

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LINCOLN, LYON, & MURRAY
HUMAN SERVICES
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2009

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**LINCOLN, LYON, & MURRAY
HUMAN SERVICES
MARSHALL, MINNESOTA**

For the Year Ended December 31, 2009



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

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

ORGANIZATION
2009

Board	County	Appointment Expires
Chair		
Robert Fenske	Lyon	December 31, 2009
Vice Chair		
Gerald Magnus	Murray	December 31, 2009
Secretary		
Ann Svendsen	Lincoln	July 2010
Members		
Joan Jagt	Lincoln	December 31, 2009
Donald Evers	Lincoln	December 31, 2009
Carmen Marben	Lyon	July 2010
Steve Ritter	Lyon	December 31, 2009
Gail Byers	Murray	July 2010
Kevin Vickerman	Murray	December 31, 2009
Attorney		
William J. Toulouse		Indefinite
Director		
Christopher Sorensen		Indefinite
Director of Business Management		
Nancy Walker		Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board Members
Lincoln, Lyon, & Murray Human Services

We have audited the financial statements of the governmental activities, the General Fund, and the Collaborative Agency Fund of Lincoln, Lyon, & Murray Human Services as of and for the year ended December 31, 2009, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the Collaborative Agency Fund of Lincoln, Lyon, & Murray Human Services as of December 31, 2009, and the respective changes in financial position thereof and the budgetary comparison for the General Fund 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 Schedule of Funding Progress - Other Postemployment Benefits 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 basic financial statements of Lincoln, Lyon, & Murray Human Services. The statement listed as supplementary information and the supporting schedule in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Human Services. The supplementary and supporting information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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 30, 2010, on our consideration of Lincoln, Lyon, & Murray Human Services' 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

Lincoln, Lyon, & Murray Human Services' Management's Discussion and Analysis (MD&A) provides an overview of the Human Services' financial activities for the fiscal year ended December 31, 2009. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Human Services' financial statements (beginning with Exhibit 1).

FINANCIAL REPORTING ENTITY

Lincoln, Lyon, & Murray Human Services was formed pursuant to Minn. Stat. § 393.01, subd. 7, (joint powers agreement) by Lincoln, Lyon, and Murray Counties. The Human Services began official operation on July 1, 1974, and performs Board and welfare functions. Local financing is provided by the three member counties on the basis of each county's welfare expenditures in 1973. Percentages are:

Lincoln County	-	20.90 percent
Lyon County	-	54.77 percent
Murray County	-	24.33 percent

FINANCIAL HIGHLIGHTS

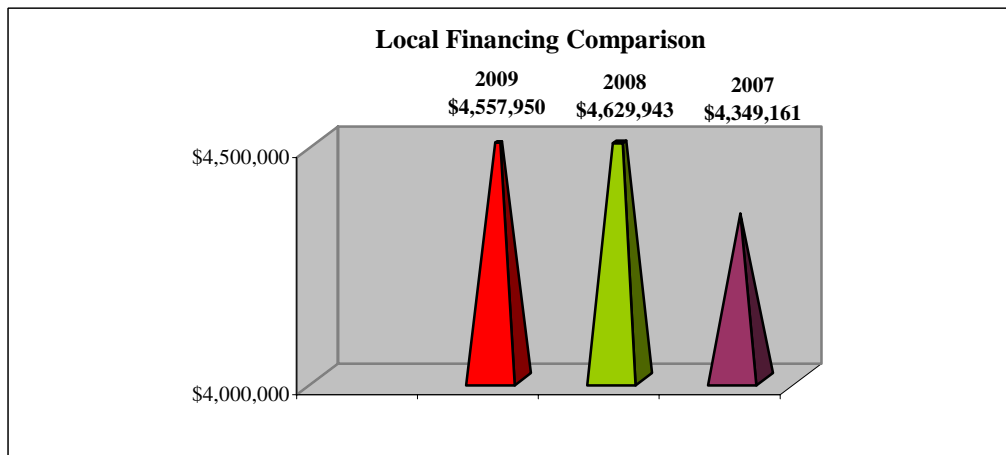
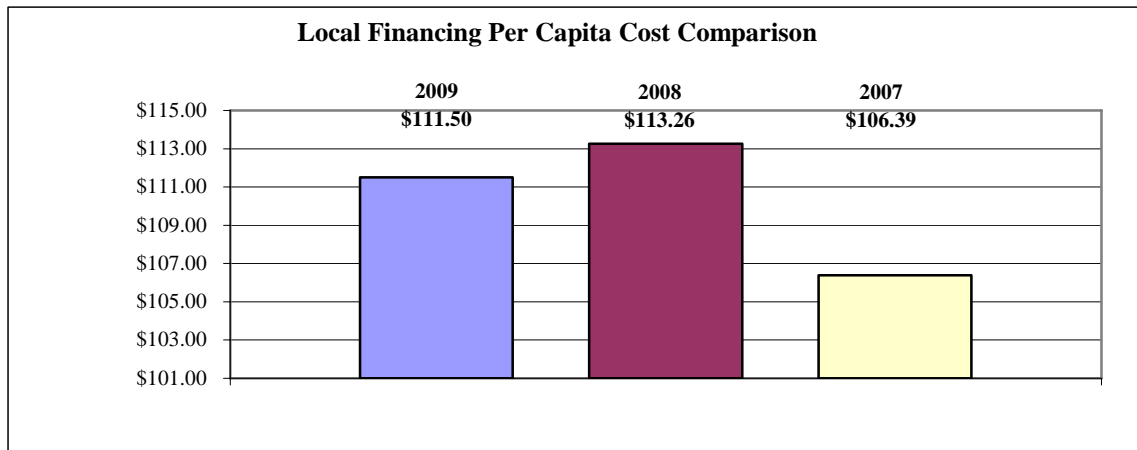
Governmental activities' total net assets are \$3,509,803, of which \$79,582 is invested in capital assets (Exhibit 1). Governmental activities' total net assets increased by \$36,336, primarily due to an increase of capital assets in the amount of \$26,139.

Local financing for the Human Services in 2009 was \$4,557,950, which comprised 44.5 percent of the total intergovernmental revenue. Comparing 2009 with 2008 and 2007, the following tables show local financing costs and per capita cost increased beginning with 2007 through 2009.

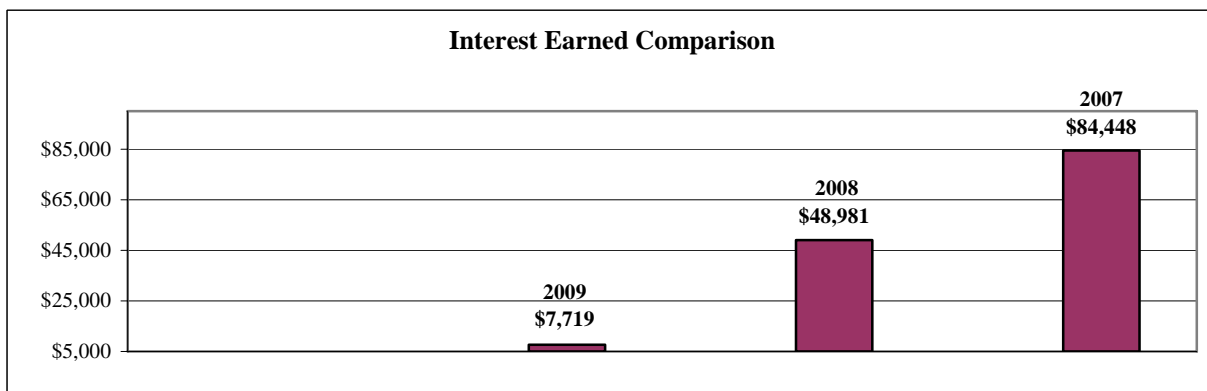
Schedule of Local Financing Revenue (Schedule 2)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Payments from participating counties	<u>\$ 4,557,950</u>	<u>\$ 4,629,943</u>	<u>\$ 4,394,161</u>

Population of all three counties is 40,878.



From 2008 to 2009, intergovernmental revenue decreased by \$159,832. This decrease was primarily in the areas of county contributions and state grants. Investment earnings continue to decrease due to low interest rates and the economy. From 2008 to 2009, investment earnings decreased by \$41,262.



OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Lincoln, Lyon, & Murray Human Services' basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, a statement of changes in assets and liabilities for the agency fund, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the Human Services' general government operations and the basic services it provides. Governmental 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 reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each statement presents the governmental activities' statement of net assets and the statement of activities, which provide information about the activities of the Human Services as a whole and present a longer-term view of the Human Services' finances. These columns include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. Over time, increases or decreases in the Human Services' net assets are one indicator of whether its financial health is improving or deteriorating.

Governmental Activities

Comparative statements of net assets and activities illustrate the changes from 2008 to 2009:

	2009	2008	Percent (%) Change
Assets			
Current assets	\$ 5,309,523	\$ 5,235,496	1.4
Capital assets, net of depreciation	<u>79,582</u>	<u>53,443</u>	48.9
Total Assets	<u>\$ 5,389,105</u>	<u>\$ 5,288,939</u>	1.9
Liabilities			
Current liabilities	\$ 1,086,090	\$ 1,167,245	(7.0)
Long-term liabilities	<u>793,212</u>	<u>648,227</u>	22.4
Total Liabilities	<u>\$ 1,879,302</u>	<u>\$ 1,815,472</u>	3.5
Net Assets			
Invested in capital assets	\$ 79,582	\$ 53,443	48.9
Unrestricted	<u>3,430,221</u>	<u>3,420,024</u>	0.3
Total Net Assets	<u>\$ 3,509,803</u>	<u>\$ 3,473,467</u>	1.0

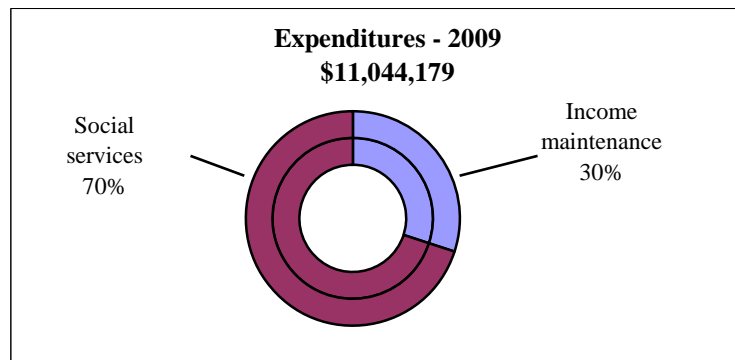
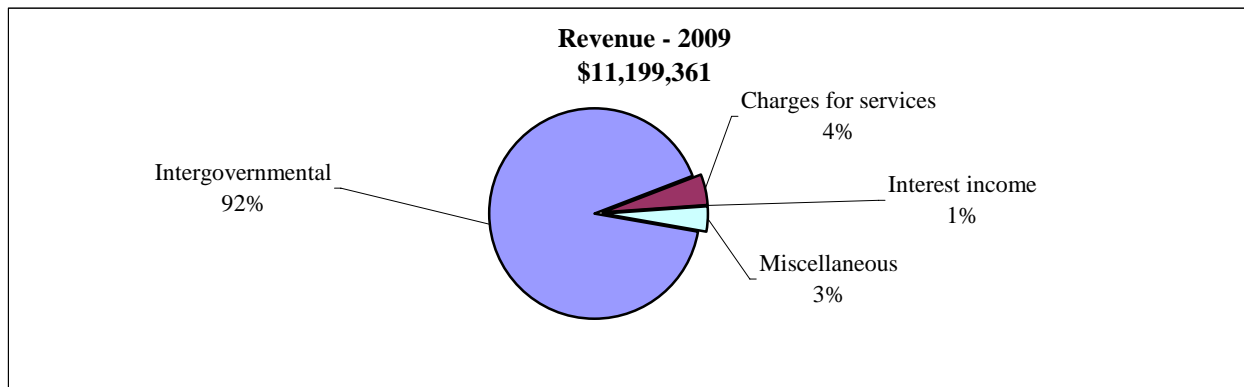
(Unaudited)

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	2009	2008	Percent (%) Change
Revenues			
Intergovernmental	\$ 10,250,282	\$ 10,410,114	(1.5)
Charges for services	501,377	467,810	7.2
Investment earnings	7,719	48,981	(84.2)
Miscellaneous	439,983	358,997	22.6
Total Revenues	\$ 11,199,361	\$ 11,285,902	(0.8)
Expenses			
	11,163,025	11,288,438	(1.1)
Change in Net Assets	\$ 36,336	\$ (2,536)	1,532.8
Net Assets - January 1	3,473,467	3,476,003	(0.1)
Net Assets - December 31	<u>\$ 3,509,803</u>	<u>\$ 3,473,467</u>	1.0

Governmental Fund

Revenues for the Human Services' General Fund decreased 0.8 percent (\$86,541) from the prior year, while total expenditures decreased by 0.2 percent (\$24,333) from the prior year. This resulted in a 3.8 percent increase in fund balance in the year ended December 31, 2009.



As shown in the Statement of Activities on Exhibit 2, the amount that was received through intergovernmental revenue was 92 percent of the total revenue received.

General Fund

<u>Revenues</u>	<u>Amount</u>
Intergovernmental	\$ 10,250,282
Charges for services	501,377
Interest on investments	7,719
Miscellaneous	<u>439,983</u>
Total Revenues	<u>\$ 11,199,361</u>

General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Actual revenue exceeded budgeted revenue by \$168,035. Areas that contributed to this were consistent increases in MMIS (Medicaid Management Information Systems) dollars over the course of the year and increased collection of MA (Medical Assistance) estate claims.

Actual expenditures exceeded budgeted expenditures by \$12,853. The overage was only in income maintenance, whereas, social services expenditures were under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Human Services' investment in capital assets for its governmental activities for the year ended December 31, 2009, is \$79,582 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. There was an increase in the Human Services' investment in capital assets for the current fiscal year of 48.9 percent. In 2009, Human Services purchased three automobiles. Overall, the Human Services has been holding on to capital assets longer and replacing at a slower rate due to decreased funding and revenues.

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 222,030	\$ 10,063	\$ 12,187	\$ 219,906
Automotive equipment	235,746	43,359	-	279,105
Total capital assets depreciated	<u>\$ 457,776</u>	<u>\$ 53,422</u>	<u>\$ 12,187</u>	<u>\$ 499,011</u>
Less: accumulated depreciation for				
Office furniture and equipment	\$ 203,975	\$ 13,167	\$ 12,187	\$ 204,955
Automotive equipment	200,358	14,116	-	214,474
Total accumulated depreciation	<u>\$ 404,333</u>	<u>\$ 27,283</u>	<u>\$ 12,187</u>	<u>\$ 419,429</u>
Total Capital Assets Depreciated, Net	<u>\$ 53,443</u>	<u>\$ 26,139</u>	<u>\$ -</u>	<u>\$ 79,582</u>

Depreciation expense was charged to income maintenance and social services programs for the year ended December 31, 2009.

Information on the Human Services' capital assets can be found in Note 3.A.3. to the financial statements.

Long-Term Liabilities

The Human Services' long-term liabilities consist of compensated absences and other postemployment benefits (OPEB) payable at December 31, 2009, as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 502,801	\$ 4,016	\$ -	\$ 506,817	\$ 39,633
OPEB	145,426	263,011	122,042	286,395	-
Total	<u>\$ 648,227</u>	<u>\$ 267,027</u>	<u>\$ 122,042</u>	<u>\$ 793,212</u>	<u>\$ 39,633</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lincoln, Lyon, & Murray Human Services planned a balanced budget for 2009 but ended the year by adding to the balance by approximately \$36,000. Local government financing (county levy) for Lincoln, Lyon, & Murray Human Services did not increase for 2009. In budgeting for 2009, the agency was able to compensate for 2010 legislative reductions; but for the 2009 budget, the reductions in county aids and unallotments were post-budget passage by the agency. Despite the reductions, case management revenue and recovery revenue were strong and mitigated most of the reduction in revenues from other governments.

As stated earlier and in last year's audit report, the unallotments and legislative revenue reductions did have an impact upon the Human Services' operating revenue for 2009; however, the impact was minimal in the larger context of the Human Services' overall budget. For 2010, the legislative reductions were accounted for before the passage of the 2010 budget. Based upon historical earned income, we expect that the 2010 balanced budget will come in close to the planned amounts. Although not a biennial budget year, the State of Minnesota had a significant revenue shortfall for 2010. The end of session analysis provided less than expected losses of intergovernmental revenue but, in the most part, positioned the Legislature to act in 2011 to remedy the revenue shortfalls that were made up with payment delays, etc. Although 2010 will be a fairly steady year financially, the 2011/2012 budget session may create a measurable loss for the Human Services. Additional remedies will be needed to balance the budget, including staff attrition, cooperating more regionally with local governments, and focusing on statutorily-driven agency functions. Our ultimate goal is to keep services consistent for our stakeholders. The trending of budgetary reductions for local county human services agencies has become a normative feature over the last nine years and will continue beyond 2010 into the 2011/2012 biennium. Similar to last year, given the current economic conditions, our focus will be maintaining the "safety net" of services to our most vulnerable community members.

CONTACTING THE HUMAN SERVICES' FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Lincoln, Lyon, & Murray Human Services' financial statements. Additional questions or further explanation of this report can be obtained by contacting Christopher J. Sorensen, Director of Lincoln, Lyon, & Murray Human Services, 607 West Main Street, Marshall, Minnesota 56258.

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BASIC FINANCIAL STATEMENTS

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2009**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 4,318,249	\$ -	\$ 4,318,249
Accounts receivable	64,455	-	64,455
Accrued interest receivable	294	-	294
Due from other governments	926,525	-	926,525
Capital assets			
Depreciable - net	-	79,582	79,582
Total Assets	<u>\$ 5,309,523</u>	<u>\$ 79,582</u>	<u>\$ 5,389,105</u>
 <u>Liabilities and Fund Balance/Net Assets</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 438,431	\$ -	\$ 438,431
Salaries payable	415,425	-	415,425
Due to other governments	232,234	-	232,234
Long-term liabilities			
Due within one year	-	39,633	39,633
Due in more than one year	-	753,579	753,579
Total Liabilities	<u>\$ 1,086,090</u>	<u>\$ 793,212</u>	<u>\$ 1,879,302</u>
Fund Balance			
Unreserved, undesignated	4,223,433	<u>\$ (4,223,433)</u>	
Net Assets			
Invested in capital assets		\$ 79,582	\$ 79,582
Unrestricted		3,430,221	3,430,221
Total Net Assets		<u>\$ 3,509,803</u>	<u>\$ 3,509,803</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$ 5,309,523</u>	<u>\$ 79,582</u>	<u>\$ 5,389,105</u>

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

***EXHIBIT 1
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2009**

Reconciliation of the General Fund Balance to Net Assets		
Fund Balance - General Fund		\$ 4,223,433
Capital assets are reported on the Statement of Net Assets but not on the Fund Balance Sheet.		79,582
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the Fund Balance Sheet.		
Compensated absences	\$ (506,817)	
Net OPEB liability	<u>(286,395)</u>	<u>(793,212)</u>
Net Assets - Governmental Activities		<u><u>\$ 3,509,803</u></u>

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 10,250,282	\$ -	\$ 10,250,282
Charges for services	501,377	-	501,377
Investment earnings	7,719	-	7,719
Miscellaneous	439,983	-	439,983
Total Revenues	\$ 11,199,361	\$ -	\$ 11,199,361
Expenditures/Expenses			
Current			
Income maintenance	\$ 3,309,088	\$ 47,538	\$ 3,356,626
Social services	7,735,091	71,308	7,806,399
Total Expenditures/Expenses	\$ 11,044,179	\$ 118,846	\$ 11,163,025
Net Change in Fund Balance/Net Assets	\$ 155,182	\$ (118,846)	\$ 36,336
Fund Balance/Net Assets - January 1	4,068,251	(594,784)	3,473,467
Fund Balance/Net Assets - December 31	\$ 4,223,433	\$ (713,630)	\$ 3,509,803
Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Governmental Activities Net Change in Fund Balance			\$ 155,182
Governmental funds report capital outlays 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.			
Capital outlay expenditures		\$ 53,422	
Current year depreciation expense		(27,283)	26,139
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 governmental funds.			
(Increase) decrease in compensated absences			(4,016)
(Increase) decrease in net OPEB liability			(140,969)
Change in Net Assets of Governmental Activities			\$ 36,336

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 10,333,126	\$ 10,333,126	\$ 10,250,282	\$ (82,844)
Charges for services	483,000	483,000	501,377	18,377
Interest on investments	45,000	45,000	7,719	(37,281)
Miscellaneous	170,200	170,200	439,983	269,783
Total Revenues	\$ 11,031,326	\$ 11,031,326	\$ 11,199,361	\$ 168,035
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,158,848	\$ 3,158,848	\$ 3,309,088	\$ (150,240)
Social services	7,872,478	7,872,478	7,735,091	137,387
Total Expenditures	\$ 11,031,326	\$ 11,031,326	\$ 11,044,179	\$ (12,853)
Net Change in Fund Balance	\$ -	\$ -	\$ 155,182	\$ 155,182
Fund Balance - January 1	4,068,251	4,068,251	4,068,251	-
Fund Balance - December 31	\$ 4,068,251	\$ 4,068,251	\$ 4,223,433	\$ 155,182

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 4

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2009**

Assets

Cash and pooled investments	<u>\$ 24,235</u>
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Liabilities

Due to other governments	<u>\$ 24,235</u>
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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Summary of Significant Accounting Policies

Lincoln, Lyon, & Murray Human Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. 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

Lincoln, Lyon, & Murray Human Services was formed pursuant to Minn. Stat. § 393.01, subd. 7, by Lincoln, Lyon, and Murray Counties. The Human Services began official operation on July 1, 1974, and performs welfare functions formerly performed by the individual counties. Local financing is provided by the three member counties on the basis of each county's welfare expenditures in 1973. Percentages are:

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

Lincoln, Lyon, & Murray Human Services is governed by two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county. In 1999, the Human Services changed its name from the Region VIII North Welfare Board.

Lincoln, Lyon, & Murray Human Services is an independent joint venture and is not included in any of the member counties' reporting entities.

Joint Ventures

Lincoln, Lyon, & Murray Human Services participates in a joint venture which is described in Note 6.B.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Basic financial statements include information on the Human Services' non-fiduciary activities and information on the General Fund of the Human Services. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Human Services as a whole.

The governmental activities columns are reported on the full accrual, economic resources 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: invested in capital assets and unrestricted net assets. The Statement of Activities demonstrates the degree to which the expenses of the Human Services are offset by revenues.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund are presented on the modified accrual basis and report current financial resources.

Additionally, the Human Services reports a fiduciary fund type, which is excluded from the governmental activities. The Collaborative Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the Human Services holds for the Lyon Murray Families Project Collaborative in an agent capacity.

C. Measurement Focus and Basis of Accounting

The governmental activities and fiduciary fund 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.

The governmental fund is 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. Lincoln, Lyon, & Murray Human Services considers all revenues as available if collected within 60 days after the end of the

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is 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 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 Human Services' policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2009, based on market prices.

Under the direction of the Investment Committee and the Board, most cash transactions are administered by the Lyon County Auditor/Treasurer.

Lincoln, Lyon, & Murray Human Services 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). Therefore, the fair value of Lincoln, Lyon, & Murray Human Services' position in the pool is the same as the value of the pool shares.

2. Receivables

The financial statements for the Human Services contain no allowance for uncollectible accounts. Uncollectible amounts due for receivables are recognized as bad debts at the time information becomes available that indicates the uncollectibility of the particular receivable. These amounts are not considered to be material in relation to the financial position or operations of the fund.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Capital Assets

Capital assets, which include office furniture and equipment and automotive equipment, are reported in the governmental activities column in the Statement of Net Assets. Capital assets are defined as assets with an initial, individual cost of more than \$1,500 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 assets' lives are not capitalized.

Office furniture and equipment and automotive equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office furniture and equipment	3 to 10
Automotive equipment	3 to 10

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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 fund 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 resignations and retirements.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Deferred Revenue

Governmental funds and the government-wide 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 of the current period.

6. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities expected to be financed with available, spendable financial resources. The Statement of Net Assets reports long-term liabilities of the governmental activities.

7. Fund Equity

The fund financial statements report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change. The Human Services reported no designations for the year ended December 31, 2009.

8. 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.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2009.

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	<u>\$ 11,044,179</u>	<u>\$ 11,031,326</u>	<u>\$ 12,853</u>

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

As authorized by Minn. Stat. §§ 118A.02 and 118A.04, Lincoln, Lyon, & Murray Human Services may designate a depository for public funds and invest in certificates of deposit. All Human Services' deposits must be protected by insurance, surety bond, or collateral, as required by Minn. Stat. § 118A.03. 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 or 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.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

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, the Human Services' deposits may not be returned to it. The Human Services has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2009, the Human Services' deposits were not exposed to custodial credit risk.

b. Investments

Lincoln, Lyon, & Murray Human Services 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;

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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. The Human Services minimizes 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 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. It is the Human Services' policy to invest 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. As of December 31, 2009, the Human Services' investments were not exposed to custodial credit risk.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

At December 31, 2009, the Human Services had the following deposits and investments.

Cash in bank	\$ 2,043,542
MAGIC Fund	<u>2,298,942</u>
Total Cash and Investments	<u>\$ 4,342,484</u>

As reported in the financial statements:

Governmental activities	
Cash and pooled investments	\$ 4,318,249
Agency Fund	
Cash and pooled investments	<u>24,235</u>
Total	<u>\$ 4,342,484</u>

2. Receivables

The Human Services did not have any receivables scheduled to be collected beyond one year as of December 31, 2009.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 222,030	\$ 10,063	\$ 12,187	\$ 219,906
Automotive equipment	235,746	43,359	-	279,105
Total capital assets depreciated	\$ 457,776	\$ 53,422	\$ 12,187	\$ 499,011
Less: accumulated depreciation for				
Office furniture and equipment	\$ 203,975	\$ 13,167	\$ 12,187	\$ 204,955
Automotive equipment	200,358	14,116	-	214,474
Total accumulated depreciation	\$ 404,333	\$ 27,283	\$ 12,187	\$ 419,429
Total Capital Assets Depreciated, Net	\$ 53,443	\$ 26,139	\$ -	\$ 79,582

Depreciation expense was charged to income maintenance and social services programs for the year ended December 31, 2009.

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 502,801	\$ 4,016	\$ -	\$ 506,817	\$ 39,633
Other postemployment benefits (See Note 4.C.)	145,426	263,011	122,042	286,395	-
Total	\$ 648,227	\$ 267,027	\$ 122,042	\$ 793,212	\$ 39,633

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Pension and Postemployment Health Insurance Plans

A. Pension Plan Description

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

Public 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.

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 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. Using 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 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. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Pension and Postemployment Health Insurance Plans

A. Pension Plan Description (Continued)

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 Public Employees Retirement Fund. That report may be obtained on the internet at 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.

B. Pension Plan 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. Lincoln, Lyon, & Murray Human Services makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

Lincoln, Lyon, & Murray Human Services is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75

The Human Services' contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 263,500	\$ 240,617	\$ 222,354

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

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Pension and Postemployment Health Insurance Plans (Continued)

C. Other Postemployment Benefits (OPEB)

In 2008, Lincoln, Lyon, & Murray Human Services implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement required the Human Services to calculate and record a net OPEB obligation at December 31, 2008. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions.

Plan Description

The Human Services provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The Human Services provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the Human Services are established and may be amended by the Lincoln, Lyon, & Murray Human Services Board of Commissioners. Retiring employees who were hired prior to August 22, 2005, and who have worked for the agency for at least 15 years and are PERA eligible are entitled to receive four percent per year of service toward the employee's health and dental insurance premium. This amount is not to exceed the Human Services' amount paid on behalf of current employees.

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as the Human Services' employees. This results in the retirees receiving an implicit rate subsidy. As of January 1, 2009, there were approximately eight retirees receiving health benefits from the Human Services' health plan. The implicit rate subsidy amount was determined by an actuary study to be \$65,627 for 2009.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Pension and Postemployment Health Insurance Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Human Services' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Human Services' annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Human Services' net OPEB obligation to the plan.

ARC	\$	265,011
Interest on net OPEB obligation		6,544
Adjustment to ARC		(8,544)

Annual OPEB cost (expense)	\$	263,011
Contributions made		(122,042)

Increase in net OPEB obligation	\$	140,969
Net OPEB Obligation - Beginning of Year		145,426

Net OPEB Obligation - End of Year	\$	286,395

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, 2008 and 2009, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	\$ 265,011	\$ 119,585	45.1%	\$ 145,426
December 31, 2009	265,011	122,042	46.1	286,395

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Pension and Postemployment Health Insurance Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$2,097,499, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,097,499. The covered payroll (annual payroll of active employees covered by the plan) was \$3,372,564, and the ratio of the UAAL to the covered payroll was 62.2 percent.

Actuarial valuations of an ongoing plan 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 annual required contributions 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, 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 cost 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.

In the January 1, 2007, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses).

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Pension and Postemployment Health Insurance Plans

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual health care cost trend is nine percent initially, reduced by decrements to an ultimate rate of five percent each year. Both rates included a three percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2009, was 28 years.

5. Risk Management

Lincoln, Lyon, & Murray 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 other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly Minnesota Counties Insurance Trust. The Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The Human Services purchases commercial insurance for employee health and dental coverage as well as for other risks. 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 \$430,000 per claim in 2009 and \$450,000 per claim in 2010. 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.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

5. Risk Management (Continued)

The Southwest/West Central Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the Human Services and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

6. 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 Lincoln, Lyon, & Murray Human Services expects such amounts, if any, to be immaterial.

Lincoln, Lyon, & Murray Human Services is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Human Services' attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

B. Joint Venture

Southwestern Minnesota Adult Mental Health Consortium

Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties represented by Lincoln, Lyon, & Murray Human Services, created the Southwestern Minnesota Adult Mental Health Consortium under the authority of Minn. Stat. § 471.59. The Consortium is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Consortium takes actions and enters into such agreements as may be necessary to plan and develop, within the Consortium's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness.

**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Venture

Southwestern Minnesota Adult Mental Health Consortium (Continued)

The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Consortium's annual financial report for the year ended December 31, 2009:

Total assets	\$ 2,304,308
Total liabilities	327,637
Total net assets	1,976,671
Total revenues	4,271,686
Total expenses	4,327,451
Net decrease to net assets	55,765

The Consortium reported no long-term obligations at December 31, 2009.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium can be obtained at 2200 - 23rd Street N.E., Suite 2050, Willmar, Minnesota 56201, or at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

7. Subsequent Events

In June 2010, Lincoln, Lyon, Murray, and Pipestone Counties approved a joint powers agreement creating the Southwest Health and Human Services agency and terminating the joint powers agreements for Lincoln, Lyon, & Murray Human Services (LLM HS) and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMP PHS). Dissolution of LLM HS and LLMP PHS is effective December 31, 2010, although the agreement recognizes that both LLM HS and LLMP PHS shall continue to exist after dissolution as long as is necessary to conclude the affairs of the agencies.

REQUIRED SUPPLEMENTARY INFORMATION

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

Schedule 1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009

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, 2007	\$ -	\$2,097,499	\$2,097,499	0.0%	\$3,372,564	62.2%

See Note 4.C., Other Postemployment Benefits, for more information.

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 the information becomes available.

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SUPPLEMENTARY INFORMATION

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

Statement 1

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
COLLABORATIVE AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
 <u>Assets</u>				
Cash and pooled investments	\$ -	\$ 64,229	\$ 39,994	\$ 24,235
Due from other governments	19,670	-	19,670	-
Total Assets	\$ 19,670	\$ 64,229	\$ 59,664	\$ 24,235
 <u>Liabilities</u>				
Due to other governments	\$ -	\$ 64,229	\$ 39,994	\$ 24,235
Advance from other funds	19,670	-	19,670	-
Total Liabilities	\$ 19,670	\$ 64,229	\$ 59,664	\$ 24,235

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SUPPORTING SCHEDULE

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

Schedule 2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

Shared Revenue	
Payments from participating counties	<u>\$ 4,557,950</u>
Reimbursement for Services	
State	
Minnesota Department of Human Services	<u>\$ 1,068,611</u>
Grants	
State	
Minnesota Department of Human Services	<u>\$ 1,941,743</u>
Federal	
Department of	
Agriculture	\$ 250,927
Health and Human Services	<u>2,431,051</u>
Total federal	<u>\$ 2,681,978</u>
Total state and federal grants	<u>\$ 4,623,721</u>
Total Intergovernmental Revenue	<u><u>\$ 10,250,282</u></u>

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

Schedule 3

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Lincoln, Lyon, & Murray Human Services.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Lincoln, Lyon, & Murray Human Services and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Lincoln, Lyon, & Murray Human Services were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Lincoln, Lyon, & Murray Human Services expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|-----------------------------------|--------------|
| Child Support Enforcement Cluster | |
| Child Support Enforcement | CFDA #93.563 |
| Child Support Enforcement - ARRA | CFDA #93.563 |
| Medical Assistance Program | CFDA #93.778 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Lincoln, Lyon, & Murray Human Services was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Internal Accounting Controls - Segregation of Duties

Due to the limited number of office personnel within Lincoln, Lyon, & Murray Human Services, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Although this is not unusual in entities of this size, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

We recommend that the Human Services' management segregate duties within the accounting functions as much as possible by limiting access to accounting programs commensurate to the employees' duties and job responsibilities. If it is not possible to segregate duties, management should be aware of the lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response:

Lincoln, Lyon, and Murray Human Services (LLMHS) will continue to fine tune internal controls, segregation of duties, policy/procedure documentation, fraud identification, and management oversight to ensure the integrity and reliability of the financial information in the accounting system.

06-11 Audit Adjustments

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 No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed adjustments that resulted in significant changes to the Human Services' financial statements. The adjustments resulted from: errors made in recording transactions and with mapping of various account codes; errors made in calculating the proper amount of payables, which resulted in the overstatement of revenues, expenditures, and fund balance, and the understatement of liabilities; and a lack of controls over the recording of certain accounting transactions. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements could be not fairly presented.

We recommend that the Human Services review internal controls currently in place, then design and implement procedures to improve internal control over financial reporting to detect 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.

Client's Response:

LLMHS will review mapping in IFS, work to reduce the number/amount of audit adjustments, and establish controls so that any errors are detected in a timely manner.

ITEMS ARISING THIS YEAR

09-1 Monitoring Internal Controls

The Human Services' management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and includes reviews, comparisons, reconciliations, and other actions employees take in performing their duties.

An essential element of monitoring controls also includes performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the Human Services' Board, management, and for external financial reporting. 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, staffing vacancies, updates to information systems, or changes to services being provided.

Our audit procedures detected areas and responsibilities performed by the Human Services' staff with no documentation of the monitoring taking place. Some areas with no documentation include:

- entering budget information into the accounting system,
- processing payroll,
- reviewing journal entries processed, and
- reviewing identified receivables and payables.

We recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

LLMHS will establish a formal plan through the LLMHS Accounting Policy and Procedures Handbook that will establish assessment and monitoring of significant internal controls on a regular basis. The plan will show documentation to show the result of the review, changes required, and who performed the work.

09-2 Social Welfare Funds

Lincoln, Lyon, & Murray Human Services controls monies and funds for the benefit of disabled, dependent, or challenged individuals needing care or assistance managing their money. During our audit, deficiencies in processing receipts and disbursements were identified. Cash and checks received by the Human Services are stored in the Social

Welfare Accounting Technician's Office until preparation of the receipt journal and bank deposit. Disbursements made on a regular basis are supported by documentation that is filed along with client information, but the documentation is not dated and signed or initialed indicating approval by the social worker or any other party.

Procedures should be in place to ensure funds of clients are not misused. Funds received for clients should be receipted and stored in a secure location to reduce the risk of theft. Proper supporting information, with documented approval, can help reduce the risk of unauthorized or incorrect disbursements made with client funds.

We recommend the Human Services review and update procedures over Social Welfare funds to include controls over receipt of funds and approval of disbursement support by social workers for clients.

Client's Response:

LLMHS will update any related procedures in the Accounting Policy and Procedures Handbook. We have created a "Social Welfare Client Receipts Log" to document all Social Welfare receipts and have already implemented its use. We will continue to require worker approval of all disbursements through the use of the AG # 074 form.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (for example, corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the Human Services for the year ending December 31, 2011.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board Members
Lincoln, Lyon, & Murray Human Services

We have audited the financial statements of the governmental activities, the General Fund, and the Collaborative Agency Fund of Lincoln, Lyon, & Murray Human Services as of and for the year ended December 31, 2009, which collectively comprise the Human Services' basic financial statements, and have issued our report thereon dated July 30, 2010. 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 Lincoln, Lyon, & Murray Human Services' 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the 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 Human Services' 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 06-11 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 06-1, 09-1, and 09-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln, Lyon, & Murray Human Services' 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, Lincoln, Lyon, & Murray Human Services 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, and it is reported for that purpose.

Lincoln, Lyon, & Murray Human Services' written responses to the internal control findings 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 Lincoln, Lyon, & Murray 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 30, 2010

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board Members
Lincoln, Lyon, & Murray Human Services

Compliance

We have audited the compliance of Lincoln, Lyon, & Murray Human Services 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 each of its major federal programs for the year ended December 31, 2009. Lincoln, Lyon, & Murray Human Services' major federal programs are 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 each of its major federal programs 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 Lincoln, Lyon, & Murray Human Services' 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, Lincoln, Lyon, & Murray Human Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of Lincoln, Lyon, & Murray Human Services 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 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 Human Services' 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.

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 deficiencies, 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 Collaborative Agency Fund of Lincoln, Lyon, & Murray Human Services as of and for the year ended December 31, 2009, which collectively comprise the Human Services' basic financial statements, and have issued our report thereon dated July 30, 2010. Our audit was performed for the purpose of forming opinions on Lincoln, Lyon, & Murray Human Services' financial statements that collectively comprise the Human Services' 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 Lincoln, Lyon, & Murray 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

July 30, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

Schedule 4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 244,765
State Administrative Matching Grants for SNAP - ARRA	10.561	6,162
Total U.S. Department of Agriculture		\$ 250,927
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 89,420
Temporary Assistance for Needy Families (TANF)	93.558	268,468
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	510,499
Child Support Enforcement - ARRA	93.563	95,330
Refugee and Entrant Assistance	93.566	603
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	35,232
Child Welfare Services State Grant	93.645	17,489
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	88,086
Foster Care - Title IV-E - ARRA	93.658	3,781
Social Services Block Grant	93.667	281,683
Chafee Foster Care Independence Program	93.674	35,254
Medical Assistance Program	93.778	1,003,860
Block Grants for Community Mental Health Services	93.958	1,346
Total U.S. Department of Health and Human Services		\$ 2,431,051
Total Federal Awards		\$ 2,681,978

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lincoln, Lyon, & Murray Human Services. The Human Services' 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 Lincoln, Lyon, & Murray Human Services under programs of the federal government for the year ended December 31, 2009. 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 Lincoln, Lyon, & Murray Human Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lincoln, Lyon, & Murray Human Services.

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. Subrecipients

During 2009, the Human Services did not pass any federal money to subrecipients.

5. 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.