STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

LINCOLN, LYON, MURRAY AND PIPESTONE PUBLIC HEALTH SERVICES MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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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LINCOLN, LYON, MURRAY AND PIPESTONE PUBLIC HEALTH SERVICES MARSHALL, MINNESOTA

For the Year Ended December 31, 2010

Audit Practice Division
Office of the State Auditor
State of Minnesota

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

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Introductory Section

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

ORGANIZATION
2010

Board	County	Appointment Expires
Chair		
Curtis Blumeyer	Lincoln	December 2010
Vice Chair		
Robert Moline	Murray	December 2010
Secretary		
Judy Zwart	Pipestone	December 2010
Members		
Laurie Johansen	Lincoln	December 2010
Scott Riddlemoser	Lyon	December 2010
Mark Goodenow	Lyon	December 2010
Rodney Stensrud	Lyon	December 2010
Jeane Anderson	Murray	December 2010
Marvin Tinklenberg	Pipestone	December 2010
Administrator		
Christopher Sorensen		Indefinite
Director of Nursing		
Cris Gilb		Indefinite
Fiscal/Personnel Officer		
Carol Beck		Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board Members
Southwest Health and Human Services

We have audited the accompanying basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Health Services' management. Our responsibility is to express an opinion 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 U.S Office of Management and Budget (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 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Lincoln, Lyon, Murray and Pipestone Public Health Services as of December 31, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared as if Lincoln, Lyon, Murray and Pipestone Public Health Services were continuing. As discussed in Note 1.A. to the financial statements, Lincoln, Lyon, Murray and Pipestone Public Health Services dissolved effective December 31, 2010. Southwest Health and Human Services was created by Lincoln, Lyon, Murray, and Pipestone Counties and began operations on January 1, 2011.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, Lincoln, Lyon, Murray and Pipestone Public Health Services did not include in the MD&A an analysis of the Health Services' results of operations, including reasons for significant changes from the prior year and important economic factors affecting operating results, as required by the GASB. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming an opinion on Lincoln, Lyon, Murray and Pipestone Public Health Services' basic financial statements as a whole. The supporting schedules, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2011, on our consideration of Lincoln, Lyon, Murray and Pipestone Public Health 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 17, 2011

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)

Lincoln, Lyon, Murray and Pipestone (LLMP) Public Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal year ended December 31, 2010. 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 Health Services' financial statements.

The Health Services is a joint powers enterprise operation of Lincoln, Lyon, Murray, and Pipestone Counties created to provide community health care for the residents of the four-county area. Each of the four counties contributes tax levy dollars to fund public health programs. There was no change in tax levy from each county from 2009. Lincoln County remained at $36,666; Lyon County at $220,000; Murray County at $52,584; and Pipestone County at $55,833. Each of the counties also pays that county's portion of the annual Local Public Health Association's dues.

FINANCIAL HIGHLIGHTS

In July 2010, both Lincoln, Lyon, Murray, and Pipestone Public Health Services' and Lincoln, Lyon, and Murray Human Services' Boards voted to dissolve the organizations as of December 31, 2010. With the dissolution of the organization, LLMP will cease to exist other than wrapping up the affairs of the former agency in 2011.

With the net assets of $1,278,512, LLMP was able, in part, to save funds in administrative costs created by the dissolution of the organization. The use of attrition and the combining of professional services in supervision and accounting also resulted in net savings for the organization. The changes to the organization will result in no new county tax levy funds needed for the member counties for 2011 or 2012.

LLMP was awarded a new grant in 2010 from the Minnesota Department of Health for the Eliminating Health Disparities Initiative. This initial planning grant is part of a broad-based effort to address multiple communities that have disparate health outcomes in our service region. The planning grant will conclude in 2011, with the application for a three-year project for implementation beginning in mid-2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Health Services' basic financial statements consist of two parts: the financial statements and the 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 financial statements present the Health Services' financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of the Health Services.

- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Health Services' finances. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.

- The statement of cash flows provides sources and uses of cash for the Health Services.

FINANCIAL ANALYSIS

Net Assets

	2009	2010	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	$ 1,451,913	$ 1,548,981	$ 97,068	6.7
Capital assets	6,175	20,850	14,675	237.7
Total Assets	$ 1,458,088	$ 1,569,831	$ 111,743	7.7
Liabilities				
Current liabilities	$ 212,738	$ 291,319	$ 78,581	36.9
Noncurrent liabilities	138,862	-	(138,862)	(100.0)
Total Liabilities	$ 351,600	$ 291,319	$ (60,281)	(17.1)
Net Assets				
Invested in capital assets	$ 6,175	$ 20,850	$ 14,675	237.7
Unrestricted	1,100,313	1,257,662	157,349	14.3
Total Net Assets	$ 1,106,488	$ 1,278,512	$ 172,024	15.5

Changes in Net Assets

	2009	2010	Increase (Decrease)	Percent Change (%)
Revenues				
Operating revenues				
Charges for services	$ 474,897	$ 458,127	$ (16,770)	(3.5)
Miscellaneous	32,614	51,388	18,774	57.6
Total operating revenues	$ 507,511	$ 509,515	$ 2,004	0.4
Nonoperating revenues				
Intergovernmental	1,364,832	1,579,711	214,879	15.7
Interest income	24,761	19,220	(5,541)	(22.4)
Total Revenues	$ 1,897,104	$ 2,108,446	$ 211,342	11.1
Expenses				
Operating expenses				
Professional services	$ 1,546,791	$ 1,685,458	$ 138,667	9.0
Administration	218,109	247,952	29,843	13.7
Depreciation	44,462	3,012	(41,450)	(93.2)
Total Expenses	$ 1,809,362	$ 1,936,422	$ 127,060	7.0
Change in Net Assets	$ 87,742	$ 172,024	$ 84,282	96.1

CAPITAL ASSETS

Capital Assets
(Net of Depreciation)

	2009	2010	Increase (Decrease)	Percent Change (%)
Machinery, furniture, and equipment	$ 6,175	$ 20,850	$ 14,675	237.7

The significant change in capital assets, net of depreciation, from 2009 to 2010 is primarily due to a purchase of a vehicle in 2010; but, in the past, LLMP did not have automobiles.

FUTURE EVENTS

Although many changes to the LLMP Public Health Services' financial services were addressed from the recent audits; internal controls and cross training of staff are going to be primary for 2011. It is likely that with a change in the leadership of that department and the upcoming transition into the new Joint Powers Organization with Southwest Health and Human Services, the new organization will find additional ways to improve the combined system to increase the overall agency's ability to ensure security and continuity of our fiscal practices.

From a program and operational point of view, basic services and continuity for our consumers will be key in 2011 in addition to becoming part of a new agency. We are committed to providing a strong infrastructure for services, even as the difficult economic times continue into the next biennial budget session.

CONTACTING THE HEALTH SERVICES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Health Services' finances and to show the Health Services' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Christopher Sorensen at the office of Lincoln, Lyon, Murray and Pipestone Public Health Services at 607 West Main Street, Marshall, Minnesota 56258.

BASIC FINANCIAL STATEMENTS

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

Assets		
Current assets		
Cash and pooled investments	$	1,496,533
Petty cash and change funds		100
Accounts receivable		9,708
Due from other governments		41,229
Accrued interest receivable		1,411
Total current assets	**$**	**1,548,981**
Noncurrent assets		
Depreciable capital assets - net		20,850
Total Assets	**$**	**1,569,831**
Liabilities		
Current liabilities		
Accounts payable	$	38,266
Salaries payable		69,109
Deferred revenue - unearned		96,203
Compensated absences payable		87,741
Total Liabilities	**$**	**291,319**
Net Assets		
Invested in capital assets	$	20,850
Unrestricted		1,257,662
Total Net Assets	**$**	**1,278,512**

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

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

Operating Revenues		
Charges for services	$	458,127
Miscellaneous		51,388
Total Operating Revenues	**$**	**509,515**
Operating Expenses		
Professional services	$	1,685,458
Administrative		247,952
Depreciation		3,012
Total Operating Expenses	**$**	**1,936,422**
Operating Income (Loss)	**$**	**(1,426,907)**
Nonoperating Revenues (Expenses)		
Intergovernmental	$	1,579,711
Interest income		19,220
Total Nonoperating Revenues (Expenses)	**$**	**1,598,931**
Increase (Decrease) in Net Assets	**$**	**172,024**
Net Assets - January 1		**1,106,488**
Net Assets - December 31	**$**	**1,278,512**

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

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	522,411
Payments to suppliers		(613,692)
Payments to employees		(1,346,301)
Net cash provided by (used in) operating activities	**$**	**(1,437,582)**
Cash Flows from Noncapital Financing Activities		
Intergovernmental receipts	$	1,251,591
County appropriations		351,125
Net cash provided by (used in) noncapital financing activities	**$**	**1,602,716**
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	**$**	**(17,687)**
Cash Flows from Investing Activities		
Investment income	**$**	**16,361**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**163,808**
Cash and Cash Equivalents at January 1		**1,332,725**
Cash and Cash Equivalents at December 31	**$**	**1,496,533**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(1,426,907)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	3,012
(Increase) decrease in accounts receivable		(7,591)
(Increase) decrease in due from other governments		23,597
Increase (decrease) in accounts payable		13,744
Increase (decrease) in salaries payable		13,803
Increase (decrease) in compensated absences payable		(51,121)
Increase (decrease) in due to other governments		(6,119)
Total adjustments	**$**	**(10,675)**
Net Cash Provided by (Used in) Operating Activities	**$**	**(1,437,582)**

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

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1. Summary of Significant Accounting Policies

Lincoln, Lyon, Murray and Pipestone Public Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2010. 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Board of Health has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

A. Financial Reporting Entity

Lincoln, Lyon, Murray and Pipestone Public Health Services was established August 1, 1978, with Murray County joining August 1, 1979; it is an organized agency having the powers, duties, and privileges granted by Minn. Stat. § 145A.09, et seq., and the Joint Powers Law, Minn. Stat. § 471.59. The Health Services is composed of a nine-member board: two County Commissioners representing the largest county, one County Commissioner from each of the other participating counties, and four lay members.

The primary activities of the Health Services are to protect and promote the health of the general population within the counties by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

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

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

The Health Services is organized and presented as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

The Health Services' 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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Health Services' policy to use restricted resources first and then unrestricted resources.

D. Budgetary Data

The Health Services adopts an annual budget prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. This budget is approved by the Health Services' Board.

E. Assets, Liabilities, and Net Assets

1. Assets

Investments

The Health Services' investments are stated at fair value.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all cash and deposits, except petty cash and change funds.

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Accounts Receivable

Accounts receivable are not reduced by an allowance for uncollectible accounts.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Expenses are recorded during the benefiting period.

Capital Assets

Capital assets consist of furniture and fixtures with an initial cost of $1,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Depreciation on the assets is calculated on a straight-line basis over three to ten years.

2. Liabilities

Compensated Absences

The Health Services' personnel policy provides that its employees earn a certain amount of vacation and sick leave each year dependent upon years of service. Employees may accumulate vacation leave to a maximum of 224 hours. Sick leave for non-union employees may be accumulated to a maximum of 800 hours; however, severance benefits shall be based on a maximum of 500 hours. Sick leave for union employees may be accumulated to a maximum of 500 hours with an exception for hours accumulated as of May 22, 1995. The personnel policy also provides that employees may earn compensatory time. Compensatory time in excess of 20 hours at month-end must be reduced to 20 hours or less by the last day of the following month. Compensatory time exceeding 20 hours that is carried over but not taken during the following month will be paid to the employee at his or her normal rate of pay.

1. Summary of Significant Accounting Policies

   E. Assets, Liabilities, and Net Assets

      2. Liabilities (Continued)

         Deferred Revenue

         Deferred revenue consists of federal, state, and local grants received by the Health Services but not yet earned.

      3. Net Assets

         Invested in capital assets represents the accumulated value of the capital assets of the Health Services, net of depreciation.

         Unrestricted net assets represent the accumulated earnings of the Health Services.

      4. 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 end of 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.

   F. Revenues and Expenses

      1. Revenues

         In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange and exchange-like transactions are recognized as revenue when the exchange occurs.

         Operating revenues consist primarily of charges for services and are recorded as revenue when the service is provided.

1. Summary of Significant Accounting Policies

   F. Revenues and Expenses

      1. Revenues (Continued)

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

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

         Investment income is recognized as revenue when earned.

      2. Expenses

         Expenses, including compensated absences, are recognized when they are incurred.

2. Stewardship, Compliance, and Accountability

Budget

Below is a summary of the budgeted and actual amounts for the year ended December 31, 2010:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 462,650	$ 509,515	$ 46,865
Operating Expenses	1,982,726	1,936,422	46,304
Operating Income (Loss)	$ (1,520,076)	$ (1,426,907)	$ 93,169
Nonoperating Revenues	1,569,954	1,598,931	28,977
Net Income (Loss)	$ 49,878	$ 172,024	$ 122,146

3. Detailed Notes

A. Assets

1. Deposits and Investments

Reconciliation of the Health Services' total cash and investments to the basic financial statements follows:

Cash and pooled investments	$ 1,496,533
Petty cash and change funds	100
Total Cash and Investments	$ 1,496,633

The following table presents the County's cash and deposit balances at December 31, 2010:

Petty cash and change funds	$ 100
Checking	796,533
Certificates of deposit	700,000
Total Cash and Investments	$ 1,496,633

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

During the year ended December 31, 2010, the Health Services had no investments other than CDs.

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health Services' deposits may not be returned to it. The Health Services' does not have a deposit policy for custodial credit risk. As of December 31, 2010, the Health Services' deposits were not exposed to custodial credit risk.

3. Detailed Notes

   A. Assets

      1. Deposits and Investments (Continued)

         b. Investments

The Health 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;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less, and;

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

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. It is the Health Services' policy to minimize this risk by permitting brokers to hold investments only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the Lincoln, Lyon, Murray and Pipestone Public Health Services' custodian. On December 31, 2010, the Health Services' investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

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 Health Services' policy is to minimize this risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the Health Services' cash requirements.

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Health Services' investment policy does not address this risk.

2. Receivables

The Health Services did not have any receivables scheduled to be collected beyond one year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance January 1, 2010	Increase	Decrease	Adjustment	Ending Balance December 31, 2010
Capital assets depreciated					
Machinery, furniture, and equipment	$ 55,640	$ 17,687	$ -	$ -	$ 73,327
Less: accumulated depreciation for					
Machinery, furniture, and equipment	49,465	3,012	-	-	52,477
Total Capital Assets Depreciated, net	$ 6,175	$ 14,675	$ -	$ -	$ 20,850

3. Detailed Notes (Continued)

B. Liabilities

Deferred Revenue - Unearned

Deferred revenue - unearned at December 31, 2010, consists of $96,203 of a grant for the Statewide Health Improvement Plan from the Minnesota Department of Health received but not yet earned.

Long-Term Liabilities

Following is a summary of changes in long-term liabilities for the year ended December 31, 2010.

	Beginning Balance January 1, 2010	Additions	Reductions	Ending Balance December 31, 2010	Due Within One Year
Compensated absences	$ 138,862	$ -	$ 51,121	$ 87,741	$ 87,741

Compensated absences are considered due within one year as result of the dissolution of the joint powers agreements for Lincoln, Lyon, and Murray Human Services and Lincoln, Lyon, Murray and Pipestone Public Health Services on December 31, 2010, as described in Note 1.A.

4. Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Lincoln, Lyon, Murray and Pipestone Public Health Services are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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.

4. Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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 General 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.

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.

4. Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General 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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Health Services makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

The Health Services is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00

The Health Services' contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund were:

	2010	2009	2008
General Employees Retirement Fund	$ 71,385	$ 69,445	$ 64,234

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The Health Services is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Health Services carries commercial insurance. The Health Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly Minnesota Counties Insurance Trust. The Health Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the Health 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 $450,000 per claim in 2010 and 2011. 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 Health 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 Health Services in a method and amount to be determined by MCIT.

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 Health Services and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

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

B. Contingent Liabilities

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

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SUPPORTING SCHEDULES

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT A-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

Payments		
Local		
County appropriations	**$**	**365,083**
Grants		
State		
Minnesota Department of Health	**$**	**509,556**
Federal		
Department of		
Agriculture	$	289,814
Health and Human Services		415,258
Total federal	**$**	**705,072**
Total state and federal grants	**$**	**1,214,628**
Total Intergovernmental Revenue	**$**	**1,579,711**

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT A-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	**$**	**289,814**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	$	150,513
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		45,962
Temporary Assistance for Needy Families	93.558		82,527
Immunization - ARRA	93.712		6,623
Maternal and Child Health Services Block Grant to the States	93.994		80,192
Passed Through Minnesota Department of Human Services			
Medical Assistance Program	93.778		49,441
Total U.S. Department of Health and Human Services		**$**	**415,258**
Total Federal Awards		**$**	**705,072**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

   The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lincoln, Lyon, Murray and Pipestone Public Health Services. The Health 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 and Pipestone Public Health Services under programs of the federal government for the year ended December 31, 2010. 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 and Pipestone Public Health Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lincoln, Lyon, Murray and Pipestone Public Health Services.

3. Summary of Significant Accounting Policies

   Expenditures reported on the schedule are reported on the full 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 2010, Lincoln, Lyon, Murray and Pipestone Public Health 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.

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Management and Compliance Section

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses an unqualified opinion on the basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Lincoln, Lyon, Murray and Pipestone Public Health 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 and Pipestone Public Health 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 That Could Have a Direct and Material Effect on Each Major Program and on 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 and Pipestone Public Health 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:

Special Supplemental Nutrition Program for Women, Infants, and Children	CFDA #10.557
Maternal and Child Health Services Block Grant to the States	CFDA #93.994

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

I. Lincoln, Lyon, Murray and Pipestone Public Health 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

08-1 Internal Accounting Controls - Segregation of Duties

Due to the limited number of office personnel within Lincoln, Lyon, Murray and Pipestone Public Health 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 Health 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:

We will continue to review, identify, and monitor internal controls to ensure the integrity and reliability of the information in the accounting system.

09-2 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 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 Health Services' financial statements. The adjustments resulted from errors made in recording transactions and with the mapping of various account codes. Controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the Health Services' records understating liabilities and overstating assets, net assets, revenues, and expenses. 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 Health 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. In addition, we recommend the Health Services include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be corrected by the Health Services prior to the audit.

Client's Response:

We will review internal controls and design and implement procedures to improve internal controls over financial reporting. This will include a final review process to detect errors and make necessary adjustments prior to the audit.

ITEMS ARISING THIS YEAR

10-1 Preparation of Financial Statements

The Health Services is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Health Services' management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

The Health Services has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the Health Services has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the Health Services' ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the Health Services' internal control. As a result of this condition, the Health Services lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend Lincoln, Lyon, Murray and Pipestone Public Health Services obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the Health Services still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the Health Services' financial statements, including notes.

Client's Response:

We will continue to obtain training and expertise internally to prepare our financial statements in accordance with GAAP.

10-2 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee Responsibilities*, subpart C § .300, requires, "The auditee shall: (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (d) prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with § .310."

Lincoln, Lyon, Murray and Pipestone Public Health Services does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and CFDA title and number as required under OMB Circular A-133.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the Health Services. Since the Health Services has not developed procedures for properly identifying all federal financial assistance, the Health Services relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the Health Services' internal control over financial reporting.

We recommend that Health Services' management develop a process, including written procedures, that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding any intergovernmental revenue receipts in suspense accounts until properly identified as to nature and source, and comparison of the prior year SEFA to the current year. For each federal award identified, the Health Services should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The Health Services should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

We will develop a process that will allow staff to identify federal revenues and accumulate the information needed to prepare the SEFA. This will include reconciling the SEFA amounts to general ledger and financial statements.

PREVIOUSLY REPORTED ITEM RESOLVED

Monitoring Internal Controls (09-1)

Our audit procedures detected areas and responsibilities that are performed by the Health Services staff with little or no monitoring by management or other staff members. Some areas with minimal or no monitoring included ensuring securities are properly collateralized at all times as required by Minn. Stat. § 118A.03, tracking interest received and receivable on investments, reviewing bank reconciliations, adding and deleting items to and from capital assets, reviewing receipts issued, and reviewing identified receivables.

Resolution

We noted improvement in the areas of ensuring securities are properly collateralized at all times as required by Minn. Stat. § 118A.03, tracking interest received and receivable on investments, reviewing receipts issued, and reviewing identified receivables. We anticipate the Health Services will continue to make improvements over documenting and monitoring of reviewing bank reconciliations and adding and deleting items to and from capital assets, as well as other significant functions of the accounting system.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Advance Received and Unallowable Costs (CFDA #93.558) (09-3)

During the audit of the Temporary Assistance for Needy Families (TANF) program, we noted that $10,000 was paid as a contract for service to Lincoln, Lyon, and Murray Human Services on an advance basis, and TANF funds are granted on a reimbursement basis.

Resolution

Lincoln, Lyon, and Murray Human Services returned the $10,000 to Lincoln, Lyon, Murray and Pipestone Public Health Services, who then returned the dollars to the Minnesota Department of Health in July 2010.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Notice Required to Collect Collateral Upon Default by Bank

The Depository Pledge Agreements with Wells Fargo Bank generally state that, in the event of default by the bank, the agency is required to give written notice of at least three business days so the bank has time to cure the default.

Minnesota Statutes § 118A.03, subd. 4, states: "The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged."

We recommend that the Health Services review the security agreement with Wells Fargo Bank to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client's Response:

We will review the security agreement with Wells Fargo Bank to ensure it is consistent with Minn. Stat. § 118A.03, subd. 4.

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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*

Board Members
Southwest Health and Human Services

We have audited the basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the year ended December 31, 2010, and have issued our report thereon dated June 17, 2011. 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 and Pipestone Public Health Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Health 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 09-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 08-1, 10-1, and 10-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln, Lyon, Murray and Pipestone Public Health 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 Political Subdivisions*, 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 Political Subdivisions* 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 and Pipestone Public Health Services complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 05-1.

Lincoln, Lyon, Murray and Pipestone Public Health Services' written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the Health Services' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Joint Health and Human Services Board, Community Health Board, management, others within Southwest Health and 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 17, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board Members
Southwest Health and Human Services

Compliance

We have audited Lincoln, Lyon, Murray and Pipestone Public Health Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended December 31, 2010. Lincoln, Lyon, Murray and Pipestone Public Health 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 Health Services' management. Our responsibility is to express an opinion on the Health 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 and Pipestone Public Health 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 Health Services' compliance with those requirements.

In our opinion, Lincoln, Lyon, Murray and Pipestone Public Health 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, 2010.

Internal Control Over Compliance

Management of Lincoln, Lyon, Murray and Pipestone Public Health 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 Health 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 Health 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 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.

This report is intended solely for the information and use of the Joint Health and Human Services Board, Community Health Board, management, others within Southwest Health and 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

June 17, 2011