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, 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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

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

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Introductory Section

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

ORGANIZATION
2010

Board	County	Appointment Expires
Chair		
Robert Fenske	Lyon	December 31, 2010
Vice Chair		
Gerald Magnus	Murray	December 31, 2010
Secretary		
Ann Svendsen	Lincoln	July 5, 2010
Members		
Joan Jagt	Lincoln	December 31, 2010
Donald Evers	Lincoln	December 31, 2010
Lois Schmidt	Lyon	July 5, 2010
Steve Ritter	Lyon	December 31, 2010
Gail Byers	Murray	July 5, 2010
Kevin Vickerman	Murray	December 31, 2010
Attorney		
William J. Toulouse		Indefinite
Director		
Christopher Sorensen		Indefinite
Director of Business Management		
Nancy Walker		Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board Members
Southwest Health and 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, 2010, 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, 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 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, 2010, and the respective changes in financial position, where applicable, 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 accompanying financial statements have been prepared as if Lincoln, Lyon, & Murray Human Services were continuing. As discussed in Note 1.A. to the financial statements, Lincoln, Lyon, & Murray Human 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 and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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. 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 opinions on the basic financial statements that collectively comprise Lincoln, Lyon, & Murray Human Services' basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 21, 2011, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 21, 2011

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

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

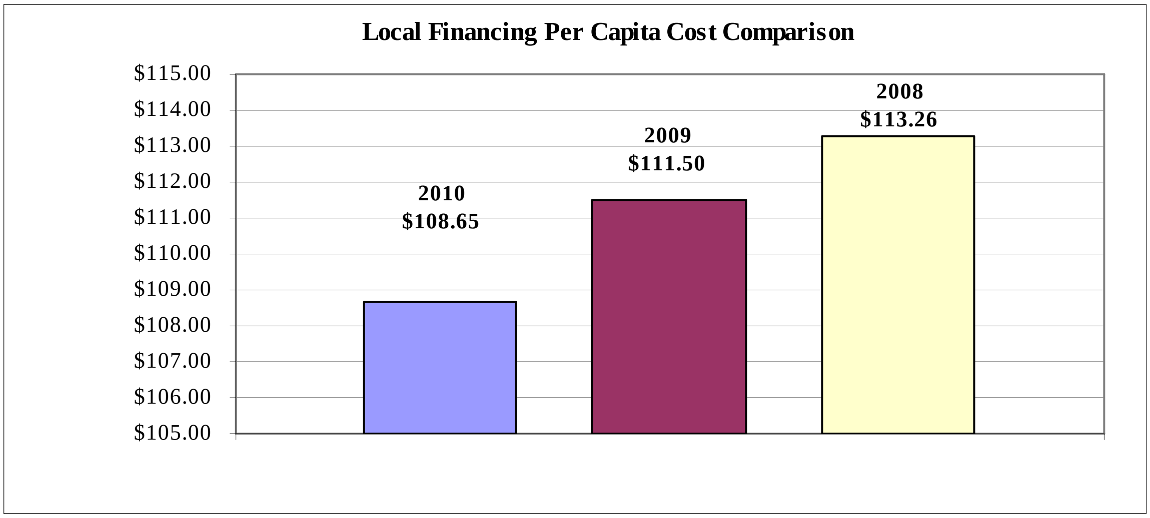
Governmental activities' total net assets are $3,255,242, of which $124,980 is invested in capital assets (Exhibit 1). Governmental activities' total net assets decreased by $254,561, primarily in areas of cash and pooled investments and due from other governments.

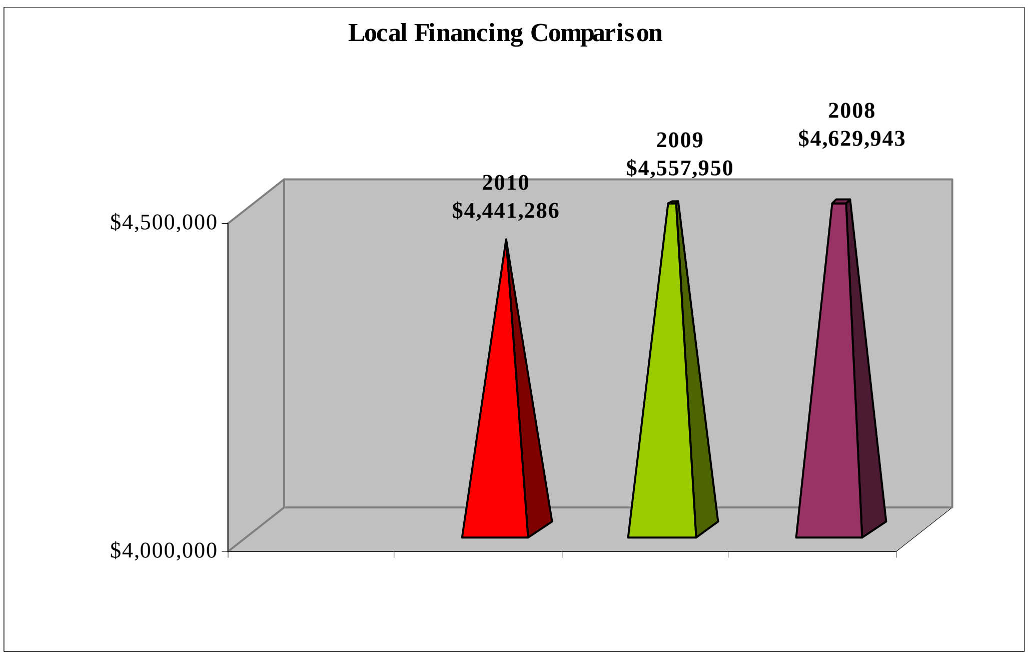
Local financing for the Human Services in 2010 was $4,441,286, which comprised 44.1 percent of the total intergovernmental revenue. Comparing 2010 with 2009 and 2008, the following tables show local financing costs and per capita cost decreased beginning with 2008 through 2010.

Schedule of Local Financing Revenue (Exhibit C-1)

	2010	2009	2008
Payments from participating counties	$ 4,441,286	$ 4,557,950	$ 4,629,943

Population of all three counties is 40,878.





From 2009 to 2010, intergovernmental revenue decreased by $171,473. This decrease was primarily in the areas of county contributions and federal grants. Investment earnings continue to decrease due to low interest rates and the economy. From 2009 to 2010, investment earnings decreased by $5,620.

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

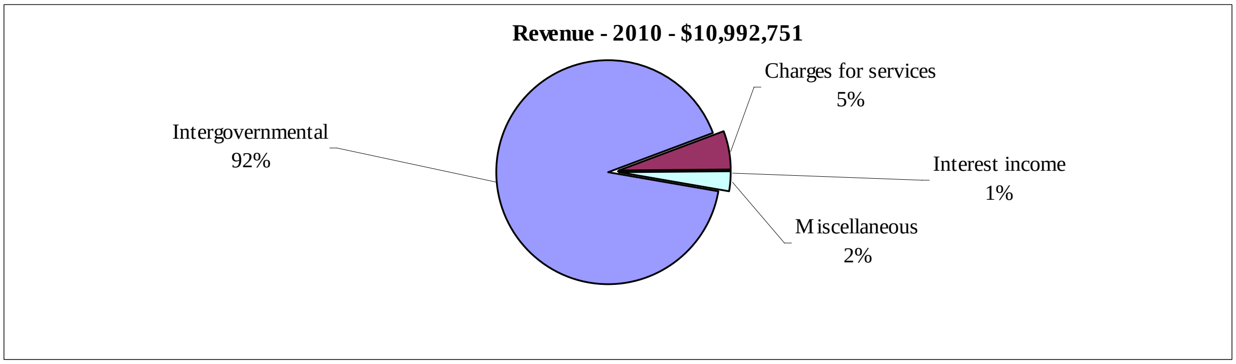
Comparative statements of net assets and activities illustrate the changes from 2009 to 2010:

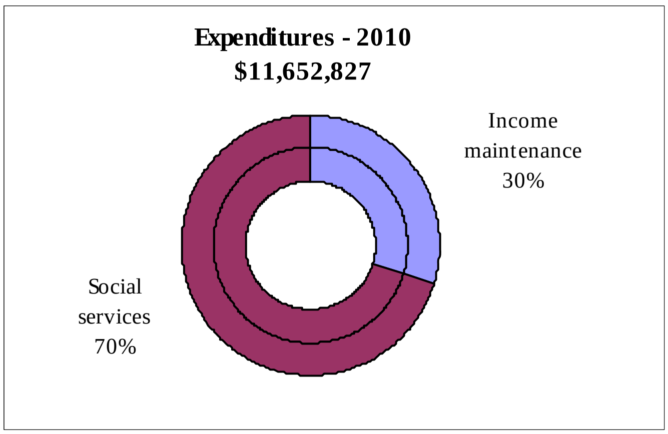
	2009	2010	Percent (%) Change
Assets			
Current assets	$ 5,309,523	$ 4,965,652	(6.5)
Capital assets, net of depreciation	79,582	124,980	57.0
Total Assets	$ 5,389,105	$ 5,090,632	(5.5)
Liabilities			
Current liabilities	$ 1,086,090	$ 1,402,295	29.1
Long-term liabilities	793,212	433,095	(45.4)
Total Liabilities	$ 1,879,302	$ 1,835,390	(2.3)
Net Assets			
Invested in capital assets	$ 79,582	$ 124,980	57.0
Unrestricted	3,430,221	3,130,262	(8.7)
Total Net Assets	$ 3,509,803	$ 3,255,242	(7.3)

	2009	2010	Percent (%) Change
Revenues			
Intergovernmental	$ 10,250,282	$ 10,078,809	(1.7)
Charges for services	501,377	620,994	23.9
Investment earnings	7,719	2,099	(72.8)
Miscellaneous	439,983	290,849	(33.9)
Total Revenues	$ 11,199,361	$ 10,992,751	(1.8)
Expenses	11,163,025	11,247,312	0.8
Change in Net Assets	$ 36,336	$ (254,561)	(800.6)
Net Assets - January 1	3,473,467	3,509,803	1.0
Net Assets - December 31	$ 3,509,803	$ 3,255,242	(7.3)

Governmental Fund

Revenues for the Human Services' General Fund decreased 1.8 percent ($206,610) from the prior year, while total expenditures increased by 0.8 percent ($84,287) from the prior year. This resulted in a 7.3 percent decrease in fund balance in the year ended December 31, 2010.





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

Revenues	Amount
Intergovernmental	$ 10,078,809
Charges for services	620,994
Interest on investments	2,099
Miscellaneous	290,849
Total Revenues	$ 10,992,751

General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Actual revenue failed to meet budgeted revenue by $224,608. Areas that contributed to this were decreases in county contribution and miscellaneous revenue.

Actual expenditures exceeded budgeted expenditures by $435,468. The overage was only in social services, whereas, income maintenance 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, 2010, is $124,980 (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 57 percent. In 2010, Human Services purchased one automobile, an AS400 server, and backup server. Overall, the Human Services has been holding on to capital assets longer and replacing at a slower rate due to decreased funding and revenues.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lincoln, Lyon, & Murray Human Services planned a balanced budget for 2010. Government financing (county levy) for Lincoln, Lyon, & Murray Human Services did not increase for 2010. The final expenditures were over budget for 2010, primarily with non-discretionary expenditures in children's out of home placement, adult mental health commitments, and legal services associated with creating the new joint powers entity.

For 2010, the legislative reductions were accounted for before the passage of the 2010 budget. Based upon historical earned income, we expected that the 2010 balanced budget would come in close to the planned amounts. As described in the 2009 MD&A, the legislative session created financial liabilities for counties that resulted in less overall revenue and also put additional financial constraints on counties by passing additional cost to counties. Again, similar to last year, 2010 was full of many transitions with the decision of the four partner counties creating new Joint Powers Organization. With the decision of the individual county boards to start a new agency, the organizational planning and transition plan began in July 2010. Again, the continuation of remedies to balance the budget, use attrition, and additional regional cooperation to include both health and human services entities was central to the agency's efforts in 2010. Similar to 2010, 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, 2010

	General Fund	Adjustments	Governmental Activities
Assets			
Current assets			
Cash and pooled investments	$ 4,161,640	$ -	$ 4,161,640
Accounts receivable	90,458	-	90,458
Accrued interest receivable	105	-	105
Due from other governments	713,449	-	713,449
Capital assets			
Depreciable - net	-	124,980	124,980
Total Assets	**$ 4,965,652**	**$ 124,980**	**$ 5,090,632**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 573,022	$ -	$ 573,022
Salaries payable	193,928	-	193,928
Due to other governments	158,487	-	158,487
Compensated absences	476,858	-	476,858
Long-term liabilities			
Due in more than one year	-	433,095	433,095
Total Liabilities	**$ 1,402,295**	**$ 433,095**	**$ 1,835,390**
Fund Balance			
Unreserved, undesignated	3,563,357	**$ (3,563,357)**	
Net Assets			
Invested in capital assets		$ 124,980	$ 124,980
Unrestricted		3,130,262	3,130,262
Total Net Assets		**$ 3,255,242**	**$ 3,255,242**
Total Liabilities and Fund Balance/Net Assets	**$ 4,965,652**	**$ 124,980**	**$ 5,090,632**

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

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, 2010

Reconciliation of the General Fund Balance to Net Assets		
Fund Balance - General Fund	**$**	**3,563,357**
Capital assets are reported on the Statement of Net Assets but not on the Fund Balance Sheet.		124,980
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the Fund Balance Sheet.		
Net OPEB liability		(433,095)
Net Assets - Governmental Activities	**$**	**3,255,242**

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

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, 2010

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	$ 10,078,809	$ -	$ 10,078,809
Charges for services	620,994	-	620,994
Investment earnings	2,099	-	2,099
Miscellaneous	290,849	-	290,849
Total Revenues	**$ 10,992,751**	**$ -**	**$ 10,992,751**
Expenditures/Expenses			
Current			
Income maintenance	$ 3,459,920	$ (162,206)	$ 3,297,714
Social services	8,192,907	(243,309)	7,949,598
Total Expenditures/Expenses	**$ 11,652,827**	**$ (405,515)**	**$ 11,247,312**
Net Change in Fund Balance/Net Assets	**$ (660,076)**	**$ 405,515**	**$ (254,561)**
Fund Balance/Net Assets - January 1	**4,223,433**	**(713,630)**	**3,509,803**
Fund Balance/Net Assets - December 31	**$ 3,563,357**	**$ (308,115)**	**$ 3,255,242**

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		**$ (660,076)**
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	$ 73,747	
Current year depreciation expense	(28,349)	45,398
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 net OPEB liability		(146,700)
Decrease in current expenditures due to accrual of compensated absences recognized as a current liability at the fund level on the modified accrual basis for expenses previously recognized on the full accrual basis.		506,817
Change in Net Assets of Governmental Activities		**$ (254,561)**

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

LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

EXHIBIT 3

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Intergovernmental	$ 10,294,329	$ 10,294,329	$ 10,078,809	$ (215,520)
Charges for services	511,880	511,880	620,994	109,114
Interest on investments	12,000	12,000	2,099	(9,901)
Miscellaneous	399,150	399,150	290,849	(108,301)
Total Revenues	**$ 11,217,359**	**$ 11,217,359**	**$ 10,992,751**	**$ (224,608)**
Expenditures				
Current				
Human services				
Income maintenance	$ 3,499,236	$ 3,499,236	$ 3,459,920	$ 39,316
Social services	7,718,123	7,718,123	8,192,907	(474,784)
Total Expenditures	**$ 11,217,359**	**$ 11,217,359**	**$ 11,652,827**	**$ (435,468)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (660,076)**	**$ (660,076)**
Fund Balance - January 1	**4,223,433**	**4,223,433**	**4,223,433**	**-**
Fund Balance - December 31	**$ 4,223,433**	**$ 4,223,433**	**$ 3,563,357**	**$ (660,076)**

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

LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

EXHIBIT 4

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2010

Assets	
Cash and pooled investments	**$ 26,432**
Liabilities	
Due to other governments	**$ 26,432**

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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, 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 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.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

Joint Ventures

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

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.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 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, 2010, based on market prices.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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.

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.

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, and Net Assets or Equity

      3. Capital Assets (Continued)

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

Assets	Years
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. The liability for these amounts is reported in the governmental funds as if it has matured as a result of the dissolution of the joint powers agreement as described in Note 1.A.

      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.

1. Summary of Significant Accounting Policies

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

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, 2010.

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.

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, 2010.

Fund	Expenditures	Budget	Excess
General	$ 11,652,827	$ 11,217,359	$ 435,468

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

Lincoln, Lyon, & Murray Human 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 Human 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 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.

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, 2010, the Human Services' deposits were not exposed to custodial credit risk.

3. Detailed Notes

   A. Assets

      1. Deposits and Investments (Continued)

         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;

(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.

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2010, the Human 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 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.

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

At December 31, 2010, the Human Services had the following deposits and investments.

Cash in bank	$ 1,386,976
MAGIC Fund	2,801,096
Total Cash and Investments	$ 4,188,072

As reported in the financial statements:

Governmental activities	
Cash and pooled investments	$ 4,161,640
Agency Fund	
Cash and pooled investments	26,432
Total	$ 4,188,072

2. Receivables

The Human Services did not have any receivables scheduled to be collected beyond one year as of December 31, 2010.

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	$ 219,906	$ 58,527	$ 50,920	$ 227,513
Automotive equipment	279,105	15,220	23,029	271,296
Total capital assets depreciated	$ 499,011	$ 73,747	$ 73,949	$ 498,809
Less: accumulated depreciation for				
Office furniture and equipment	$ 204,955	$ 9,689	$ 50,920	$ 163,724
Automotive equipment	214,474	18,660	23,029	210,105
Total accumulated depreciation	$ 419,429	$ 28,349	$ 73,949	$ 373,829
Total Capital Assets Depreciated, Net	$ 79,582	$ 45,398	$ -	$ 124,980

Depreciation expense was charged to income maintenance and social services programs for the year ended December 31, 2010.

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 506,817	$ -	$ 29,959	$ 476,858	$ 476,858
Other postemployment benefits (See Note 4.C.)	286,395	277,899	131,199	433,095	-
Total	$ 793,212	$ 277,899	$ 161,158	$ 909,953	$ 476,858

Compensated absences are considered due within one year as result of the dissolution of the joint powers agreements for Lincoln, Lyon, & 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 Plans

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 General Employees Retirement Fund, which is cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

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.

4. Pension Plans

A. Defined Benefit Plan

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 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.

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. 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.

Lincoln, Lyon, & Murray Human 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

4. Pension Plans

B. Pension Plan Funding Policy (Continued)

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

2010	2009	2008
$ 276,278	$ 263,500	$ 240,617

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

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.

4. Pension Plans

C. Other Postemployment Benefits (OPEB)

Funding Policy (Continued)

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, 2010, there were approximately ten retirees receiving health benefits from the Human Services' health plan. The implicit rate subsidy amount was determined by an actuary study to be $66,434 for 2010.

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		12,888
Adjustment to ARC		(16,827)
Annual OPEB cost (expense)	$	261,072
Contributions made		(114,372)
Increase in net OPEB obligation	$	146,700
Net OPEB Obligation - Beginning of Year		286,395
Net OPEB Obligation - End of Year	$	433,095

4. Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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, 2009, and 2010 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
December 31, 2010	261,072	114,372	43.8	433,095

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 - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

4. Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

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).

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, 2010, was 27 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.

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $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 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.

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.

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

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.

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 (the most recent information available):

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010

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. Further trend analysis will not be completed, as the Human Services entity dissolved on December 31, 2010.

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SUPPLEMENTARY INFORMATION

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

EXHIBIT B-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
COLLABORATIVE AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
Assets				
Cash and pooled investments	$ 24,235	$ 75,804	$ 73,607	$ 26,432
Liabilities				
Due to other governments	$ 24,235	$ 75,804	$ 73,607	$ 26,432

LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

EXHIBIT C-1

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

Shared Revenue		
Payments from participating counties	**$**	**4,441,286**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**1,001,803**
Grants		
State		
Minnesota Department of Human Services	**$**	**2,030,972**
Federal		
Department of		
Agriculture	$	274,417
Health and Human Services		2,330,331
Total federal	**$**	**2,604,748**
Total state and federal grants	**$**	**4,635,720**
Total Intergovernmental Revenue	**$**	**10,078,809**

LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

EXHIBIT C-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 Human Services			
Supplemental Nutrition Assistance Program (SNAP) Cluster			
State Administrative Matching Grants for the SNAP	10.561	$	268,160
State Administrative Matching Grants for the SNAP - ARRA	10.561		6,257
Total U.S. Department of Agriculture		**$**	**274,417**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	$	56,637
Temporary Assistance for Needy Families	93.558		249,560
Child Support Enforcement Cluster			
Child Support Enforcement	93.563		596,981
Child Support Enforcement - ARRA	93.563		60,346
Child Care and Development Block Grant	93.575		27,238
Child Welfare Services - State Grants	93.645		5,331
Foster Care - Title IV-E Cluster			
Foster Care - Title IV-E	93.658		91,345
Foster Care - Title IV-E - ARRA	93.658		656
Social Services Block Grant	93.667		281,229
Chafee Foster Care Independence Program	93.674		30,622
Children's Health Insurance Program	93.767		182
Medical Assistance Program	93.778		884,324
Block Grants for Community Mental Health Services	93.958		45,880
Total U.S. Department of Health and Human Services		**$**	**2,330,331**
Total Federal Awards		**$**	**2,604,748**

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

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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, 2010

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, 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 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 2010, 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.

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**Management and
Compliance Section**

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LINCOLN, LYON, & MURRAY HUMAN 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 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*." None were material weaknesses.

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 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 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:

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

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 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 Human Services' records understating liabilities and expenditures, and overstating fund balance and revenues; and the Human Services did not consider the need for 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 would not be 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. In addition, we recommend the Human 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 Human 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 Human 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 Human 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 government-wide and fund financial statements, including the related notes to the financial statements.

The Human 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 Human 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 Human 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 Human Services' internal control. As a result of this condition, the Human Services lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend Lincoln, Lyon, & Murray Human Services obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the Human Services still intends to have staff from the Office of the State Auditor (OSA) 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 Human Services' financial statements, including notes.

<u>Client's Response</u>:

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

10-2 <u>Preparation of the Schedule of Expenditures of Federal Awards</u>

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 Human 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 Catalog of Federal Domestic Assistance (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 Human Services. Since the Human Services has not developed procedures for properly identifying all federal financial assistance, the Human Services relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the Human Services' internal control over financial reporting.

We recommend that Human 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 in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, and comparison of the prior year SEFA to the current year. For each federal award identified, the Human 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 Human 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 identity 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 ITEMS RESOLVED

Monitoring Internal Controls (09-1)

Our audit procedures detected areas and responsibilities that are performed by Human Services' staff with little or no monitoring by management or other staff members. Some areas with minimal or no monitoring included entering budget information into the accounting system, processing payroll and transmitting payment information to the bank, reviewing receipts issued, and reviewing identified receivables.

Resolution

We noted improvement in the areas of entering budget information into the accounting system, processing payroll, and reviewing identified receivables and payables. We anticipate the Human Services will continue to make improvements over documenting and monitoring of reviewing journal entries processed, as well as other significant functions of the accounting system.

Social Welfare Funds (09-2)

During the previous audit, deficiencies in processing receipts and disbursements were identified. Disbursements made on a regular basis were supported by documentation filed with client information, but the documentation was not dated, signed, or initialed indicating approval by the Social Worker or any other party.

Resolution

Upon review of the Social Welfare Fund process, we noted improvement in documentation, including a "Rep Payee Fee Status Update" form, which is initialed and dated by Social Workers and Financial Workers indicating approval for requests of payment.

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's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Southwest Health and Human Services for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and 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 are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with 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 (such as the 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.

The Human Services should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The Human Services can start with the following steps:

- review the requirements of GASB Statement 54;

- review current fund balance and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;

- review/update/prepare a comprehensive fund balance policy;

- prepare appropriate Board resolutions to commit fund balance; and

- if the Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Additional implementation steps could include deciding on how fund balance will be presented in the financials, for example, detailed vs. aggregate methods, and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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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 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, 2010, which collectively comprise the Human Services' basic financial statements, and have issued our report thereon dated June 21, 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 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal controls over financial reporting, described in the Schedule of Findings and Questioned Costs as items 06-1, 06-11, 10-1, and 10-2, that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 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 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 Joint Health and Human Services Board, Human Services 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 21, 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 Human 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 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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 to determine the 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.

This report is intended solely for the information and use of the Joint Health and Human Services Board, Human Services 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 21, 2011