

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**HUMAN SERVICES OF FARIBAULT  
AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2007**

## **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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**HUMAN SERVICES OF FARIBAULT  
AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**Year Ended December 31, 2007**



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

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

ORGANIZATION  
2007

Name	Title	County
Gerald Boler	Board Vice Chair	Martin
Steven Donnelly	Board Member	Martin
Steven Pierce	Board Treasurer	Martin
Jack Potter	Board Member	Martin
Martha Potter	Board Member, Citizens' Advisory Committee Chair	Martin
Dan Schmidtke	Board Member	Martin
Stephen Bohling	Board Member	Faribault
Butch Erichsrud	Board Member	Faribault
William Groskreutz, Jr.	Board Secretary	Faribault
Tom Loveall	Board Chair	Faribault
Barbara Steier	Board Member	Faribault
Tom Warmka	Board Member	Faribault
Warren Knudson	Human Services Executive Director	
Linda Mohwinkel	Assistant to the Executive Director	
Kathy Werner	Director of Business Management	
Vickie Savick	Social Services Program Manager	
Kathy DeNeui	Income Maintenance Program Manager	
Carmen Reckard	Community Health Services Program Manager	
Maurice Shoen	Mental Health Program Manager	

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Human Services Board  
Human Services of Faribault and Martin Counties

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of and for the year ended December 31, 2007, which collectively comprise the Human Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Human Services' management. 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 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Human Services of Faribault and Martin Counties' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Human Services of Faribault and Martin Counties. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2008, on our consideration of the Human Services of Faribault and Martin Counties' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

July 21, 2008

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007  
(Unaudited)**

The Human Services of Faribault and Martin Counties' Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the Human Services of Faribault and Martin Counties for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with the Human Services' basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

**FINANCIAL HIGHLIGHTS**

- On December 31, 2007, our total assets were \$1,451,109, and our total liabilities were \$1,542,852. We showed net assets of (\$91,743), of which \$19,766 is invested in capital assets, net of related debt. This was a decrease of \$175,857 from 2006.
- Our income is mainly state and federal grants, charges for services, miscellaneous revenue, and contributions from the two member counties. Miscellaneous income includes IV-E recoveries, foster care recoveries, chemical dependency recoveries, and mental health recoveries.
- Overall, the Human Services' government-wide revenues totaled \$11,005,934 and were \$175,857 less than expenses. The revenues increased 6.1 percent over 2006. Expenses totaled \$11,181,791 and increased by 8.9 percent from 2006, resulting in a reduction in fund balance/net assets.
- Long-term liabilities are for compensated absences and capital leases.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A (this section) and the budgetary comparison schedule are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Human Services of Faribault and Martin Counties' finances in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the Human Services of Faribault and Martin Counties' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Human Services of Faribault and Martin Counties that are principally supported by intergovernmental revenues. The activities of the Human Services of Faribault and Martin Counties include human services and health. There are no business-type activities within the Human Services of Faribault and Martin Counties.

## **Fund Financial Statements**

A "fund" is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Human Services of Faribault and Martin Counties, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Human Services of Faribault and Martin Counties maintains a General Fund and fiduciary agency funds.

All of the Human Services' services are reported in the General Fund, which focuses on how money flows into and out of the fund and any balance left at year-end available for spending. This fund is reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The General Fund statements provide a detailed short-term view of the Human Services' operations and the basic services it provides. General Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Human Services' programs. We describe the relationship (or differences) between General Fund activities and governmental activities in reconciliations on Exhibits 4 and 6.

Fiduciary funds are used to account for assets held by the Human Services as an agent for individuals, private organizations, other governments, or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. All of the Human Services' fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the government-wide financial statements because the Human Services cannot use these assets to finance its operations.

**Notes to the Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found directly after Exhibit 7.

**Other Information**

In addition to the basic financial statements and notes, the Human Services also provides supplementary information on General Fund departments, budgetary comparisons, fiduciary funds, and intergovernmental revenues (Schedules 1 through 7).

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may, over time, be a useful indicator of the Human Services' financial position. In the case of the Human Services, liabilities exceed assets by \$91,743.

**Table 1  
Agency Net Assets**

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 1,381,461	\$ 1,494,675
Capital assets	<u>69,648</u>	<u>122,572</u>
Total Assets	<u>\$ 1,451,109</u>	<u>\$ 1,617,247</u>
Current liabilities	\$ 1,309,155	\$ 1,287,951
Long-term liabilities	<u>233,697</u>	<u>245,182</u>
Total Liabilities	<u>\$ 1,542,852</u>	<u>\$ 1,533,133</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 19,766	\$ 49,926
Unrestricted	<u>(111,509)</u>	<u>34,188</u>
Total Net Assets	<u>\$ (91,743)</u>	<u>\$ 84,114</u>

## Governmental Activities

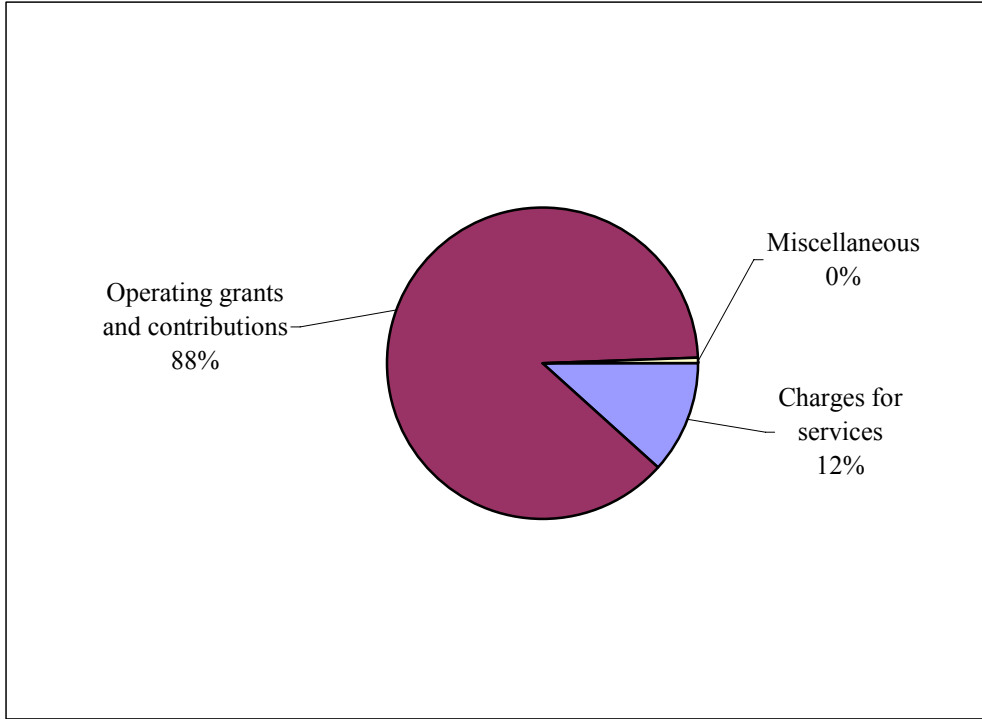
The Human Services' net assets decreased by \$175,857 in 2007. There was a decrease from \$84,114 in 2006 to (\$91,743) in 2007, for a total of \$175,857. Table 2 summarizes the changes in net assets for 2007.

The Human Services' long-term liabilities are for compensated absences and capital leases. Other liabilities are detailed on the General Fund balance sheet under liabilities.

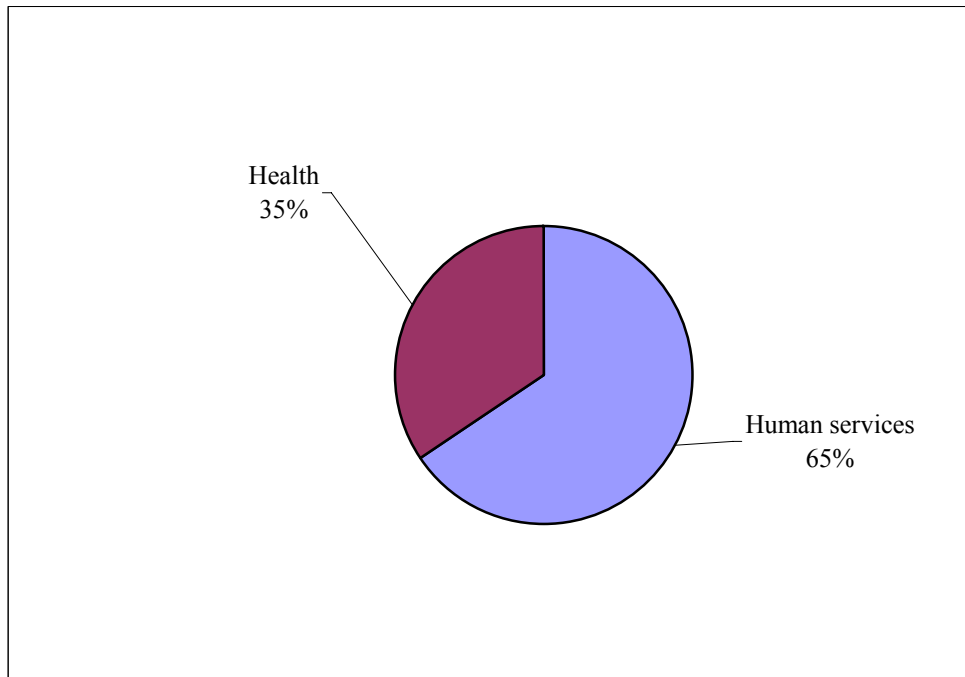
**Table 2**  
**Changes in Net Assets**

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Licenses and permits	\$ 60,573	\$ 41,633
Intergovernmental	9,654,380	9,149,308
Charges for services	1,238,239	1,130,914
General revenues		
Investment earnings	31,238	33,101
Miscellaneous	21,504	18,218
	<u>\$ 11,005,934</u>	<u>\$ 10,373,174</u>
Expenses		
Human services	\$ 7,313,659	\$ 6,910,699
Health	3,865,321	3,357,268
Interest	2,811	1,567
	<u>\$ 11,181,791</u>	<u>\$ 10,269,534</u>
Change in Net Assets	\$ (175,857)	\$ 103,640
Net Assets - January 1	<u>84,114</u>	<u>(19,526)</u>
Net Assets - December 31	<u>\$ (91,743)</u>	<u>\$ 84,114</u>

**Revenues - 2007**



**Expenses - 2007**



(Unaudited)

The following analysis focuses on the Human Services' changes in net assets (Table 2).

- Total revenues for the Human Services were \$11,005,934, while total expenses were \$11,181,791. This reflects a \$175,857 decrease in net assets for the year ended December 31, 2007.
- Revenues increased in 2007 due to the Minnesota Senior Health Program and increased participation by contributing counties.
- Expenses increased in 2007 due mainly to out-of-home placement costs.
- The deficit net assets exists mainly due to the long-term liability of compensated absences. Compensated absences have an ending balance of \$551,546. Of this amount, \$208,009 is considered due in more than one year. It is highly unlikely that current year amounts or those due in more than one year would be payable all at one time.
- Cash was a negative amount at December 31, 2007, due to not receiving Faribault County's monthly participation amount. That amount is included in "Due from other governments" in Exhibit 1 and in Exhibit 2 as income.

## **FINANCIAL ANALYSIS OF THE HUMAN SERVICES' FUNDS**

As noted earlier, the Human Services uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The General Fund provides information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Human Services' financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of 2007, the General Fund reported a fund balance of \$37,198, a decrease of \$281,764 from the prior year. These funds constitute an unreserved fund balance, which is available for spending at the Human Services' discretion.

### **General Fund Budgetary Highlights**

The General Fund is the chief operating fund of the Human Services of Faribault and Martin Counties. At the end of 2007, the unreserved fund balance of the General Fund was \$37,198. Total revenues were \$10,839,004, and total expenditures were \$11,120,768. (See Exhibit 5). The Human Services did not make any budget amendments during the year. Actual revenues were \$178,651 more than budgeted because of increased earnings from charges for services and

miscellaneous income. Actual expenditures were \$460,415 higher than budgeted, with a majority due to excess expenditures in mental health, chemical dependency, and community health services. See Schedule 1 for details.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2007, the Human Services of Faribault and Martin Counties had invested \$308,778 in capital assets. (More detailed information about our capital assets can be found in Note 2.A. to the financial statements.) Total depreciation expense for the year was \$62,870. Net capital assets decreased by \$52,924.

**Table 3**  
**Capital Assets**

	<u>2007</u>	<u>2006</u>
Equipment	\$ 308,778	\$ 298,832
Less: accumulated depreciation	<u>(239,130)</u>	<u>(176,260)</u>
Capital Assets, Net	<u>\$ 69,648</u>	<u>\$ 122,572</u>

### LONG-TERM LIABILITIES

At year-end, the Human Services had \$601,428 in long-term liabilities outstanding. The Human Services' governmental activities long-term portion of debt increased by \$8,099, due to the increase in compensated absences and a reduction in capital leases.

**Table 4**  
**Long-Term Liabilities**

	<u>2007</u>	<u>2006</u>
Capital leases payable	\$ 49,882	\$ 72,646
Compensated absences payable	<u>551,546</u>	<u>520,683</u>
Total	<u>\$ 601,428</u>	<u>\$ 593,329</u>

This table includes amounts due within one year of \$367,731 for 2007 and \$348,147 for 2006, which are considered current liabilities in Table 1.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Human Services of Faribault and Martin Counties is dependent on the State of Minnesota and federal government for a significant portion of its revenue. Funding will fluctuate according to state and federal actions.

In August 2007, the Board approved the 2008 revenue and expenditure budgets.

## **REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of the Human Services' finances for all those with an interest in our finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Human Services of Faribault and Martin Counties, Attention: Director of Business Management, 115 West 1st Street, Fairmont, Minnesota 56031.



## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

		<u>Governmental Activities</u>
<b><u>Assets</u></b>		
Petty cash and change funds	\$	39
Accounts receivable		309,816
Accrued interest receivable		2,565
Due from other governments		1,045,268
Prepaid items		23,773
Depreciable assets - net		<u>69,648</u>
<b>Total Assets</b>	<b>\$</b>	<b><u>1,451,109</u></b>
<b><u>Liabilities</u></b>		
Cash and pooled investments - deficit	\$	49,275
Accounts payable		360,394
Salaries payable		148,211
Accrued expenses		48,928
Due to other governments		43,508
Unearned revenue		291,108
Long-term liabilities		
Due within one year		367,731
Due in more than one year		<u>233,697</u>
<b>Total Liabilities</b>	<b>\$</b>	<b><u>1,542,852</u></b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$	19,766
Unrestricted		<u>(111,509)</u>
<b>Total Net Assets</b>	<b>\$</b>	<b><u>(91,743)</u></b>

**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

		Program Revenues			
Expenses		Fees, Charges, Fines, and Other	Operating Grants and Contributions		Net (Expense) Revenues and Changes in Net Assets
<b>Functions/Programs</b>					
<b>Governmental activities</b>					
Human services	\$ 7,313,659	\$ 463,824	\$ 4,710,270		\$ (2,139,565)
Health	3,865,321	834,988	1,531,041		(1,499,292)
Interest	2,811	-	-		(2,811)
<b>Total Governmental Activities</b>	<b>\$ 11,181,791</b>	<b>\$ 1,298,812</b>	<b>\$ 6,241,311</b>		<b>\$ (3,641,668)</b>
 <b>General Revenues</b>					
Grants and contributions not restricted to specific programs				\$ 3,413,069	
Unrestricted investment earnings				31,238	
Miscellaneous				21,504	
<b>Total general revenues</b>				<b>\$ 3,465,811</b>	
					<b>\$ (175,857)</b>
					<b>\$ 84,114</b>
					<b>\$ (91,743)</b>

**FUND FINANCIAL STATEMENTS**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2007**

	<b>General</b>
<b><u>Assets</u></b>	
Petty cash and change funds	\$ 39
Accounts receivable	309,816
Accrued interest receivable	2,565
Due from other governments	1,045,268
Prepaid expense	23,773
<b>Total Assets</b>	<b>\$ 1,381,461</b>
<b><u>Liabilities and Fund Balances</u></b>	
<b>Liabilities</b>	
Cash and pooled investments - deficit	\$ 49,275
Accounts payable	360,394
Salaries payable	148,211
Accrued expenses	48,928
Due to other governments	43,508
Deferred revenue - unavailable	402,839
Deferred revenue - unearned	291,108
<b>Total Liabilities</b>	<b>\$ 1,344,263</b>
<b>Fund Balances</b>	
Unreserved	
Undesignated	37,198
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,381,461</b>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF THE FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2007**

<b>Fund balance - total governmental fund (Exhibit 3)</b>	<b>\$</b>	<b>37,198</b>
Amounts reported for governmental activities in the statement of net assets 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 fund.		69,648
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.		402,839
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
Compensated absences	\$ (551,546)	
Capital leases payable	(49,882)	(601,428)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u><u>\$ (91,743)</u></u></b>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>General</b>
<b>Revenues</b>	
Licenses and permits	\$ 60,573
Intergovernmental	9,548,249
Charges for services	683,313
Investment earnings	31,238
Miscellaneous	515,631
<b>Total Revenues</b>	<b>\$ 10,839,004</b>
<b>Expenditures</b>	
<b>Current</b>	
Human services	\$ 7,267,579
Health	3,827,614
<b>Debt service</b>	
Principal	22,764
Interest	2,811
<b>Total Expenditures</b>	<b>\$ 11,120,768</b>
<b>Change in Fund Balance</b>	<b>\$ (281,764)</b>
<b>Fund Balance - January 1</b>	<b>318,962</b>
<b>Fund Balance - December 31</b>	<b>\$ 37,198</b>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Net change in fund balance - total governmental fund (Exhibit 5) \$ (281,764)**

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

In the fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statement and the statement of activities is the increase (decrease) in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 402,839	
Deferred revenue - January 1	<u>(235,909)</u>	166,930

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 9,946	
Current year depreciation	<u>(62,870)</u>	(52,924)

Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments - Capital lease		22,764
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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 governmental fund.

Change in compensated absences		<u>(30,863)</u>
--------------------------------	--	-----------------

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ (175,857)**

HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA

*EXHIBIT 7*

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2007

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ <u><u>490,809</u></u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 37,651
Due to other governments	<u>453,158</u>
<b>Total Liabilities</b>	<b>\$ <u><u>490,809</u></u></b>

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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1. Summary of Significant Accounting Policies

The Human Services of Faribault and Martin Counties' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Human Services are discussed below.

A. Financial Reporting Entity

The Human Services of Faribault and Martin Counties was established June 30, 1975, pursuant to Minn. Stat. §§ 402.01-.10. The Human Services is governed by a 12-member Board, which consists of the five County Commissioners and one citizen member from each of the two counties. The Board is organized with a chair, vice chair, secretary, and treasurer at the annual meeting in November of each year. The administrator, appointed by the Board, serves as its clerk. The general administrative offices are located in Fairmont, Minnesota.

Joint Venture

The Human Services participates in a joint venture described in Note 4.B.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall Human Services' government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net assets, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Human Services' net assets are reported in two parts: (1) invested in capital assets, net of related debt, and (2) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of each function of the Human Services' governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees 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 requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Human Services' funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented.

The Human Services reports the following major governmental fund:

The General Fund is the Human Services' primary operating fund. It accounts for all financial resources of the government.

Additionally, the Human Services reports the following fiduciary funds:

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 Human Services holds for others in an agent capacity. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Human Services, these funds are not incorporated into the government-wide statements.



**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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. 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. The Human Services of Faribault and Martin Counties considers all revenues as available if collected within 60 days after the end of the current period. Licenses and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

The cash balances of substantially all funds are pooled and invested by the Business Manager for the purpose of increasing earnings through investment activities. Pursuant to Minn. Stat. § 385.07, investment earnings on cash deposits are credited to the General Fund. Some agency funds received investment earnings based on other state statutes, grant agreements, and contracts. Pooled investment earnings for 2007 were \$31,238.

2. Capital Assets

Capital assets, comprised of equipment, are reported in the government-wide financial statements. Capital assets are defined by the Human Services as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased. Donated capital assets are recorded at estimated fair market value at the date of donation.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Capital Assets (Continued)

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

Capital assets of the Human Services are depreciated using the straight-line method over 3 to 15 years.

3. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated 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 termination payments 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.

4. Deferred Revenue

Governmental funds and the government-wide financial statements defer revenue for 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 of the current period.

5. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the governmental fund recognizes the face amount of the obligation as an other financing source.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits

Reconciliation of the Human Services' total cash and pooled investments as reported in the basic financial statements to deposits and cash on hand follows:

Governmental fund		
Cash and pooled investments - deficit	\$	(49,275)
Petty cash and change funds		39
Fiduciary funds		
Cash and pooled investments		<u>490,809</u>
Total	\$	<u><u>441,573</u></u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Human Services to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all deposits 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 plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Human Services’ deposits may not be returned to it. The Human Services does not have a deposit policy for custodial credit risk and follows Minnesota statutes for deposits. As of December 31, 2007, the Human Services’ deposits were not exposed to custodial credit risk.

2. Receivables

The Human Services does not have any receivables not expected to be collected within the year.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets				
Equipment	\$ 298,832	\$ 9,946	\$ -	\$ 308,778
Less: accumulated depreciation	<u>(176,260)</u>	<u>(62,870)</u>	<u>-</u>	<u>(239,130)</u>
Capital Assets, Net	<u>\$ 122,572</u>	<u>\$ (52,924)</u>	<u>\$ -</u>	<u>\$ 69,648</u>

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

Human services	\$ 40,237
Health	<u>22,633</u>
Total Depreciation Expense	<u>\$ 62,870</u>

B. Liabilities

1. Operating Leases

The Human Services rents office space from Faribault and Martin Counties on an annual rental from January 1 through December 31. Under the current agreements, total rent paid for 2007 was \$38,250 and \$149,515 to Faribault and Martin Counties, respectively. The minimum lease payments for 2008 are \$38,250 and \$154,001 to Faribault and Martin Counties, respectively. These leases automatically renew on an annual basis unless either of the parties notifies the other in writing at least 90 days and 180 days for Martin and Faribault Counties, respectively, before the expiration of the current lease.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Capital Leases

The Human Services has entered into five capital lease agreements. Three of the agreements are for copier machines, and the other two are for phone systems. These leases qualify as capital leases for accounting purposes and, therefore, are recorded as capital assets at the present value of the future minimum payments as of the inception of the leases. The capital leases consist of the following at December 31, 2007:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Ricoh Copier	2009	Monthly	\$ 348	\$ 20,880	\$ 5,220
Ricoh Copier	2009	Monthly	396	23,760	5,940
Ricoh Copier	2009	Monthly	187	11,220	4,114
Phone System	2009	Monthly	810	34,742	15,504
Phone System	2012	Monthly	468	22,068	19,104
					<u>\$ 49,882</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

2008	\$ 26,511
2009	16,201
2010	5,617
2011	5,617
2012	935
Total lease payments	<u>\$ 54,881</u>
Less: amount representing interest	<u>(4,999)</u>
Present Value of Minimum Lease Payments	<u>\$ 49,882</u>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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2. Detailed Notes on All Funds

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 72,646	\$ -	\$ 22,764	\$ 49,882	\$ 24,194
Compensated absences	520,683	30,863	-	551,546	343,537
Long-Term Liabilities	<u>\$ 593,329</u>	<u>\$ 30,863</u>	<u>\$ 22,764</u>	<u>\$ 601,428</u>	<u>\$ 367,731</u>

C. Risk Management

The Human Services 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 Human Services has entered into a joint powers agreement with several Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the Human Services 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.

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 \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Human Services in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Human Services 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 Human Services in a method and amount to be determined by MCIT.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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3. Pension Plans

Plan Description

All full-time and certain part-time employees of the Human Services of Faribault and Martin Counties are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated 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. All employees of the Human Services of Faribault and Martin Counties, who are members, participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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 is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 1.7 percent for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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.



**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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3. Pension Plans

Plan Description (Continued)

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement 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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Human Services makes annual contributions to the pension plans equal to the amount required by state statutes. Members were required to contribute 5.75 percent of their annual covered salary in 2007. Contribution rates increased in 2008 to 6.00 percent. The Human Services was required to contribute 6.25 percent of annual covered payroll in 2007 and will be required to contribute 6.50 percent of annual covered payroll in 2008.

The Human Services' contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund were \$255,474, \$235,497, and \$196,243, respectively.

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

4. Summary of Significant Contingencies and Other Items

A. 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 Human Services expects such amounts, if any, to be immaterial.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items (Continued)

B. Joint Ventures

Family Services Collaborative Joint Powers Board

The Family Services Collaborative Joint Powers Board ensures the availability of services designated to enhance and strengthen family functioning. During the year, the Human Services paid \$67,728 to the Board.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 44,317	\$ 44,317	\$ 60,573	\$ 16,256
Intergovernmental	9,762,592	9,762,592	9,548,249	(214,343)
Charges for services	488,685	488,685	683,313	194,628
Investment earnings	16,008	16,008	31,238	15,230
Miscellaneous	348,751	348,751	515,631	166,880
<b>Total Revenues</b>	<b>\$ 10,660,353</b>	<b>\$ 10,660,353</b>	<b>\$ 10,839,004</b>	<b>\$ 178,651</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 3,295,584	\$ 3,295,584	\$ 3,205,615	\$ 89,969
Social services	4,119,134	4,119,134	4,061,964	57,170
<b>Total human services</b>	<b>\$ 7,414,718</b>	<b>\$ 7,414,718</b>	<b>\$ 7,267,579</b>	<b>\$ 147,139</b>
<b>Health</b>				
Mental health	\$ 1,700,272	\$ 1,700,272	\$ 1,846,047	\$ (145,775)
Chemical dependency	280,852	280,852	565,335	(284,483)
Community health services	1,264,511	1,264,511	1,416,232	(151,721)
<b>Total health</b>	<b>\$ 3,245,635</b>	<b>\$ 3,245,635</b>	<b>\$ 3,827,614</b>	<b>\$ (581,979)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 22,764	\$ (22,764)
Interest	\$ -	\$ -	\$ 2,811	\$ (2,811)
<b>Total Expenditures</b>	<b>\$ 10,660,353</b>	<b>\$ 10,660,353</b>	<b>\$ 11,120,768</b>	<b>\$ (460,415)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (281,764)</b>	<b>\$ (281,764)</b>
<b>Fund Balance - January 1</b>	<b>318,962</b>	<b>318,962</b>	<b>318,962</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 318,962</b>	<b>\$ 318,962</b>	<b>\$ 37,198</b>	<b>\$ (281,764)</b>

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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1. Budgetary Information

The Human Services Board adopts an annual budget for the General Fund. The budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year-end.

Based on a process established by the Human Services Board, all departments of the Human Services submit requests for appropriations to the Fiscal Supervisor by the beginning of July. After review, analysis, and discussions with the departments, the proposed budget is presented to the Human Services Board by the Director of Business Management and Department Managers. The budget is approved/denied at the August Board meeting.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. The Human Services does not make budget changes during the year for any staffing or program changes. The changes are approved by the Human Services Board and reflected as budget variances in the financial statements.

2. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2007.

<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
\$ 11,120,768	\$ 10,660,353	\$ 460,415

The excess of expenditures over budget was funded by unanticipated revenues and available fund balance.

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**SUPPLEMENTARY INFORMATION**

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**GENERAL FUND DEPARTMENTS**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

*Schedule 2*

**DEPARTMENTAL BALANCE SHEET  
GENERAL FUND DEPARTMENTS  
DECEMBER 31, 2007**

	<b>Departments</b>		<b>Total</b>
	<b>Faribault County</b>	<b>Martin County</b>	
<b><u>Assets</u></b>			
Petty cash and change funds	\$ 18	\$ 21	\$ 39
Accounts receivable	129,259	180,557	309,816
Accrued interest receivable	1,103	1,462	2,565
Due from other governments	494,314	550,954	1,045,268
Internal balances	(97,712)	97,712	-
Prepaid items	10,222	13,551	23,773
<b>Total Assets</b>	<b>\$ 537,204</b>	<b>\$ 844,257</b>	<b>\$ 1,381,461</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Cash and pooled investments - deficit	\$ 49,275	\$ -	\$ 49,275
Accounts payable	143,536	216,858	360,394
Salaries payable	66,563	81,648	148,211
Accrued expenses	10,883	38,045	48,928
Due to other governments	21,399	22,109	43,508
Deferred revenue - unavailable	171,436	231,403	402,839
Deferred revenue - unearned	125,176	165,932	291,108
<b>Total Liabilities</b>	<b>\$ 588,268</b>	<b>\$ 755,995</b>	<b>\$ 1,344,263</b>
<b>Fund Balances</b>			
Undesignated	(51,064)	88,262	37,198
<b>Total Fund Balances</b>	<b>\$ (51,064)</b>	<b>\$ 88,262</b>	<b>\$ 37,198</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 537,204</b>	<b>\$ 844,257</b>	<b>\$ 1,381,461</b>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

Schedule 3

**DEPARTMENTAL STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND DEPARTMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Departments		Total
	Faribault County	Martin County	
<b>Revenues</b>			
Licenses and permits	\$ 23,628	\$ 36,945	\$ 60,573
Intergovernmental	4,065,639	5,482,610	9,548,249
Charges for services	277,185	406,128	683,313
Investment earnings	13,432	17,806	31,238
Miscellaneous	194,597	321,034	515,631
<b>Total Revenues</b>	<b>\$ 4,574,481</b>	<b>\$ 6,264,523</b>	<b>\$ 10,839,004</b>
<b>Expenditures</b>			
<b>Current</b>			
Human services	\$ 3,092,944	\$ 4,174,635	\$ 7,267,579
Health	1,724,953	2,102,661	3,827,614
<b>Debt service</b>			
Principal	7,140	15,624	22,764
Interest	1,717	1,094	2,811
<b>Total Expenditures</b>	<b>\$ 4,826,754</b>	<b>\$ 6,294,014</b>	<b>\$ 11,120,768</b>
<b>Net Change in Fund Balance</b>	<b>\$ (252,273)</b>	<b>\$ (29,491)</b>	<b>\$ (281,764)</b>
Fund Balance - January 1, as previously reported	\$ 98,190	\$ 220,772	\$ 318,962
Restatement	103,019	(103,019)	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 201,209</b>	<b>\$ 117,753</b>	<b>\$ 318,962</b>
<b>Fund Balance - December 31</b>	<b>\$ (51,064)</b>	<b>\$ 88,262</b>	<b>\$ 37,198</b>

**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

*Schedule 4*

**DEPARTMENTAL BUDGETARY COMPARISON SCHEDULE  
FARIBAUT COUNTY DEPARTMENT  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Licenses and permits	\$ 19,101	\$ 19,101	\$ 23,628	\$ 4,527
Intergovernmental	4,029,990	4,029,990	4,065,639	35,649
Charges for services	220,392	220,392	277,185	56,793
Investment earnings	6,881	6,881	13,432	6,551
Miscellaneous	123,446	123,446	194,597	71,151
<b>Total Revenues</b>	<b>\$ 4,399,810</b>	<b>\$ 4,399,810</b>	<b>\$ 4,574,481</b>	<b>\$ 174,671</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,291,310	\$ 1,291,310	\$ 1,312,100	\$ (20,790)
Social services	1,597,235	1,597,235	1,780,844	(183,609)
<b>Total human services</b>	<b>\$ 2,888,545</b>	<b>\$ 2,888,545</b>	<b>\$ 3,092,944</b>	<b>\$ (204,399)</b>
<b>Health</b>				
Mental health	\$ 792,782	\$ 792,782	\$ 833,693	\$ (40,911)
Chemical dependency	138,104	138,104	248,061	(109,957)
Community health services	580,379	580,379	643,199	(62,820)
<b>Total health</b>	<b>\$ 1,511,265</b>	<b>\$ 1,511,265</b>	<b>\$ 1,724,953</b>	<b>\$ (213,688)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 7,140	\$ (7,140)
Interest	\$ -	\$ -	\$ 1,717	\$ (1,717)
<b>Total Expenditures</b>	<b>\$ 4,399,810</b>	<b>\$ 4,399,810</b>	<b>\$ 4,826,754</b>	<b>\$ (426,944)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (252,273)</b>	<b>\$ (252,273)</b>
Fund Balance - January 1, as previously reported	\$ 98,190	\$ 98,190	\$ 98,190	\$ -
Restatement	103,019	103,019	103,019	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 201,209</b>	<b>\$ 201,209</b>	<b>\$ 201,209</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 201,209</b>	<b>\$ 201,209</b>	<b>\$ (51,064)</b>	<b>\$ (252,273)</b>

**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

Schedule 5

**DEPARTMENTAL BUDGETARY COMPARISON SCHEDULE  
MARTIN COUNTY DEPARTMENT  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 25,216	\$ 25,216	\$ 36,945	\$ 11,729
Intergovernmental	5,732,602	5,732,602	5,482,610	(249,992)
Charges for services	268,293	268,293	406,128	137,835
Investment earnings	9,127	9,127	17,806	8,679
Miscellaneous	225,305	225,305	321,034	95,729
<b>Total Revenues</b>	<b>\$ 6,260,543</b>	<b>\$ 6,260,543</b>	<b>\$ 6,264,523</b>	<b>\$ 3,980</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,004,274	\$ 2,004,274	\$ 1,893,515	\$ 110,759
Social services	2,521,899	2,521,899	2,281,120	240,779
<b>Total human services</b>	<b>\$ 4,526,173</b>	<b>\$ 4,526,173</b>	<b>\$ 4,174,635</b>	<b>\$ 351,538</b>
<b>Health</b>				
Mental health	\$ 907,490	\$ 907,490	\$ 1,012,354	\$ (104,864)
Chemical dependency	142,748	142,748	317,274	(174,526)
Community health services	684,132	684,132	773,033	(88,901)
<b>Total health</b>	<b>\$ 1,734,370</b>	<b>\$ 1,734,370</b>	<b>\$ 2,102,661</b>	<b>\$ (368,291)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 15,624	\$ (15,624)
Interest	\$ -	\$ -	\$ 1,094	\$ (1,094)
<b>Total Expenditures</b>	<b>\$ 6,260,543</b>	<b>\$ 6,260,543</b>	<b>\$ 6,294,014</b>	<b>\$ (33,471)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (29,491)</b>	<b>\$ (29,491)</b>
Fund Balance - January 1, as previously reported	\$ 220,772	\$ 220,772	\$ 220,772	\$ -
Restatement	(103,019)	(103,019)	(103,019)	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 117,753</b>	<b>\$ 117,753</b>	<b>\$ 117,753</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 117,753</b>	<b>\$ 117,753</b>	<b>\$ 88,262</b>	<b>\$ (29,491)</b>



**FIDUCIARY FUNDS**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**AGENCY FUNDS**

The Mental Health Flex Spending Fund is used to account for incidental expenditures of the Mental Health Pilot Project of which Blue Earth County is the fiscal agent.

The Social Welfare Fund accounts for funds received by the Human Services of Faribault and Martin Counties for individuals receiving welfare assistance.

The MA Refund Fund accounts for Medical Assistance estate recoveries.

The Family Services Collaborative Fund accounts for funds of a multi-county/multi-school district family services collaborative program.

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

*Schedule 6*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>MENTAL HEALTH FLEX SPENDING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (7,979)	\$ 249,359	\$ 244,433	\$ (3,053)
<b><u>Liabilities</u></b>				
Accounts payable	\$ (7,979)	\$ 249,359	\$ 244,433	\$ (3,053)
 <b><u>SOCIAL WELFARE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 38,027	\$ 471,445	\$ 468,768	\$ 40,704
<b><u>Liabilities</u></b>				
Accounts payable	\$ 38,027	\$ 471,445	\$ 468,768	\$ 40,704
 <b><u>MA REFUND</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 61,838	\$ 535,839	\$ 543,188	\$ 54,489
<b><u>Liabilities</u></b>				
Due to other governments	\$ 61,838	\$ 535,839	\$ 543,188	\$ 54,489
 <b><u>FAMILY SERVICES COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 502,026	\$ 373,355	\$ 476,712	\$ 398,669
<b><u>Liabilities</u></b>				
Due to other governments	\$ 502,026	\$ 373,355	\$ 476,712	\$ 398,669

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

*Schedule 6*  
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 593,912	\$ 1,629,998	\$ 1,733,101	\$ 490,809
<b><u>Liabilities</u></b>				
Accounts payable	\$ 30,048	\$ 720,804	\$ 713,201	\$ 37,651
Due to other governments	563,864	909,194	1,019,900	453,158
<b>Total Liabilities</b>	<b>\$ 593,912</b>	<b>\$ 1,629,998</b>	<b>\$ 1,733,101</b>	<b>\$ 490,809</b>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

**Schedule 7**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Shared Revenue</b>	
<b>State</b>	
PERA rate reimbursement	<b><u>\$ 13,668</u></b>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	<b><u>\$ 2,858,994</u></b>
<b>Payments</b>	
<b>Local</b>	
Tax allocation	<b><u>\$ 3,399,401</u></b>
<b>Grants</b>	
<b>State</b>	
Minnesota Department of Public Safety	\$ 282,781
Health	161,571
Human Services	<u>1,738,653</u>
<b>Total State</b>	<b><u>\$ 2,183,005</u></b>
<b>Federal</b>	
Department of Agriculture	\$ 148,112
Health and Human Services	<u>945,069</u>
<b>Total Federal</b>	<b><u>\$ 1,093,181</u></b>
<b>Total State and Federal Grants</b>	<b><u>\$ 3,276,186</u></b>
<b>Total Intergovernmental Revenue</b>	<b><u>\$ 9,548,249</u></b>

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-2 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that should be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements not initially identified by the Human Services' internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the Human Services' financial statements.

- A restatement of the beginning fund balance at the individual County department level to properly present a transfer of cash made in 2007 from the Martin County department to the Faribault County department for grant-related collections recorded to the incorrect County in prior years. The restatement had an effect of \$103,019 on each department's beginning fund balance.
- An adjustment to recognize grant revenues of \$238,208 and expenditures of \$239,905 in the General Fund for a Human Services-related grant that had been accounted for in the Mental Health Flex Spending Agency Fund.
- Adjustments totaling \$462,347 to correct prior year reversing entries, related to deferred revenue.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the Human Services modify internal controls over financial reporting to detect misstatements in the financial statements. We encourage a thorough review of draft financial statements and supporting information to identify potential misstatements.

Client's Response:

*Staff will continue to review draft financial statements and supporting information to identify potential misstatements. We will continue to work with the auditors to locate and make adjustments.*

ITEM ARISING THIS YEAR

07-1 Cash Deficit Balance

As of December 31, 2007, the General Fund had a deficit cash balance of \$49,275 presented as cash and pooled investments - deficit in the liability section of the financial statements. Near year-end, the Human Services did not receive its requested allocation from Faribault County in a timely manner. As a result, expenditures made near year-end were, in effect, being paid with cash from the agency funds.

We recommend that the Human Services implement controls to ensure that requested allocations from the participating counties are received in a timely manner, ensuring that funds are available to cover expenditures.

Client's Response:

*A process has been set up to make sure the allocation is received monthly. The outlook calendar is set with reminders to check for the money around the 20th of each month. The collection officer has a note to let me know when the money is received.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Segregation of Duties and Procedures (03-1)**  
Accounting duties were not sufficiently segregated.

**Resolution**  
Oversight and backup procedures have been implemented.

**Preparation of Financial Statements (06-1)**  
The Human Services relied on its independent external auditors to assist in the preparation of its basic financial statements, including notes to the financial statements.

**Resolution**  
The entity has prepared the required statements and notes.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

This year the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the Human Services Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Human Services Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Human Services Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Human Services Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Human Services Board will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities to be recognized, the Human Services Board will have to decide whether to hire an actuary.

If applicable to the Human Services of Faribault and Martin Counties, GASB Statement 45 would be implemented for the year ended December 31, 2009.

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## **OTHER REQUIRED REPORTS**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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***

Human Services Board  
Human Services of Faribault and Martin Counties

We have audited the financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of and for the year ended December 31, 2007, which collectively comprise the Human Services' basic financial statements, and have issued our report thereon dated July 21, 2008. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Human Services of Faribault and Martin Counties' internal control over financial reporting as a basis for designing our auditing procedures 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 Human Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Human Services' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Human Services' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Human Services' financial statements that is more than inconsequential will not be prevented or detected by the Human Services' internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-2 and 07-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Human Services of Faribault and Martin Counties' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Human Services of Faribault and Martin Counties' 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Human Services of Faribault and Martin Counties complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is an “other item for consideration.” We believe this information to be of benefit to the Human Services of Faribault and Martin Counties, and it is reported for that purpose.

The Human Services of Faribault and Martin Counties’ written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the Human Services’ responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Human Services Board, management, others within the Human Services of Faribault and Martin Counties, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 21, 2008

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Human Services Board  
Human Services of Faribault and Martin Counties

### Compliance

We have audited the compliance of the Human Services of Faribault and Martin Counties with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Human Services of Faribault and Martin Counties' major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Human Services' management. Our responsibility is to express an opinion on the Human Services' compliance based on our audit.

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 the Human Services of Faribault and Martin Counties' 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. Our audit does not provide a legal determination on the Human Services' compliance with those requirements.

In our opinion, the Human Services of Faribault and Martin Counties complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

#### Internal Control Over Compliance

The management of the Human Services of Faribault and Martin Counties is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Human Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Human Services' internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Human Services' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Human Services' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Human Services of Faribault and Martin Counties' internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of and for the year ended December 31, 2007, which collectively comprise the Human Services' basic financial statements, and have issued our report thereon dated July 21, 2008. Our audit was performed for the purpose of forming opinions on the Human Services of Faribault and Martin Counties' basic financial statements. The accompanying Schedule of



Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Human Services Board, management, others within the Human Services, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 21, 2008

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES  
FAIRMONT, MINNESOTA**

*Schedule 9*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<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 Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 137,864
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	10,248
<b>Total U.S. Department of Agriculture</b>		<b>\$ 148,112</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Immunization Grants	93.268	\$ 1,600
Center for Disease Control and Prevention	93.283	70,073
Temporary Assistance for Needy Families (TANF)	93.558	40,176
Maternal and Child Health Services Block Grant	93.994	46,603
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	7,522
Temporary Assistance for Needy Families (TANF)	93.558	324,852
Child Care and Development Block Grant	93.575	17,973
Community Child Abuse Prevention Grant	93.590	44,975
Child Care Mandatory and Matching Funds	93.596	10,582
Child Welfare Services	93.645	13,217
Foster Care Title IV-E	93.658	148,535
Social Services Block Grant Title XX	93.667	275,604
Chafee Foster Care Independence Program	93.674	5,813
Community Mental Health Services Block Grant	93.958	12,188
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,019,713</b>
<b>Total Federal Awards</b>		<b>\$ 1,167,825</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Human Services of Faribault and Martin Counties. The reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. In some instances, expenditures shown are different than reported revenues because they are not available.
3. During the year, the Human Services of Faribault and Martin Counties did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.