$ 61,990</u></b>
<b><u>Net Position</u></b>			
Net position, held in trust	<b><u>\$ 7,080</u></b>	<b><u>\$ 54,910</u></b>	<b><u>\$ 61,990</u></b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT D-2*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PRIVATE-PURPOSE TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Nurse Development</b>	<b>Missing Heirs</b>	<b>Total</b>
<b><u>Additions</u></b>			
Interest	\$ 37	\$ 568	\$ 605
<b><u>Deductions</u></b>			
Payments in accordance with trust agreements	428	-	428
<b>Change in Net Position</b>	<b>\$ (391)</b>	<b>\$ 568</b>	<b>\$ 177</b>
<b>Net Position - Beginning of the Year</b>	<b>7,471</b>	<b>54,342</b>	<b>61,813</b>
<b>Net Position - End of the Year</b>	<b>\$ 7,080</b>	<b>\$ 54,910</b>	<b>\$ 61,990</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT D-3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>OTHER AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 46,051</u>	<u>\$ 1,123,717</u>	<u>\$ 1,094,320</u>	<u>\$ 75,448</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 2,720	\$ 523,602	\$ 526,322	\$ -
Due to other governments	<u>43,331</u>	<u>600,115</u>	<u>567,998</u>	<u>75,448</u>
<b>Total Liabilities</b>	<u><b>\$ 46,051</b></u>	<u><b>\$ 1,123,717</b></u>	<u><b>\$ 1,094,320</b></u>	<u><b>\$ 75,448</b></u>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 479,891</u>	<u>\$ 24,061,044</u>	<u>\$ 24,398,096</u>	<u>\$ 142,839</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 479,891</u>	<u>\$ 24,061,044</u>	<u>\$ 24,398,096</u>	<u>\$ 142,839</u>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT D-3  
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TRI-COUNTY SOLID WASTE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 302,364	\$ 293,961	\$ 8,403
Due from other governments	13,905	-	13,905	-
	<b>\$ 13,905</b>	<b>\$ 302,364</b>	<b>\$ 307,866</b>	<b>\$ 8,403</b>
	<b>\$ 13,905</b>	<b>\$ 302,364</b>	<b>\$ 307,866</b>	<b>\$ 8,403</b>
<b><u>Liabilities</u></b>				
Cash overdraft	\$ 11,768	\$ -	\$ 11,768	\$ -
Due to other governments	2,137	300,227	293,961	8,403
	<b>\$ 13,905</b>	<b>\$ 300,227</b>	<b>\$ 305,729</b>	<b>\$ 8,403</b>
	<b>\$ 13,905</b>	<b>\$ 300,227</b>	<b>\$ 305,729</b>	<b>\$ 8,403</b>
 <b><u>FORFEITED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 22,227	\$ 22,227	\$ -
Due from other governments	171	2,887	171	2,887
	<b>\$ 171</b>	<b>\$ 25,114</b>	<b>\$ 22,398</b>	<b>\$ 2,887</b>
	<b>\$ 171</b>	<b>\$ 25,114</b>	<b>\$ 22,398</b>	<b>\$ 2,887</b>
<b><u>Liabilities</u></b>				
Cash overdraft	\$ 171	\$ 2,887	\$ 171	\$ 2,887
Due to other governments	-	22,227	22,227	-
	<b>\$ 171</b>	<b>\$ 25,114</b>	<b>\$ 22,398</b>	<b>\$ 2,887</b>
	<b>\$ 171</b>	<b>\$ 25,114</b>	<b>\$ 22,398</b>	<b>\$ 2,887</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT D-3  
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>SIBLEY COUNTY CHILDREN'S COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 109,703	\$ 70,574	\$ 73,931	\$ 106,346
<b><u>Liabilities</u></b>				
Accounts payable	\$ 109,703	\$ 70,574	\$ 73,931	\$ 106,346
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 635,645	\$ 25,579,926	\$ 25,882,535	\$ 333,036
Due from other governments	14,076	2,887	14,076	2,887
<b>Total Assets</b>	<b>\$ 649,721</b>	<b>\$ 25,582,813</b>	<b>\$ 25,896,611</b>	<b>\$ 335,923</b>
<b><u>Liabilities</u></b>				
Cash overdraft	\$ 11,939	\$ 2,887	\$ 11,939	\$ 2,887
Accounts payable	112,423	594,176	600,253	106,346
Due to other governments	525,359	24,983,613	25,282,282	226,690
<b>Total Liabilities</b>	<b>\$ 649,721</b>	<b>\$ 25,580,676</b>	<b>\$ 25,894,474</b>	<b>\$ 335,923</b>

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**LIBRARY BOARD COMPONENT UNIT**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT E-1*

**GENERAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION  
SIBLEY COUNTY LIBRARY BOARD COMPONENT UNIT  
DECEMBER 31, 2012**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 126,264	\$ -	\$ 126,264
Petty cash and change funds	20	-	20
Accounts receivable	262	-	262
Due from other governments	20,378	-	20,378
Prepaid items	23	-	23
<b>Total Assets</b>	<b>\$ 146,947</b>	<b>\$ -</b>	<b>\$ 146,947</b>
 <b><u>Liabilities and Fund Balance/Net Position</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 16,051	\$ -	\$ 16,051
Salaries payable	16,155	-	16,155
Due to other governments	2,667	-	2,667
Deferred revenue - unearned	4,256	-	4,256
Compensated absences payable - current	-	7,808	7,808
<b>Noncurrent liabilities</b>			
Compensated absences payable	-	21,113	21,113
<b>Total Liabilities</b>	<b>\$ 39,129</b>	<b>\$ 28,921</b>	<b>\$ 68,050</b>
<b>Fund Balance</b>			
Nonspendable - prepaid items	\$ 23	\$ (23)	
Unassigned	107,795	(107,795)	
<b>Total Fund Balance</b>	<b>\$ 107,818</b>	<b>\$ (107,818)</b>	
<b>Net Position</b>			
Unrestricted		<b>\$ 78,897</b>	78,897
<b>Total Liabilities and Fund Balance/Net Position</b>	<b>\$ 146,947</b>	<b>\$ -</b>	<b>\$ 146,947</b>
 <b>Reconciliation of the General Fund Balance to Net Position</b>			
Fund Balance - General Fund			\$ 107,818
Long-term liabilities are reported in the Statement of Net Position but not in the Fund Balance Sheet			(28,921)
<b>Net Position - Governmental Activities</b>			<b>\$ 78,897</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT E-2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES  
SIBLEY COUNTY LIBRARY BOARD COMPONENT UNIT  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Adjustments	Governmental Activities
<b>Revenues</b>			
Intergovernmental	\$ 254,649	\$ -	\$ 254,649
Charges for services	67,938	-	67,938
Gifts and contributions	26,656	-	26,656
Miscellaneous	85,887	-	85,887
<b>Total Revenues</b>	<b>\$ 435,130</b>	<b>\$ -</b>	<b>\$ 435,130</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Culture and recreation</b>			
County library	431,754	(7,132)	424,622
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ 3,376</b>	<b>\$ 7,132</b>	<b>\$ 10,508</b>
<b>Fund Balance/Net Position- January 1</b>	<b>104,442</b>	<b>(36,053)</b>	<b>68,389</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 107,818</b>	<b>\$ (28,921)</b>	<b>\$ 78,897</b>

**Reconciliation of the Statement of General Fund Revenues,  
Expenditures, and Changes in Fund Balance to the Statement  
of Activities of Governmental Activities**

Net Change in Fund Balance \$ 3,376

Some expenses reported in the statement of activities do not  
require the use of current financial resources and, therefore,  
are not reported as expenditures in the funds.

7,132

**Change in Net Position of Governmental Activities**

**\$ 10,508**

## **SCHEDULES**

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**BALANCE SHEET - BY DITCH - ACCRUAL BASIS  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2012**

	Assets						Total
	Cash	Special Assessments Receivable		One-Year Repair Liens	Receivables	Prepays	
		Delinquent	Deferred				
<b>County Ditches</b>							
C.D. #1A	\$ 1,252	\$ 56	\$ -	\$ 13,542	\$ -	\$ -	\$ 14,850
C.D. #2	6,465	7	14,096	-	-	-	20,568
C.D. #4A	11,174	-	-	4,586	-	-	15,760
C.D. BEV CREEK 1	1,487	-	-	13,729	-	-	15,216
C.D. #9A	2,799	-	-	724	-	-	3,523
C.D. #10	958	-	-	806	-	-	1,764
C.D. #11	2,974	41	46,583	51,576	-	-	101,174
C.D. #12A	1,455	-	-	3,305	-	-	4,760
C.D. #13A	1,084	-	-	28,750	-	-	29,834
C.D. #18	2,352	-	59,531	69,042	10,632	-	141,557
C.D. #21A	4,582	-	-	-	-	-	4,582
C.D. #22	1,718	-	57,601	51,419	-	-	110,738
C.D. #23A	9,844	72	-	22,839	3,487	-	36,242
C.D. #24A	8,425	-	-	1,098	-	-	9,523
C.D. #25A	3,557	-	-	3,017	-	-	6,574
C.D. #26	1,002	-	-	653	-	-	1,655
C.D. #29M	1,935	3	-	28,937	-	-	30,875
C.D. #29 Impr. SCHWARTZ	1,746	15	54,537	-	-	-	56,298
C.D. #30A	1,599	-	-	6,480	-	-	8,079
C.D. #31A	2,452	-	-	16,713	-	-	19,165
C.D. #32A	1,715	-	-	8,056	-	-	9,771
C.D. #37A	9,726	-	-	-	-	-	9,726
C.D. #38	1,261	-	-	-	-	-	1,261
C.D. #39A	1,423	-	-	12,802	102	-	14,327
C.D. #40A	5,876	-	-	13,243	-	-	19,119
C.D. #42	2,823	40	-	51,579	13,015	-	67,457
C.D. #43	3,465	-	-	15,969	-	-	19,434
C.D. #44	1,088	-	-	7,756	-	-	8,844
C.D. #45	1,558	-	-	7,203	-	-	8,761
C.D. #46	935	-	-	-	-	-	935
C.D. #47	70,913	-	41,618	19,081	-	-	131,612
C.D. #48	1,950	-	-	7,741	-	-	9,691
C.D. #49	3,691	-	29,532	42,712	-	-	75,935
C.D. #50	1,307	-	-	17,303	-	-	18,610
C.D. #54	2,179	4	-	30,322	13,602	-	46,107
C.D. #55	2,447	1,363	75,239	97,897	181,791	-	358,737
C.D. #56	5,693	-	-	3,904	-	-	9,597
C.D. #57A	1,616	-	-	7,427	-	-	9,043
C.D. #58	1,336	84	-	7,087	30,275	-	38,782
C.D. #59	11,186	231	-	36,601	-	-	48,018
C.D. #60	2,554	-	-	-	-	-	2,554
C.D. #61	1,812	-	-	23,922	-	-	25,734
C.D. #64	21,622	-	-	-	-	-	21,622
C.D. #65	8,303	-	-	-	-	-	8,303
C.D. #66	20,055	-	-	-	-	-	20,055
C.D. #67	37,498	-	-	26,703	-	-	64,201
C.D. #61 Outlet Impr	4,210	-	6,083	-	-	-	10,293
C.D. #70	-	-	-	-	-	-	-
<b>Total County Ditches</b>	<b>\$ 297,102</b>	<b>\$ 1,916</b>	<b>\$ 384,820</b>	<b>\$ 754,524</b>	<b>\$ 252,904</b>	<b>\$ -</b>	<b>\$ 1,691,266</b>

EXHIBIT F-1

Liabilities							Fund Balance	Total Liabilities and Fund Balance
Accounts Payable	Due to Other Funds	Due to Other Governments	Deferred Revenue	Bonds Payable	Matured Interest	Total		
\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ -	\$ 12,000	\$ 2,850	\$ 14,850
-	-	-	-	-	-	-	20,568	20,568
-	-	-	-	-	-	-	15,760	15,760
-	15,000	-	-	-	-	15,000	216	15,216
-	-	-	-	-	-	-	3,523	3,523
-	500	-	-	-	-	500	1,264	1,764
-	95,000	-	-	-	-	95,000	6,174	101,174
-	3,000	-	-	-	-	3,000	1,760	4,760
-	3,000	-	-	-	-	3,000	26,834	29,834
-	192,000	-	-	-	-	192,000	(50,443)	141,557
-	-	-	-	-	-	-	4,582	4,582
-	80,000	-	-	-	-	80,000	30,738	110,738
-	-	-	-	-	-	-	36,242	36,242
-	-	-	-	-	-	-	9,523	9,523
-	10,000	-	-	-	-	10,000	(3,426)	6,574
-	1,000	-	-	-	-	1,000	655	1,655
4,991	108,000	-	-	-	-	112,991	(82,116)	30,875
-	55,000	-	-	-	-	55,000	1,298	56,298
-	9,000	-	-	-	-	9,000	(921)	8,079
-	-	-	-	-	-	-	19,165	19,165
1,544	10,000	-	-	-	-	11,544	(1,773)	9,771
-	-	-	-	-	-	-	9,726	9,726
-	1,000	-	-	-	-	1,000	261	1,261
1,816	23,000	-	-	-	-	24,816	(10,489)	14,327
642	-	-	-	-	-	642	18,477	19,119
7,075	18,000	-	-	-	-	25,075	42,382	67,457
-	55,000	-	-	-	-	55,000	(35,566)	19,434
-	400	-	-	-	-	400	8,444	8,844
7,350	21,000	-	-	-	-	28,350	(19,589)	8,761
-	-	-	-	-	-	-	935	935
10,026	158,000	-	-	-	-	168,026	(36,414)	131,612
1,965	11,000	-	-	-	-	12,965	(3,274)	9,691
5,252	60,000	-	-	-	-	65,252	10,683	75,935
789	10,000	-	-	-	-	10,789	7,821	18,610
2,014	1,000	-	-	-	-	3,014	43,093	46,107
6,188	250,000	-	-	-	-	256,188	102,549	358,737
-	-	-	-	-	-	-	9,597	9,597
-	6,000	-	-	-	-	6,000	3,043	9,043
-	37,000	-	-	-	-	37,000	1,782	38,782
-	-	-	-	-	-	-	48,018	48,018
-	-	-	-	-	-	-	2,554	2,554
24,321	-	-	-	-	-	24,321	1,413	25,734
-	-	-	-	-	-	-	21,622	21,622
-	-	-	-	-	-	-	8,303	8,303
-	-	-	-	-	-	-	20,055	20,055
2,218	-	66	-	-	-	2,284	61,917	64,201
-	10,000	-	-	-	-	10,000	293	10,293
11,722	-	-	-	-	-	11,722	(11,722)	-
<b>\$ 87,913</b>	<b>\$ 1,254,900</b>	<b>\$ 66</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,342,879</b>	<b>\$ 348,387</b>	<b>\$ 1,691,266</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**BALANCE SHEET - BY DITCH - ACCRUAL BASIS  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2012**

	Assets						Total
	Cash	Special Assessments Receivable		One-Year Repair Liens	Receivables	Prepays	
		Delinquent	Deferred				
<b>High Island Project</b>							
H.I. Proj. #2	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21
H.I. Proj. #5	15	-	-	-	-	-	15
H.I. Proj. #8	10	-	-	-	-	-	10
H.I. Proj. #9	10	-	-	-	-	-	10
H.I. Proj. #10	24,974	-	9,955	-	-	-	34,929
H.I. Proj. #11	198,160	-	268,333	-	-	49,510	516,003
H.I. Proj. #13 (Old CD 6A)	4,000	-	-	-	-	-	4,000
<b>Total High Island Project</b>	<b>\$ 227,190</b>	<b>\$ -</b>	<b>\$ 278,288</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 49,510</b>	<b>\$ 554,988</b>
<b>Judicial Ditches</b>							
JD #1A S&N	\$ 11,750	\$ 135	\$ -	\$ 9,601	\$ 6,829	\$ -	\$ 28,315
JD #3A SCM	1,159	-	-	37,009	96	-	38,264
JD #5 M&S	1,616	-	-	2,798	57	-	4,471
JD #5 S&N	821	-	-	1,205	251	-	2,277
JD #6A S&N	3,459	49	-	49,996	46,462	-	99,966
JD #8 S&R	2,528	-	-	24,198	235	-	26,961
JD #8 M&S	1,376	-	-	3,762	3,912	-	9,050
JD #11 RSM	9,956	-	-	66,733	1,751	-	78,440
JD #12 Sibley	4,716	-	-	4,402	-	-	9,118
JD #13 SRN	1,051	42	-	9,627	6,647	-	17,367
JD #13 N&S	834	-	-	-	156	-	990
JD #14 S&N	827	-	-	2,911	124	-	3,862
JD #15 S&M	2,060	-	-	4,308	193	-	6,561
JD #15 R&S	1,208	-	-	1,022	1,548	-	3,778
JD #15 N&S	1,573	-	-	4,203	5,551	-	11,327
JD #16 N&S	1,099	-	-	-	215	-	1,314
JD #17 S&M	1,160	-	-	2,931	154	-	4,245
JD #18 S&M	1,531	-	-	68,465	6,037	-	76,033
JD #19 S&M	1,113	-	-	3,770	2,110	-	6,993
JD #20 S&N	4,574	48	-	60,485	34,293	-	99,400
JD #21 S&C	836	-	-	275	-	-	1,111
JD #22 S&C	3,910	-	-	-	-	-	3,910
JD #24 RSM	1,965	389	-	13,456	11,146	-	26,956
JD #30 R&S	850	-	-	164	169	-	1,183
JD #31 RSN	5,656	-	-	-	140	-	5,796
JD #6 NS	1,230	-	-	-	177	-	1,407
JD #13 Lt A SRN Outlet	-	-	-	-	-	-	-
JT #1A N&S Impr	2,521	-	-	25,422	55,470	-	83,413
JT #1 RS	3,245	-	-	-	1,656	-	4,901
JT #7 SNR	32,873	-	62,108	-	5,888	25,663	126,532
JT #24 CS	998	-	-	-	-	-	998
JT #7 Lat 17 IMP Berger	2,820	-	99,677	-	-	-	102,497
JT #5 YAHNKE S&N Impr	5,009	-	82,859	-	-	-	87,868
<b>Total Judicial Ditches</b>	<b>\$ 116,324</b>	<b>\$ 663</b>	<b>\$ 244,644</b>	<b>\$ 396,743</b>	<b>\$ 191,267</b>	<b>\$ 25,663</b>	<b>\$ 975,304</b>
<b>Total All Ditches</b>	<b>\$ 640,616</b>	<b>\$ 2,579</b>	<b>\$ 907,752</b>	<b>\$ 1,151,267</b>	<b>\$ 444,171</b>	<b>\$ 75,173</b>	<b>\$ 3,221,558</b>
Reconcile to Exhibit 3	-	-	-	-	-	-	-
<b>Total Modified Accrual</b>	<b>\$ 640,616</b>	<b>\$ 2,579</b>	<b>\$ 907,752</b>	<b>\$ 1,151,267</b>	<b>\$ 444,171</b>	<b>\$ 75,173</b>	<b>\$ 3,221,558</b>



**EXHIBIT F-1**  
**(Continued)**

Liabilities							Fund Balance	Total Liabilities and Fund Balance
Accounts Payable	Due to Other Funds	Due to Other Governments	Deferred Revenue	Bonds Payable	Matured Interest	Total		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21	\$ 21
-	-	-	-	-	-	-	15	15
-	-	-	-	-	-	-	10	10
-	-	-	-	-	-	-	10	10
-	-	-	-	-	-	-	34,929	34,929
-	-	-	-	540,000	718	540,718	(24,715)	516,003
-	4,000	-	-	-	-	4,000	-	4,000
<b>\$ -</b>	<b>\$ 4,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 540,000</b>	<b>\$ 718</b>	<b>\$ 544,718</b>	<b>\$ 10,270</b>	<b>\$ 554,988</b>
\$ -	\$ -	\$ 216	\$ -	\$ -	\$ -	\$ 216	\$ 28,099	\$ 28,315
4,986	52,000	7	-	-	-	56,993	(18,729)	38,264
500	3,000	344	-	-	-	3,844	627	4,471
-	1,000	20	-	-	-	1,020	1,257	2,277
385	32,000	188	-	-	-	32,573	67,393	99,966
-	40,000	950	-	-	-	40,950	(13,989)	26,961
-	10,000	805	-	-	-	10,805	(1,755)	9,050
-	-	4,528	-	-	-	4,528	73,912	78,440
-	-	-	-	-	-	-	9,118	9,118
4,465	500	14,596	-	-	-	19,561	(2,194)	17,367
-	500	72	-	-	-	572	418	990
-	2,000	20	-	-	-	2,020	1,842	3,862
-	-	875	-	-	-	875	5,686	6,561
-	1,000	1,540	-	-	-	2,540	1,238	3,778
-	7,000	271	-	-	-	7,271	4,056	11,327
-	500	2	-	-	-	502	812	1,314
-	3,000	1,618	-	-	-	4,618	(373)	4,245
164	35,090	938	-	-	-	36,192	39,841	76,033
-	3,000	39	-	-	-	3,039	3,954	6,993
1,025	65,000	4,170	-	-	-	70,195	29,205	99,400
-	1,000	-	-	-	-	1,000	111	1,111
-	-	-	-	-	-	-	3,910	3,910
-	15,000	42	-	-	-	15,042	11,914	26,956
-	1,000	102	-	-	-	1,102	81	1,183
-	-	5,461	-	-	-	5,461	335	5,796
-	-	42	-	-	-	42	1,365	1,407
-	-	-	-	-	-	-	-	-
-	25,000	4,453	-	-	-	29,453	53,960	83,413
-	-	651	-	-	-	651	4,250	4,901
-	-	174	-	105,000	-	105,174	21,358	126,532
-	500	-	-	-	-	500	498	998
-	82,000	-	-	-	-	82,000	20,497	102,497
-	50,000	-	-	-	-	50,000	37,868	87,868
<b>\$ 11,525</b>	<b>\$ 430,090</b>	<b>\$ 42,124</b>	<b>\$ -</b>	<b>\$ 105,000</b>	<b>\$ -</b>	<b>\$ 588,739</b>	<b>\$ 386,565</b>	<b>\$ 975,304</b>
<b>\$ 99,438</b>	<b>\$ 1,688,990</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 645,000</b>	<b>\$ 718</b>	<b>\$ 2,476,336</b>	<b>\$ 745,222</b>	<b>\$ 3,221,558</b>
-	-	-	2,061,598	(645,000)	-	1,416,598	(1,416,598)	-
<b>\$ 99,438</b>	<b>\$ 1,688,990</b>	<b>\$ 42,190</b>	<b>\$ 2,061,598</b>	<b>\$ -</b>	<b>\$ 718</b>	<b>\$ 3,892,934</b>	<b>\$ (671,376)</b>	<b>\$ 3,221,558</b>

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT F-2**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Shared Revenue**

**State**

Highway users tax	\$	3,419,631
Market value credit		2,661
Market value credit - mobile home		9
Market value credit - agricultural		195,863
PERA rate reimbursement		25,385
Disparity reduction aid		54,851
County program aid		273,026
Police aid		70,119
E-911		87,932
Petroleum tax relief		2,112

<b>Total shared revenue</b>	<b>\$</b>	<b><u>4,131,589</u></b>
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**Reimbursement for Services**

**State**

Minnesota Department of Health and Department of Human Services	\$	<b><u>440,069</u></b>
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**Payments**

**Local**

Local contributions	\$	18,659
Payments in lieu of taxes		<u>45,356</u>

<b>Total payments</b>	<b>\$</b>	<b><u>64,015</u></b>
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**Grants**

**State**

Minnesota Department/Board of Corrections	\$	40,902
Public Safety		243,529
Transportation		1,186,282
Health		145,371
Natural Resources		213,232
Human Services		872,449
Water and Soil Resources		86,210
Peace Officer Standards and Training		3,653
Pollution Control Agency		<u>97,739</u>

<b>Total state</b>	<b>\$</b>	<b><u>2,889,367</u></b>
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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT F-2  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Grants (Continued)**

**Federal**

Department of Agriculture	\$ 236,829
Commerce	98,027
Transportation	726,495
Health and Human Services	1,108,109
Homeland Security	753,241
Environmental Protection Agency	104,221
	<hr/>
<b>Total federal</b>	<b>\$ 3,026,922</b>
	<hr/>
<b>Total state and federal grants</b>	<b>\$ 5,916,289</b>
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<b>Total Intergovernmental Revenue</b>	<b>\$ 10,551,962</b>
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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT F-3**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Meeker-McLeod-Sibley Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 121,651
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>115,178</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 236,829</u></b>
<b>U.S. Department of Commerce</b>		
Passed Through South Central Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<b><u>\$ 98,027</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<b><u>\$ 726,495</u></b>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	<b><u>\$ 104,221</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 5,000
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	2,180
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$132,650)	93.558	112,288
Emergency Contingency Fund for Temporary Assistance for Needy Families State Program - ARRA	93.714	2,928
Child Support Enforcement	93.563	209,931
Refugee and Entrant Assistance - State-Administered Programs	93.566	175
Child Care and Development Block Grant	93.575	4,062
Adoption Incentive Payments	93.603	116
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,907
Foster Care - Title IV-E	93.658	40,367
Social Services Block Grant	93.667	100,179
Chafee Foster Care Independence Program	93.674	645
Children's Health Insurance Program	93.767	23

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**EXHIBIT F-3  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services (Continued)		
Medical Assistance Program (Total Medical Assistance Program 93.778 \$351,899)	93.778	326,513
Block Grants for Prevention and Treatment of Substance Abuse (Total Block Grants for Prevention and Treatment of Substance Abuse 93.959 \$220,440)	93.959	218,039
Passed Through Meeker-McLeod-Sibley Community Health Services		
Public Health Emergency Preparedness	93.069	17,271
Universal Newborn Hearing Screening	93.251	1,375
Immunization Cooperative Agreements	93.268	1,800
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$132,650)	93.558	20,362
Medical Assistance Program (Total Medical Assistance Program 93.778 \$351,899)	93.778	25,386
Block Grants for Prevention and Treatment of Substance Abuse (Total Block Grants for Prevention and Treatment of Substance Abuse 93.959 \$220,440)	93.959	2,401
Maternal and Child Health Services Block Grant to the States	93.994	15,161
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,108,109</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 718,269
Emergency Management Performance Grants	97.042	34,972
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 753,241</b>
<b>Total Federal Awards</b>		<b>\$ 3,026,922</b>

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Sibley County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Sibley County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Sibley County, it is not intended to and does not present the financial position or changes in net position of Sibley County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families (TANF) Cluster	\$	135,578
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5. Subrecipients

During 2012, the County did not pass any federal money to subrecipients.

**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

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6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.



**Other Information  
Section**

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

*EXHIBIT G-1*

**TAX CAPACITY, TAX RATES, TAX LEVIES, AND PERCENTAGE OF COLLECTIONS  
DECEMBER 31, 2012**

	TAXES LEVIED FOR COLLECTION					
	2011		2012		2013	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
<b>Tax Capacity</b>						
Real property	\$ 19,712,723		\$ 18,959,457		\$ 20,177,043	
Personal property	606,510		579,391		604,616	
<b>Total Tax Capacity</b>	<b><u>\$ 20,319,233</u></b>		<b><u>\$ 19,538,848</u></b>		<b><u>\$ 20,781,659</u></b>	
<b>Taxes Levied for County Purposes</b>						
General government	\$ 5,778,983	27.640	\$ 5,168,367	25.709	\$ 5,240,365	23.976
Public works	3,022,574	14.769	3,445,017	17.560	4,032,113	18.917
Human services	1,899,724	9.283	2,063,751	10.519	2,075,110	9.736
Debt service	274,245	1.359	273,620	1.411	272,500	1.321
<b>Total Levy for County Purposes</b>	<b><u>\$ 10,975,526</u></b>	<b><u>53.051</u></b>	<b><u>\$ 10,950,755</u></b>	<b><u>55.199</u></b>	<b><u>\$ 11,620,088</u></b>	<b><u>53.950</u></b>
Less: County program aid	420,708		273,026		361,661	
<b>Net Levy for County Purposes</b>	<b><u>\$ 10,554,818</u></b>		<b><u>\$ 10,677,729</u></b>		<b><u>\$ 11,258,427</u></b>	
<b>Tax Capacity - Light and Power</b>						
Transmission lines	\$ 2,976		\$ 3,044		\$ 3,728	
Distribution lines	1,986		2,022		2,432	
<b>Total Tax Capacity - Light and Power</b>	<b><u>\$ 4,962</u></b>		<b><u>\$ 5,066</u></b>		<b><u>\$ 6,160</u></b>	
<b>Tax Levies - Light and Power</b>						
Transmission lines	\$ 2,839	95.410	\$ 3,072	100.932	\$ 3,637	97.560
Distribution lines	1,895	95.410	2,041	100.932	2,373	97.560
<b>Total Tax Levies - Light and Power</b>	<b><u>\$ 4,734</u></b>		<b><u>\$ 5,113</u></b>		<b><u>\$ 6,010</u></b>	
<b>Special Assessments</b>						
Ditch liens and all other assessments	<b><u>\$ 1,984,883</u></b>		<b><u>\$ 1,978,118</u></b>		<b><u>\$ 2,295,727</u></b>	
<b>Percentage of Tax Collections for All Purposes</b>		<b>98.12%</b>		<b>98.98%</b>		

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**SIBLEY COUNTY  
GAYLORD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Child Support Enforcement	CFDA #93.563
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

The threshold for distinguishing between Types A and B programs was \$300,000.

Sibley County qualified as a low-risk auditee? **No**

## II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 01-2 Accounting Policies and Procedures Manual

**Criteria:** County management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the County's accounting policies and procedures. Significant internal controls to be documented would include areas such as receipts, disbursements, payroll, capital assets, journal entries, and budget adjustments.

**Condition:** Inquiries of County management found that significant internal controls of its accounting system have not been documented. The County does not have a current and comprehensive accounting policies and procedures manual, including risk assessment and monitoring procedures.

**Context:** Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

**Effect:** As a result of this condition, the County's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. The lack of risk assessment and monitoring procedures increases the risk of fraud or misstatement.

**Cause:** The County has begun the process of developing formal policies and procedures that will include monitoring. Due to limited time and resources, the County has not been able to complete this project.

**Recommendation:** We recommend the County Auditor's Office continue its efforts to develop a comprehensive accounting policies and procedures manual including documentation for the internal control systems over receipts, disbursements, payroll, capital assets, journal entries, and budget adjustments. The manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which level of staff is to perform the procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support of controls.



#### 09-1 Assessing and Monitoring Internal Controls

**Criteria:** The County's management is responsible for establishing and maintaining effective internal control over financial reporting.

**Condition:** A risk assessment of existing controls over significant functions of the accounting system used to produce financial information has not been completed.

**Context:** The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. In 2012, the County continued testing controls over the payroll system and reviewing bank reconciliations.

**Effect:** Weaknesses in internal control could go undetected, which could affect the County's ability to detect material misstatements in the financial statements.

**Cause:** The County has not had the staffing resources available to complete the risk assessment process.

**Recommendation:** We recommend that County management implement procedures to document the significant internal controls in its accounting system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found. Monitoring procedures should be documented to show the results of the review, changes required, and who performed the work.

#### 11-1 Timeliness of Preparation of Financial Statements

**Criteria:** Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. The financial statement preparation in accordance with GAAP and OMB Circular A-133 requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

**Condition:** During 2011, the information included in the County's financial statements and submitted to the auditors, required numerous revisions affecting both the financial statements and related notes. In addition, the auditors were required to complete the financial statement process, including converting the modified accrual to full accrual in order to complete the government-wide financial statements. During 2012, the situation improved with respect to the preparation of the government-wide statements and notes; however, there were numerous delays in obtaining this information.

**Context:** In order to meet the County's September 30 single audit deadline, financial statement information needs to be provided to the auditors in a timely manner.

**Effect:** Additional audit hours resulted from delays in the County completing its financial statements within a reasonable amount of time. Errors were discovered which resulted in adjustments to the financial statements.

**Cause:** Tasks and information necessary for the County's financial statements were not completed in the time, form, and manner required by the County's audit. County staff is capable of preparing the financial statements but has historically had difficulties meeting the financial statement deadline required.

**Recommendation:** The County Board of Commissioners and management should take responsibility for the financial statements by reviewing internal controls currently in place over the preparation of the financial statements. Procedures should be implemented to ensure that the necessary financial information is prepared in a manner that allows the auditors an adequate amount of time to complete the audit by the County's required deadline.

#### 11-2 Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified material adjustments which resulted in significant changes to the County's financial statements.

**Context:** The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to record the effects of moving the health department from the General Fund to the Public Health and Human Services Special Revenue Fund, to reclassify intergovernmental revenue as federal instead of state in the Ditch Special Revenue Fund, and to record the additional principal retirement amount from bonds paid off due to refunding in the Ditch Special Revenue Fund. Additional adjustments were necessary in the nonmajor funds to record housing loans in the Revolving Loan Special Revenue Fund and to correct revenue entries in the Water Projects Special Revenue Fund.

**Cause:** Transactions resulting from moving the health department to the Public Health and Human Services Special Revenue Fund were not reported in accordance with generally accepted accounting principles (GAAP). The principal retirement of bonds paid off from the issuance of General Obligation Refunding Bonds, Series 2012A, was overlooked for inclusion in the County's financial statements. The recording of housing loans was overlooked for inclusion in the Revolving Special Revenue Fund. Certain revenues in the Water Projects Special Revenue Funds were not reported in accordance with GAAP.

**Recommendation:** We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

### III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

### IV. OTHER FINDINGS AND RECOMMENDATIONS

#### MANAGEMENT PRACTICES

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

##### 10-2 Ditch Fund Balance Deficits

**Criteria:** Since each ditch benefits specific landowners, each individual ditch should have adequate resources to meet its financial obligations. As provided by Minn. Stat. § 103E.735, subd. 1, fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

**Condition:** As of December 31, 2012, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balances.

**Context:** Seventeen of the 91 individual ditch systems had deficit fund balances as of December 31, 2012, totaling \$317,488; which is an increase from the \$247,143 deficit balance reported in the prior year.

**Effect:** Ditch systems with deficit fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations.

**Cause:** Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

**Recommendation:** We recommend that the County eliminate the ditch system fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.



REBECCA OTTO  
STATE AUDITOR

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## **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***

### Independent Auditor's Report

Board of County Commissioners  
Sibley County

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Sibley County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 25, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sibley County's internal control over financial reporting 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in

the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County'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 Questioned Costs as item 11-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 01-2, 09-1, and 11-1 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sibley County's financial statements are free of 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*.

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County had no tax increment financing districts or the legal compliance requirements where the activities took place in the various cities that are included in the Sibley County Library System.

In connection with our audit, nothing came to our attention that caused us to believe that Sibley County 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 County's noncompliance with the above referenced provisions.

### **Other Matters**

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 25, 2013

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Board of County Commissioners  
Sibley County

### **Report on Compliance for Each Major Federal Program**

We have audited Sibley County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Sibley County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Sibley County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about Sibley County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, Sibley County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

Management of Sibley County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 25, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR