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, 2008

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
HUMAN SERVICES
MARSHALL, MINNESOTA

For the Year Ended December 31, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

ORGANIZATION
2008

Board	County	Appointment Expires
Chair		
Robert Fenske	Lyon	December 31, 2008
Vice Chair		
Steve Ritter	Lyon	December 31, 2008
Secretary		
Ann Svendsen	Lincoln	July 2010
Members		
Joan Jagt	Lincoln	December 31, 2008
Deane Sagmoe	Lincoln	December 31, 2008
Carmen Marben	Lyon	July 2010
Gail Byers	Murray	July 2010
Gerald Magnus	Murray	December 31, 2008
Kevin Vickerman	Murray	December 31, 2008
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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INDEPENDENT AUDITOR'S REPORT

Board Members
Lincoln, Lyon, & Murray Human Services

We have audited the financial statements of the governmental activities, the General Fund, and the remaining fund information of Lincoln, Lyon, & Murray Human Services as of and for the year ended December 31, 2008, which collectively comprise the Human Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Human Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the remaining fund information of Lincoln, Lyon, & Murray Human Services as of December 31, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4.C. to the financial statements, during the year ended December 31, 2008, Lincoln, Lyon, & Murray Human Services adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

Our audit was made for the purpose of forming opinions on the basic financial statements of Lincoln, Lyon, & Murray Human Services. The statement listed as supplementary information and the supporting schedule in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Human Services. The supplementary and supporting information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2009, on our consideration of Lincoln, Lyon, & Murray Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 4, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(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, 2008. 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

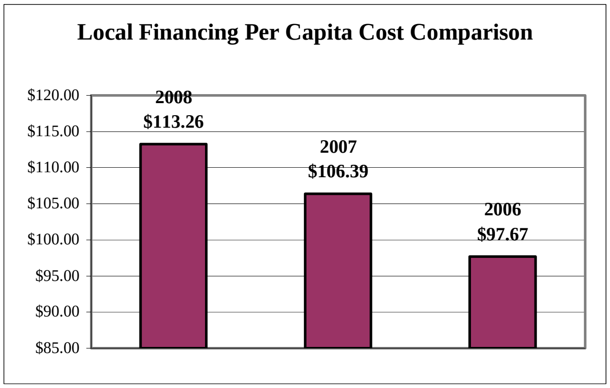
Governmental activities' total net assets are $3,473,467, of which $53,443 is invested in capital assets (Exhibit 1). Governmental activities' total net assets decreased by $2,536. Lincoln, Lyon, & Murray Human Services' net assets decreased primarily due to an increase in fund balance of $217,390 and an increase in cash and pooled investments of $308,682, which was offset by compensated absences and other postemployment benefits totaling $648,227.

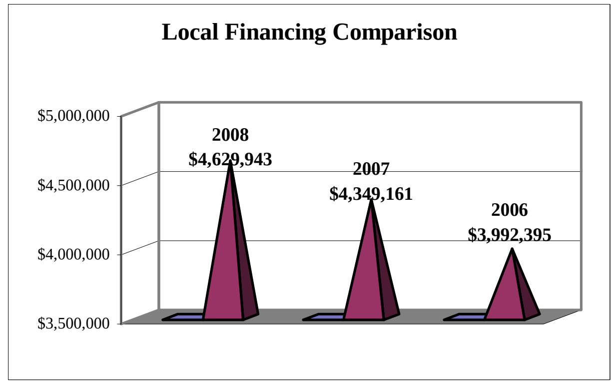
Local financing for the Human Services in 2008 was $4,629,943, which comprised 44.5 percent of the total intergovernmental revenue. Comparing 2008 with 2007 and 2006, the following tables show local financing costs and per capita cost increased beginning with 2006 through 2008.

Schedule of Local Financing Revenue (Schedule 1)

	2008	2007	2006
Payments from participating counties	$ 4,629,943	$ 4,349,161	$ 3,922,395

Population of all three counties is 40,878.





From 2007 to 2008, intergovernmental revenue increased by $336,642. This increase was primarily in the areas of County contributions, state grants, and federal grants. However, investment earnings have continued to decrease due to low interest rates and the economy. From 2007 to 2008, investment earnings decreased by $35,467.

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.

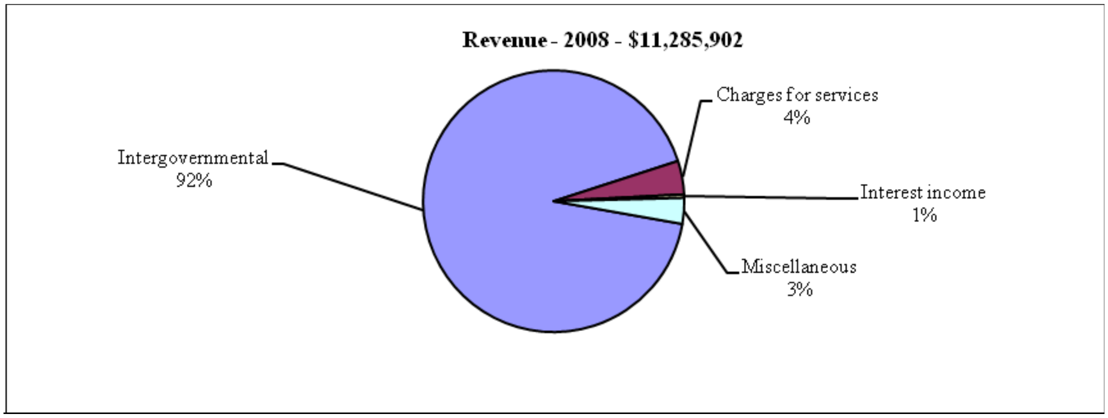
Governmental Activities

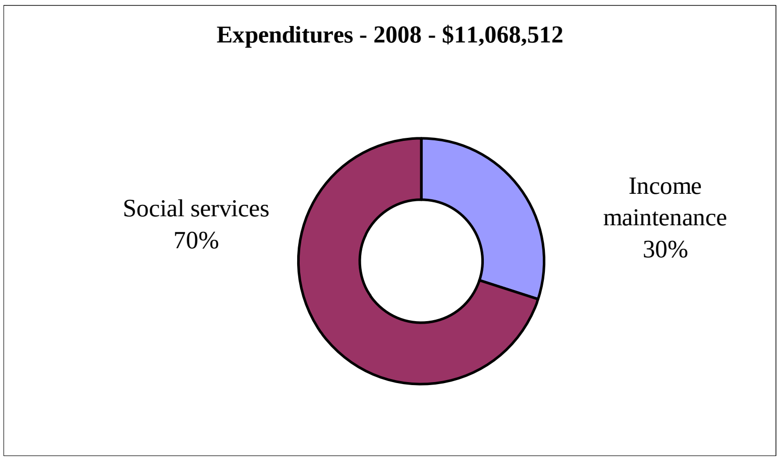
Comparative statements of net assets and activities illustrate the changes from 2007 to 2008:

	2008	2007	Percent (%) Change
Assets			
Current assets	$ 5,235,496	$ 4,913,435	6.6
Capital assets, net of depreciation	53,443	80,519	(33.6)
Total Assets	$ 5,288,939	$ 4,993,954	5.9
Liabilities			
Current liabilities	$ 1,167,245	$ 1,062,574	9.9
Long-term liabilities	648,227	455,377	42.3
Total Liabilities	$ 1,815,472	$ 1,517,951	19.6
Net Assets			
Invested in capital assets	$ 53,443	$ 80,519	(33.6)
Unrestricted	3,420,024	3,395,484	0.7
Total Net Assets	$ 3,473,467	$ 3,476,003	(0.1)
Revenues			
Intergovernmental	$ 10,410,114	$ 10,073,472	3.3
Charges for services	467,810	475,748	(1.7)
Investment earnings	48,981	84,448	(42.0)
Miscellaneous	358,997	170,800	110.2
Total Revenues	$ 11,285,902	$ 10,804,468	4.5
Expenses	11,288,438	10,703,422	5.5
Change in Net Assets	$ (2,536)	$ 101,046	(102.5)
Net Assets - January 1	3,476,003	3,374,957	3.0
Net Assets - December 31	$ 3,473,467	$ 3,476,003	(0.1)

Governmental Fund

Revenues for the Human Services' General Fund increased 4.5 percent ($481,434) from the prior year, while total expenditures increased by 3.6 percent ($387,498) from the prior year. This results in a 5.6 percent increase in fund balance in the year ended December 31, 2008.





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	$ 10,410,114
Charges for services	467,810
Interest on investments	48,981
Miscellaneous	358,997
Total Revenues	$ 11,285,902

General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Actual revenue exceeded budgeted revenue by $580,349. Areas that contributed to this were consistent increases in MMIS dollars over the course of the year and increased collection of MA (Medical Assistance) estate claims.

Actual expenditures exceeded budgeted expenditures by $362,959. The overage was relatively equal between income maintenance and social services. The areas of Medical Assistance transportation costs, costs related to children's services, and general overhead costs in both income maintenance and social services were all contributing factors.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Human Services' investment in capital assets for its governmental activities for the year ended December 31, 2008, is $53,443 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. There was a decrease in the Human Services' investment in capital assets for the current fiscal year of 33.6 percent. Overall, the Human Services has been holding onto capital assets longer and replacing at a slower rate due to decreased funding and revenues.

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	$ 222,030	$ -	$ -	$ 222,030
Automotive equipment	220,854	14,892	-	235,746
Total capital assets depreciated	$ 442,884	$ 14,892	$ -	$ 457,776
Less: accumulated depreciation for				
Office furniture and equipment	$ 182,339	$ 21,636	$ -	$ 203,975
Automotive equipment	180,026	20,332	-	200,358
Total accumulated depreciation	$ 362,365	$ 41,968	$ -	$ 404,333
Total Capital Assets Depreciated, Net	$ 80,519	$ (27,076)	$ -	$ 53,443

Depreciation expense was charged to income maintenance and social services programs for the year ended December 31, 2008.

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

Long-Term Liabilities

The Human Services' long-term liabilities consist of compensated absences and other postemployment benefits (OPEB) payable at December 31, 2008, as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 455,377	$ 47,424	$ -	$ 502,801	$ 40,224
OPEB	-	145,426	-	145,426	-
Total	$ 455,377	$ 192,850	$ -	$ 648,227	$ 40,224

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lincoln, Lyon, & Murray Human Services planned a balanced budget for 2008 but ended the year by adding to the fund balance by $217,390. Local government financing (County levy) for Lincoln, Lyon, & Murray Human Services did not increase for 2008.

At the time of this report, the State of Minnesota already experienced a significant loss in revenue from the Governor's unallotment process including a substantial decrease in the CCSA fund for social services and a Local Government Aid reduction that will reduce our levy funding in the 2009 year. Additional impacts of the unallotment process will continue into 2010 with more reduction in CCSA, Local Government Aid, and repayment of a legislative appropriation given to Minnesota counties in 2008 for Child Welfare Funding. We expect very small growth in revenue in the next couple of years, with additional financial and programmatic costs to local human services as a result of the current economic conditions. The trending of budgetary reductions for local county human services agencies has become a normative feature over the last eight years and will continue into 2010 and likely 2011. We anticipate that, given the current funding priorities, most of the emphasis for service development will be focused on maintaining the "safety net" of services for 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.

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, 2008

	General Fund	Adjustments	Governmental Activities
Assets			
Current assets			
Cash and pooled investments	$ 4,388,105	$ -	$ 4,388,105
Petty cash and change funds	540	-	540
Accounts receivable	125,749	-	125,749
Accrued interest receivable	3,346	-	3,346
Due from other governments	698,086	19,670	717,756
Noncurrent assets			
Advance to other funds	19,670	(19,670)	-
Capital assets			
Depreciable - net	-	53,443	53,443
Total Assets	**$ 5,235,496**	**$ 53,443**	**$ 5,288,939**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 466,343	$ -	$ 466,343
Salaries payable	373,545	-	373,545
Due to other governments	327,357	-	327,357
Long-term liabilities			
Due within one year	-	40,224	40,224
Due in more than one year	-	462,577	462,577
Net OPEB liability	-	145,426	145,426
Total Liabilities	**$ 1,167,245**	**$ 648,227**	**$ 1,815,472**
Fund Balance			
Reserved for advance to other funds	$ 19,670		
Reserved for unspent grant monies	24,588		
Unreserved, undesignated	4,023,993		
Total Fund Balance	**$ 4,068,251**	**$ (4,068,251)**	
Net Assets			
Invested in capital assets		$ 53,443	$ 53,443
Unrestricted		3,420,024	3,420,024
Total Net Assets		**$ 3,473,467**	**$ 3,473,467**
Total Liabilities and Fund Balance/Net Assets	**$ 5,235,496**	**$ 53,443**	**$ 5,288,939**

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, 2008

	General Fund	Adjustments	Governmental Activities
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			**$ 4,068,251**
Capital assets are reported on the Statement of Net Assets but not on the Fund Balance Sheet.			53,443
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the Fund Balance Sheet.			
Compensated absences		$ (502,801)	
Net OPEB liability		(145,426)	(648,227)
Net Assets - Governmental Activities			**$ 3,473,467**

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, 2008

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	$ 10,410,114	$ -	$ 10,410,114
Charges for services	467,810	-	467,810
Investment earnings	48,981	-	48,981
Miscellaneous	358,997	-	358,997
Total Revenues	**$ 11,285,902**	**$ -**	**$ 11,285,902**
Expenditures/Expenses			
Current			
Income maintenance	$ 3,279,983	$ 87,970	$ 3,367,953
Social services	7,788,529	131,956	7,920,485
Total Expenditures/Expenses	**$ 11,068,512**	**$ 219,926**	**$ 11,288,438**
Net Change in Fund Balance/Net Assets	**$ 217,390**	**$ (219,926)**	**$ (2,536)**
Fund Balance/Net Assets - January 1	**3,850,861**	**(374,858)**	**3,476,003**
Fund Balance/Net Assets - December 31	**$ 4,068,251**	**$ (594,784)**	**$ 3,473,467**

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		**$ 217,390**
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	$ 14,892	
Current year depreciation expense	(41,968)	(27,076)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
(Increase) decrease in compensated absences		(47,424)
(Increase) decrease in net OPEB liability		(145,426)
Change in Net Assets of Governmental Activities		**$ (2,536)**

LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

EXHIBIT 3

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 9,962,853	$ 9,962,853	$ 10,410,114	$ 447,261
Charges for services	464,000	464,000	467,810	3,810
Interest on investments	70,000	70,000	48,981	(21,019)
Miscellaneous	208,700	208,700	358,997	150,297
Total Revenues	**$ 10,705,553**	**$ 10,705,553**	**$ 11,285,902**	**$ 580,349**
Expenditures				
Current				
Human services				
Income maintenance	$ 3,125,259	$ 3,125,259	$ 3,279,983	$ (154,724)
Social services	7,580,294	7,580,294	7,788,529	(208,235)
Total Expenditures	**$ 10,705,553**	**$ 10,705,553**	**$ 11,068,512**	**$ (362,959)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 217,390**	**$ 217,390**
Fund Balance - January 1	**3,850,861**	**3,850,861**	**3,850,861**	**-**
Fund Balance - December 31	**$ 3,850,861**	**$ 3,850,861**	**$ 4,068,251**	**$ 217,390**

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, 2008

Assets	
Due from other governments	**$ 19,670**
Liabilities	
Advance from other funds	**$ 19,670**

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, 2008

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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Human Services are discussed below.

A. Financial Reporting Entity

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

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

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

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

Joint Ventures

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

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

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

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Human Services' net assets are reported in two parts: invested in capital assets and unrestricted net assets. The Statement of Activities demonstrates the degree to which the expenses of the Human Services are offset by revenues.

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

Additionally, the Human Services reports a fiduciary fund type, which is excluded from the governmental activities. The 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 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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2008, based on market prices.

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

Lincoln, Lyon, & Murray Human Services invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of Lincoln, Lyon, & Murray Human Services' position in the pool is the same as the value of the pool shares.

2. Receivables

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

1. Summary of Significant Accounting Policies

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

3. Capital Assets

Capital assets, which include office furniture and equipment and automotive equipment, are reported in the governmental activities column in the Statement of Net Assets. Capital assets are defined as assets with an initial, individual cost of more than $1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

1. Summary of Significant Accounting Policies

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

5. Deferred Revenue

Governmental funds and the government-wide statements defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

6. Long-Term Liabilities

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

7. Fund Equity

The fund financial statements report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change. The Human Services reported no designations for the year ended December 31, 2008.

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, 2008.

Fund	Expenditures	Budget	Excess
General	$ 11,068,512	$ 10,705,553	$ 362,959

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

As authorized by Minn. Stat. §§ 118A.02 and 118A.04, Lincoln, Lyon, & Murray Human Services may designate a depository for public funds and invest in certificates of deposit. All Human Services' deposits must be protected by insurance, surety bond, or collateral, as required by Minn. Stat. § 118A.03. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day not covered by insurance or bonds.

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

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Human Services' deposits may not be returned to it. The Human Services does not have a policy for custodial credit risk. As of December 31, 2008, the Human Services' deposits were not exposed to custodial credit risk.

b. Investments

The following types of investments are generally authorized as available to Lincoln, Lyon, & Murray Human Services 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

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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, 2008, the Human Services' investments were not exposed to custodial credit risk.

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Human Services' investment in a single issuer. The Human Services does not have a policy that addresses this risk but currently invests only in certificates of deposit and the MAGIC Fund external investment pool.

At December 31, 2008, the Human Services had the following deposits and investments.

Petty cash and change funds	$ 540
Cash in bank	1,297,904
MAGIC Fund	3,090,201
Total Cash and Investments	$ 4,388,645

As reported in the financial statements:

Governmental activities	
Cash and pooled investments	$ 4,388,105
Petty cash and change funds	540
Total	$ 4,388,645

2. Receivables

The Human Services did not have any receivables scheduled to be collected beyond one year as of December 31, 2008.

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	$ 222,030	$ -	$ -	$ 222,030
Automotive equipment	220,854	14,892	-	235,746
Total capital assets depreciated	$ 442,884	$ 14,892	$ -	$ 457,776
Less: accumulated depreciation for				
Office furniture and equipment	$ 182,339	$ 21,636	$ -	$ 203,975
Automotive equipment	180,026	20,332	-	200,358
Total accumulated depreciation	$ 362,365	$ 41,968	$ -	$ 404,333
Total Capital Assets Depreciated, Net	$ 80,519	$ (27,076)	$ -	$ 53,443

Depreciation expense was charged to income maintenance and social services programs for the year ended December 31, 2008.

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 455,377	$ 47,424	$ -	$ 502,801	$ 40,224
Other postemployment benefits (See Note 4.C.)	-	145,426	-	145,426	-
Total	$ 455,377	$ 192,850	$ -	$ 648,227	$ 40,224

4. Pension and Postemployment Health Insurance Plans

A. Pension Plan Description

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

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

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced social security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

4. Pension and Postemployment Health Insurance Plans

A. Pension Plan Description (Continued)

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

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

B. Pension Plan Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes ch. 353 sets the rates for employer and employee contributions. Lincoln, Lyon, & Murray Human Services makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

Lincoln, Lyon, & Murray Human Services is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75

The Human Services' contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 240,617	$ 222,354	$ 218,324

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

4. Pension and Postemployment Health Insurance Plans (Continued)

C. Other Postemployment Benefits (OPEB)

Beginning in 2008, the Human Services implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

This statement required the County 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 since January 1, 2008.

Plan Description

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

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the healthcare plan at the same rate as the Human Services' employees. This results in the retirees receiving an implicit rate subsidy. For 2008, there were approximately 98 participants in the plan, including 10 retirees.

4. Pension and Postemployment Health Insurance Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Human Services' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial 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		-
Adjustment to ARC		-
Annual OPEB cost (expense)	$	265,011
Contributions made		(119,585)
Increase in net OPEB obligation	$	145,426
Net OPEB Obligation - Beginning of Year		-
Net OPEB Obligation - End of Year	$	145,426

The County's annual OPEB cost for December 31, 2008, was $265,011. The percentage of annual OPEB cost contributed to the plan was 45.12 percent, and the net OPEB obligation for 2008 was $145,426. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

Funded Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial 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.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

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

The annual healthcare 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, 2008, was 29 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 Insurance Trust (MCIT). The Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The Human Services purchases commercial insurance for employee health and dental coverage as well as for other risks. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $410,000 per claim in 2008 and $430,000 per claim in 2009. 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.

   B. Joint Venture

   Southwestern Minnesota Adult Mental Health Consortium Board

   Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, and Swift Counties; and Lincoln, Lyon, and Murray Counties represented by Lincoln, Lyon, and Murray Human Services, created the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Board takes actions and enters into such agreements as may be necessary to plan and develop within the Board'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.

6. Summary of Significant Contingencies and Other Items

B. Joint Venture

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Board's annual financial report (the latest available) for the year ended December 31, 2007:

Total assets	$ 1,683,591
Total liabilities	323,335
Total equity	1,360,256
Total revenues	3,359,694
Total expenditures	2,947,615
Net increase to net assets	412,079

The Board reported no long-term obligations at December 31, 2007.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

REQUIRED SUPPLEMENTARY INFORMATION

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

Schedule 1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2008

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.

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SUPPLEMENTARY INFORMATION

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

Statement 1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
COLLABORATIVE AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
Assets				
Cash and pooled investments	$ 22,980	$ 77,920	$ 100,900	$ -
Due from other governments	-	19,670	-	19,670
Total Assets	**$ 22,980**	**$ 97,590**	**$ 100,900**	**$ 19,670**
Liabilities				
Due to other governments	$ 22,980	$ 77,920	$ 100,900	$ -
Advance from other funds	-	19,670	-	19,670
Total Liabilities	**$ 22,980**	**$ 97,590**	**$ 100,900**	**$ 19,670**

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SUPPORTING SCHEDULE

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

Schedule 2

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

Shared Revenue		
Payments from participating counties	**$**	**4,629,943**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**858,230**
Payments		
Local		
McKnight	**$**	**500**
Grants		
State		
Minnesota Department of Human Services	**$**	**2,485,557**
Federal		
Department of		
Agriculture	$	236,215
Health and Human Services		2,199,669
Total Federal	**$**	**2,435,884**
Total State and Federal Grants	**$**	**4,921,441**
Total Intergovernmental Revenue	**$**	**10,410,114**

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Management and Compliance Section

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

Schedule 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."

E. The Auditor's Report on Compliance for the major federal award programs for Lincoln, Lyon, & Murray Human Services expresses an unqualified opinion.

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major programs are:

Child Support Enforcement	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 determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Internal Accounting Controls - Segregation of Duties

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

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

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

Client's Response:

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

06-11 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls.

During our audit, we proposed material adjustments that resulted in significant changes to the Human Services' financial statements. The adjustments resulted from: errors made in recording transactions and with mapping of various account codes; controls over calculating the proper amount of receivables and payables did not detect errors, which resulted in the client overstating assets, revenue, expenditures, and fund balance and understating liabilities; 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 could be not fairly presented.

We recommend that the Human Services review internal controls currently in place, then design and implement procedures to improve internal control over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

Preparation of Financial Statements (06-4)
The Human Services lacks internal control over preparation of financial statements in accordance with generally accepted accounting principles.

Resolution
The Human Services continued to obtain the training and expertise to internally prepare its annual financial statements and prepared draft copies of the financial statements of the governmental funds and the budgetary comparison schedules for 2008.

Accounting Policies and Procedures Manual (06-6)

The Human Services did not have a current and comprehensive accounting policies and procedures manual to document the accounting policies and procedures of the Human Services' internal control system.

Resolution

The Human Services' Board approved an accounting policies and procedures manual on December 17, 2008.

Computer Risk Management (06-8)

The Human Services had internal controls in place for its computer systems. However, the Human Services had not developed a formal plan to identify and manage risks associated with its computer systems.

Resolution

The Human Services implemented an accounting policies and procedures manual that addressed the internal control risks associated with the Human Services' computer systems and communicated those risks to employees.

Controls Over Medical Assistance Recoveries (07-1)

At the time of our audit, we noted the Human Services had received a large amount of MA recovery collections during 2007 but had made few payments to the Minnesota Department of Human Services (DHS) for the state and federal shares of collections. A liability had not been recorded by the Human Services for the amount of funds on hand owed to the DHS.

Resolution

The Human Services implemented procedures to enter and remit recoveries into the MMIS system, therefore improving the timeliness of payments to DHS.

Payroll (07-2)

No controls existed to verify that correct pay rates were in the payroll system for all employees, that pay rates were updated for authorized reasons, or that any payroll information changes were reviewed by other Human Services' personnel.

Resolution

Changes to payroll information are entered by one employee and reviewed by someone other than the person making the changes. The review is done each payroll when the payroll register is reviewed to ensure any changes made to an employee's payroll information were correct and made for authorized purposes.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Notice Required to Collect Collateral Upon Default by Bank (06-13)

The depository pledge agreements between the Human Services and Wells Fargo and Bank of the West were not consistent with the default language of Minn. Stat. § 118A.03, subd. 4, which 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."

Resolution

The depository pledge agreements were updated to comply with Minn. Stat. § 118A.03, subd. 4.

Collateral Pledged to Secure Deposits (07-3)

Federal deposit insurance coverage and collateral pledged at December 31, 2007, were insufficient for the amount on deposit at Bremer Bank.

Resolution

All accounts were sufficiently collateralized as of December 31, 2008.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Outdated Policies (07-4)

The Human Services' investment policy was last updated in 1999. The Human Services' fiscal agent was not aware the policy even existed. GASB Statement 34 compliance-related policies were last revised in February 2006 and did not properly address capital assets, budgeting, or compensated absences.

Resolution

The Human Services' Board approved an accounting policies and procedures manual on December 17, 2008.

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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
Lincoln, Lyon, & Murray Human Services

We have audited the financial statements of the governmental activities, the General Fund, and the remaining fund information of Lincoln, Lyon, & Murray Human Services as of and for the year ended December 31, 2008, which collectively comprise the Human Services' basic financial statements, and have issued our report thereon dated December 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln, Lyon, & Murray Human Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Human Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Human Services' internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Human Services' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Human Services' financial statements that is more than inconsequential will not be prevented or detected by the Human Services' internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 and 06-11 to be significant deficiencies in internal control over financial reporting.

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

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

<u>Compliance and Other Matters</u>

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.*

<u>Minnesota Legal Compliance</u>

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

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

The results of our tests indicate that, for the items tested, Lincoln, Lyon, & Murray Human Services complied with the material terms and conditions of applicable legal provisions.

Lincoln, Lyon, & Murray Human Services' written responses to the significant deficiencies findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the Human Services' responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 4, 2009

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

Board Members
Lincoln, Lyon, & Murray Human Services

Compliance

We have audited the compliance of Lincoln, Lyon, & Murray Human Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Lincoln, Lyon, & Murray Human Services' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Human Services' management. Our responsibility is to express an opinion on the Human Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln, Lyon, & Murray Human Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Human Services' compliance with those requirements.

In our opinion, Lincoln, Lyon, & Murray Human Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Lincoln, Lyon, & Murray Human Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Human Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Human Services' internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Human Services' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Human Services' internal control.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the General Fund, and the remaining fund information of Lincoln, Lyon, & Murray Human Services as of and for the year ended December 31, 2008, which collectively comprise the Human Services' basic financial statements, and have issued our report thereon dated December 4, 2009. Our audit was performed for the purpose of forming opinions on the Human Services' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 4, 2009

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LINCOLN, LYON, & MURRAY HUMAN SERVICES
MARSHALL, MINNESOTA

Schedule 4

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor **Pass-Through Agency** **Grant Program Title**	**Federal CFDA Number**	**Expenditures**
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for Food Stamp Program	10.561	**$ 236,215**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	$ 101,544
Temporary Assistance for Needy Families (TANF)	93.558	237,065
Child Support Enforcement Title IV-D	93.563	527,621
Refugee and Entrant Assistance	93.566	628
Child Care Cluster		
Child Care and Development Block Grant	93.575	23,120
Child Care Mandatory Matching Funds	93.596	5,584
Foster Care - Title IV-E	93.658	137,681
Social Services Block Grant Title XX	93.667	281,604
Chafee Foster Care Independence Program	93.674	32,496
Children's Health Insurance Program	93.767	569
Medical Assistance Program	93.778	833,901
Block Grants for Community Mental Health Services	93.958	17,856
Total U.S. Department of Health and Human Services		**$ 2,199,669**
Total Federal Awards		**$ 2,435,884**

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, 2008

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 accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Lincoln, Lyon, & Murray Human Services considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

3. Passed Through to Subrecipients

During 2008, Lincoln, Lyon, & Murray Human Services did not pass any federal money to subrecipients.

4. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.