

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

FOR THE YEAR ENDED DECEMBER 31, 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's 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 State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**For The Year Ended December 31, 2004**



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

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

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## **INTRODUCTORY SECTION**

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

ORGANIZATION  
2004

<u>Board</u>	<u>County</u>	<u>Term Expires</u>
Chair		
David Norgaard	Lincoln	January 2005
Vice Chair		
Robert Fenske*	Lyon	January 2005
Secretary		
Ann Svendsen	Lincoln	January 2005
Members		
Deane Sagmoe	Lincoln	January 2005
Carman Marben	Lyon	January 2005
Gail Byers	Murray	January 2005
Alfred Gertsema	Murray	January 2005
Lyle Onken	Murray	January 2005
Steve Ritter	Lyon	January 2005
Lincoln, Lyon, & Murray Human Services Board Attorney		
William Toulouse	Indefinite	
Lincoln, Lyon, & Murray Human Services Board Director		
Christopher Sorensen	Indefinite	
Lincoln, Lyon, & Murray Human Services Board Accounting Officers		
Steve Glaeser	Indefinite	
Troy Knakmuhs	Indefinite	
Lori Johnson	Indefinite	
Mary Hauschild	Indefinite	
Harvey Witt	Indefinite	

\*Chair for 2005

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Lincoln, Lyon, & Murray Human Services Board  
Marshall, Minnesota

We have audited the basic financial statements of the governmental activities and the major fund of the Lincoln, Lyon, & Murray Human Services Board as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Board's 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 financial position of the governmental activities and the major fund of the Lincoln, Lyon, & Murray Human Services Board as of December 31, 2004, and the changes in financial position thereof and the General Fund budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily 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 an opinion on the basic financial statements of the Lincoln, Lyon, & Murray Human Services Board. The schedule listed as a supporting schedule in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Lincoln, Lyon, & Murray Human Service Board. The supporting information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2005, on our consideration of the Lincoln, Lyon, & Murray Human Services Board's 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 10, 2005

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)  
DECEMBER 31, 2004**

The Lincoln, Lyon, & Murray Human Services Board's (Board) discussion and analysis provides an overview of the Board's financial activities for the fiscal year ended December 31, 2004. 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 Board's financial statements (beginning with Exhibit 1).

**FINANCIAL REPORTING ENTITY**

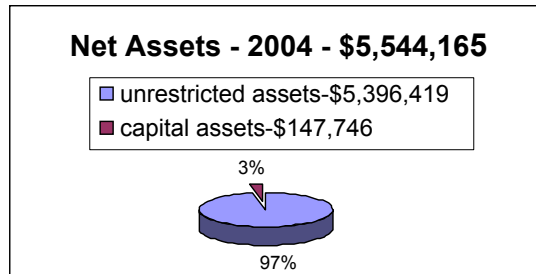
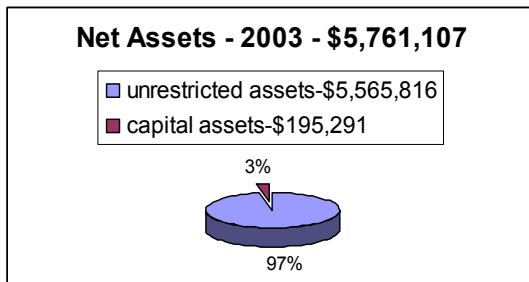
The Lincoln, Lyon, & Murray Human Services Board was formed pursuant to Minn. Stat. § 393.01, subd. 7, (joint powers agreement), by Lincoln, Lyon, and Murray Counties. The Board began official operation on July 1, 1974, and performs Board and welfare functions. Local financing is provided by the three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

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

**FINANCIAL HIGHLIGHTS**

Governmental activities' total net assets are \$5,544,165, of which \$147,746 is invested in capital assets (Exhibit 1).

**- Comparative Data 3.77% less -  
2003 to 2004 Net Assets**

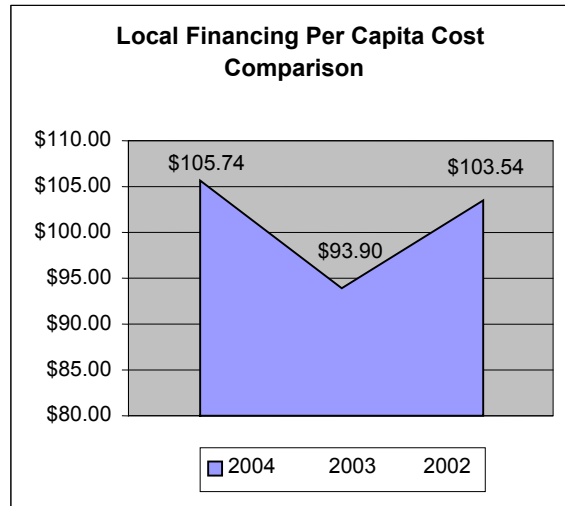
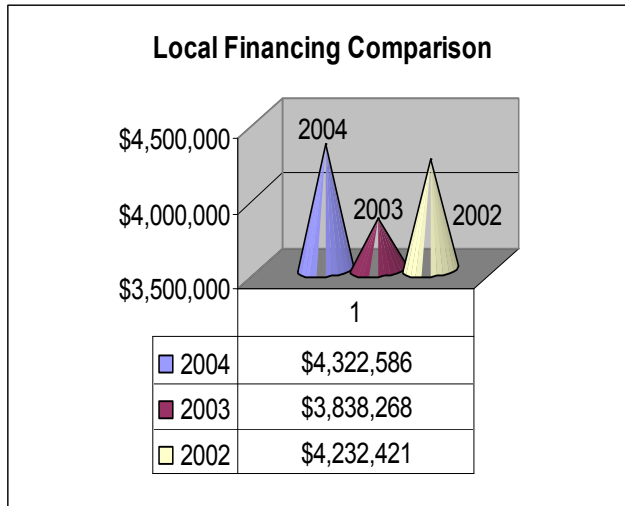


Local financing for the Board in the year 2004 was 44.9 percent of intergovernmental revenue, or \$4,322,586. Comparing the year 2004 with 2003 and 2002, the graphs below show local financing cost and per capita cost decreased.

**Schedule on Intergovernmental Revenue (Schedule 1)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Payments from participating counties	\$ 4,322,586	\$ 3,838,268	\$ 4,232,421

Population of all three counties: 40,878



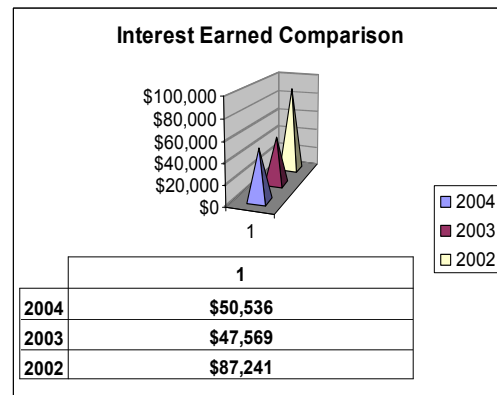
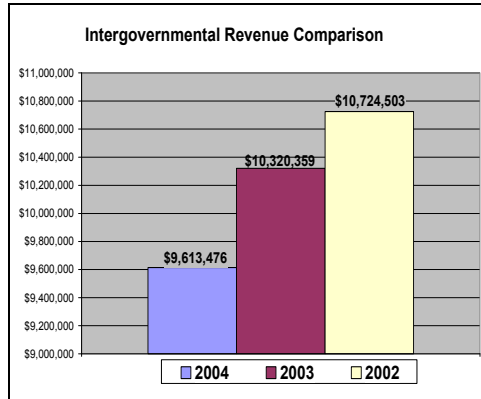
Governmental activities' net assets decreased by \$216,942. Most of the decrease was due to a decrease in funding from the state and converting to centralized payments on the state child care system (MEC2).

**Schedule on Intergovernmental Revenue (Schedule 1)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total intergovernmental revenue	\$ 9,613,476	\$ 10,320,359	\$ 10,724,503

**Statement of Activities and Governmental Revenue (Exhibit 2)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Investment earnings	\$ 50,536	\$ 47,569	\$ 87,241



## OVERVIEW OF THE FINANCIAL STATEMENTS

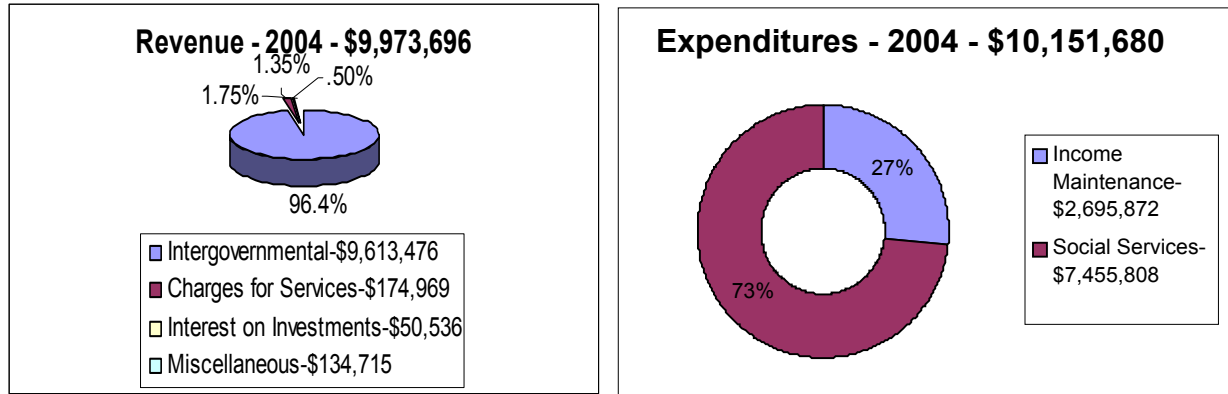
This discussion and analysis is intended to serve as an introduction to the basic financial statements. The Lincoln, Lyon, & Murray Human Services Board's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and notes to the financial statements. The Management's Discussion and Analysis (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 that are 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 Board's 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 Board's 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 Board as a whole and present a longer-term view of the Board's 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 Board's net assets are one indicator of whether its financial health is improving or deteriorating.

## Governmental Fund

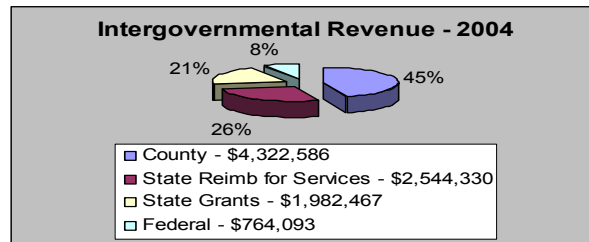
Revenues for the Board's General Fund decreased by 6.5 percent (\$698,614) while total expenditures decreased just 6.68 percent (\$727,001). This compares to a 2.98 percent decrease in fund balance in the year ended December 31, 2004.



As shown in the Statement of Activities on Exhibit 2, the amount that was received through intergovernmental revenue was 96.4 percent of the total revenue received, or \$9,613,476. See graph below for breakout of intergovernmental revenue.

### General Fund - 2004

<u>Revenues</u>	<u>Amount</u>
Intergovernmental	\$ 9,613,476
Charges for services	174,969
Interest on investments	50,536
Miscellaneous	134,715
<b>Total Revenues</b>	<b>\$ 9,973,696</b>



## General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Budgeted revenue exceeded actual revenue by \$278,816. The primary factors in the variance were a loss of intergovernmental revenue, the same areas responsible for the variance from prior year actual revenues. Actual expenditures were under budget by \$100,832. Fewer purchase of services and no negotiated union contract resulted in the significant positive variance of budget to actual expenditures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Board's investment in capital assets for its governmental activities for the year ended December 31, 2004, amount to \$147,746 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. The total decrease in the Board's investment in capital assets for the current fiscal year was 24.3 percent.

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 295,344	\$ 4,045	\$ -	\$ 299,389
Automotive equipment	232,029	44,898	43,571	233,356
Total capital assets depreciated	\$ 527,373	\$ 48,943	\$ 43,571	\$ 532,745
Less: accumulated depreciation for				
Office furniture and equipment	\$ 196,825	\$ 52,766	\$ -	\$ 249,591
Automotive equipment	135,257	43,722	43,571	135,408
Total accumulated depreciation	\$ 332,082	\$ 96,488	\$ 43,571	\$ 384,999
Total Capital Assets, Depreciated, Net	\$ 195,291	\$ (47,545)	\$ -	\$ 147,746

Depreciation expense was charged to Income Maintenance and Social Services programs for the year ended December 31, 2004.

### Long-Term Liabilities

The Board's long-term liabilities consist of compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 409,952	\$ -	\$ 8,587	\$ 401,365	\$ 45,292

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

The Board's elected and appointed officials considered many factors when setting the fiscal year 2005 budget.

- The State of Minnesota has projected a significant budget deficit, and it is anticipated that there will be significant reductions in state revenue to the Board.
- The Board has included approximately \$362,000 of fund balance for anticipated reductions of state, federal, and other revenue for the 2005 budget.
- Additionally, the Board anticipates the use of \$250,000 of fund balance or increase in the counties' levy request for fiscal year 2006, unless major repeal of legislation or allocation changes are created by the State of Minnesota.

## **CONTACTING THE BOARD'S FINANCIAL MANAGEMENT**

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

**Basic Financial  
Statements**

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**LINCOLN, LYON, & MURRAY HUMAN SERVICES BOARD  
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, 2004**

	<b>General Fund</b>	<b>Adjustments (Note 2.A.)</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 5,323,760	\$ -	\$ 5,323,760
Petty cash and change funds	540	-	540
Accounts receivable	11,560	-	11,560
Accrued interest receivable	18,933	-	18,933
Due from other governments	602,029	-	602,029
Due from counties	489,513	-	489,513
Capital assets			
Depreciable - net	-	147,746	147,746
<b>Total Assets</b>	<b>\$ 6,446,335</b>	<b>\$ 147,746</b>	<b>\$ 6,594,081</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 286,786	\$ -	\$ 286,786
Salaries payable	222,461	-	222,461
Due to other governments	124,688	-	124,688
Deferred revenue - unearned	14,616	-	14,616
Long-term liabilities			
Due within one year	-	45,292	45,292
Due in more than one year	-	356,073	356,073
<b>Total Liabilities</b>	<b>\$ 648,551</b>	<b>\$ 401,365</b>	<b>\$ 1,049,916</b>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance			
Unreserved			
Undesignated	5,797,784	\$ (5,797,784)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 6,446,335</b>		
Net Assets			
Invested in capital assets		\$ 147,746	\$ 147,746
Unrestricted		5,396,419	5,396,419
<b>Total Net Assets</b>		<b>\$ 5,544,165</b>	<b>\$ 5,544,165</b>
<b><u>Reconciliation of the General Fund Balance to Net Assets</u></b>			
Fund Balance - General Fund			\$ 5,797,784
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet			147,746
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet			(401,365)
<b>Net Assets - Governmental Activities</b>			<b>\$ 5,544,165</b>

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

**EXHIBIT 2**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Adjustments (Note 2.B.)</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 9,613,476	\$ -	\$ 9,613,476
Charges for services	174,969	-	174,969
Investment earnings	50,536	-	50,536
Miscellaneous	134,715	-	134,715
	<b>\$ 9,973,696</b>	<b>\$ -</b>	<b>\$ 9,973,696</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Human services</b>			
Income maintenance	\$ 2,695,872	\$ 15,583	\$ 2,711,455
Social services	7,455,808	23,375	7,479,183
	<b>\$ 10,151,680</b>	<b>\$ 38,958</b>	<b>\$ 10,190,638</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ (177,984)</b>	<b>\$ (38,958)</b>	<b>\$ (216,942)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>5,975,768</b>	<b>(214,661)</b>	<b>5,761,107</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 5,797,784</b>	<b>\$ (253,619)</b>	<b>\$ 5,544,165</b>
 <b>Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities</b>			
Net Change in Fund Balance			\$ (177,984)
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. The amount by which depreciation expense exceeded capital outlays in the current period.			(47,545)
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.			8,587
<b>Change in Net Assets of Governmental Activities</b>			<b>\$ (216,942)</b>

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

**EXHIBIT 3**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 9,585,512	\$ 9,585,512	\$ 9,613,476	\$ 27,964
Charges for services	201,500	201,500	174,969	(26,531)
Interest on investments	90,000	90,000	50,536	(39,464)
Miscellaneous	375,500	375,500	134,715	(240,785)
<b>Total Revenues</b>	<b>\$ 10,252,512</b>	<b>\$ 10,252,512</b>	<b>\$ 9,973,696</b>	<b>\$ (278,816)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,614,303	\$ 2,614,303	\$ 2,695,872	\$ (81,569)
Social services	7,638,209	7,638,209	7,455,808	182,401
<b>Total human services</b>	<b>\$ 10,252,512</b>	<b>\$ 10,252,512</b>	<b>\$ 10,151,680</b>	<b>\$ 100,832</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (177,984)</b>	<b>\$ (177,984)</b>
<b>Fund Balance - January 1</b>	<b>5,975,768</b>	<b>5,975,768</b>	<b>5,975,768</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,975,768</b>	<b>\$ 5,975,768</b>	<b>\$ 5,797,784</b>	<b>\$ (177,984)</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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1. Summary of Significant Accounting Policies

The Lincoln, Lyon, & Murray Human Services Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Lincoln, Lyon, & Murray Human Services Board are discussed below.

A. Financial Reporting Entity

The Lincoln, Lyon, & Murray Human Services Board was formed pursuant to Minn. Stat. § 393.01, subd. 7, by Lincoln, Lyon, and Murray Counties. The Board 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

The Lincoln, Lyon, & Murray Human Services Board 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 Board changed its name from the Region VIII North Welfare Board.

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

Joint Ventures

The Lincoln, Lyon, & Murray Human Services Board participates in a joint venture which is described in Note 4.B.

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

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Basic financial statements include information on the Board’s activities as a whole and information on the individual fund of the Board. 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 Board 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 Board’s net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets. The Statement of Activities demonstrates the degree to which the expenses of the Board 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.

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The Lincoln, Lyon, & Murray Human Services Board considers all revenues to be *available* if they are collected within 60 days after the end of the current period. Charges for services and interest are considered to be 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.

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

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

When both restricted and unrestricted resources are available for use, it is the Lincoln, Lyon, & Murray Human Services Board's policy to use restricted resources first, then unrestricted resources as they are 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, 2004, based on market prices.

The Lincoln, Lyon, & Murray Human Services Board 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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the Lincoln, Lyon, & Murray Human Services Board's position in the pool is the same as the value of the pool shares.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Lincoln, Lyon, & Murray Human Services Board:

- (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;

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables

The financial statements for the Board contain no allowance for uncollectible accounts. Uncollectable 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 market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Office furniture and equipment	3 to 10
Automotive equipment	5

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

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1. Summary of Significant Accounting Policies

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

4. Compensated Absences

The liability for compensated absences reported in 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.

5. Deferred Revenue

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

6. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities that are 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 that are subject to change. The Board reported no reservations or designations for the year ended December 31, 2004.

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

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1. Summary of Significant Accounting Policies

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

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. Reconciliation for Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Governmental Activities Statement of Net Assets

The balance sheet includes a reconciliation between fund balance and net assets as reported in the government-wide statement of net assets and balance sheet for the year ended December 31, 2004. The adjustments are as follows:

	<u>Adjustments</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	\$ 147,746
Long-term liabilities in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental fund.	(401,365)
Net Adjustment to Fund Balance to Arrive at Net Assets	\$ (253,619)

B. Explanation of Certain Differences Between the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and the Governmental Activities Statement of Activities

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance includes a reconciliation between net changes in fund balance and changes in net assets of governmental activities as reported in Exhibit 2. The following table shows the necessary adjustments:

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

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2. Reconciliation for Government-Wide and Fund Financial Statements

B. Explanation of Certain Differences Between the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and the Governmental Activities Statement of Activities (Continued)

	Adjustments
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.	
Depreciation expense	\$ 96,488
Capital outlay expenditure	(48,943)
Total	\$ 47,545
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.	
Decrease in compensated absences payable	(8,587)
Total Adjustment to Net Change in Fund Balance to Arrive at Change in Net Assets (Exhibit 2)	\$ 38,958

3. Detailed Notes

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Lincoln, Lyon, & Murray Human Services Board to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. At December 31, 2004, the carrying amount of the Board's deposits totaled \$3,550,064. The bank balance deposit amount was \$4,004,628. Minnesota statutes require that all Board deposits be covered by insurance, surety bond, or collateral.

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

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3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the Board or its agent in the Board's name	\$ 402,263
Collateralized with securities held by the pledging financial institution's agent in the Board's name	<u>3,602,365</u>
Total covered deposits	\$ 4,004,628
Uncollateralized	<u>-</u>
Total	<u>\$ 4,004,628</u>

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

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the Board or its agent in the Board's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Board's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the Board's name.

At December 31, 2004, the Board had no investments that would be categorized according to generally accepted accounting principles.

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

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the Lincoln, Lyon, & Murray Human Services Board's investments at December 31, 2004:

Petty cash and change funds	\$	540
MAGIC fund		1,774,196
Cash in bank		2,499,564
Certificates of deposit		<u>1,050,000</u>
Total Cash and Investments	\$	<u>5,324,300</u>

2. Receivables

The Board did not have any receivables scheduled to be collected beyond one year as of December 31, 2004.

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Office furniture and equipment	\$ 295,344	\$ 4,045	\$ -	\$ 299,389
Automotive equipment	<u>232,029</u>	<u>44,898</u>	<u>43,571</u>	<u>233,356</u>
Total capital assets depreciated	<u>\$ 527,373</u>	<u>\$ 48,943</u>	<u>\$ 43,571</u>	<u>\$ 532,745</u>
Less: accumulated depreciation for				
Office furniture and equipment	\$ 196,825	\$ 52,766	\$ -	\$ 249,591
Automotive equipment	<u>135,257</u>	<u>43,722</u>	<u>43,571</u>	<u>135,408</u>
Total accumulated depreciation	<u>\$ 332,082</u>	<u>\$ 96,488</u>	<u>\$ 43,571</u>	<u>\$ 384,999</u>
Total Capital Assets, Depreciated, Net	<u>\$ 195,291</u>	<u>\$ (47,545)</u>	<u>\$ -</u>	<u>\$ 147,746</u>

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

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3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to Income Maintenance and Social Services programs for the year ended December 31, 2004.

B. Liabilities

1. Other Post-Employment Benefits

Retired Employee Health Insurance Benefits

The Board pays the health and dental insurance for qualified employees who retire between the ages of 55 and 65 and have worked for the Board for at least 15 years and are receiving a disability benefit or Public Employees Retirement Association of Minnesota (PERA) annuity, or who have met age and service requirements necessary to receive a PERA annuity. These employees are entitled to receive four percent per year of service toward the employee's health and dental insurance premium. The coverage shall discontinue at age 65 and/or when they become Medicare eligible, or until they obtain work in which insurance benefits are available to them as an individual at no cost.

The Board's contributions for the year ended December 31, 2004, were for 11 employees, for a total of \$43,767. The Board records the expenditures for retired employees' health and dental insurance benefits in the year paid and does not accrue a liability for future benefits.

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 409,952	\$ -	\$ 8,587	\$ 401,365	\$ 45,292

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

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3. Detailed Notes

B. Liabilities (Continued)

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The 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 remaining year. 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. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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3. Detailed Notes

B. Liabilities

3. Employee Retirement Systems and Pension Plans

A. 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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at [mnpera.org](http://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. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Lincoln, Lyon, & Murray Human Services Board 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 9.10 and 5.10 percent, respectively, of their annual covered salary.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

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

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3. Detailed Notes

B. Liabilities

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The Lincoln, Lyon, & Murray Human Services Board's contributions for the years ending December 31, 2004, 2003, and 2002, were \$190,578, \$193,068, and \$175,037, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

The Lincoln, Lyon, & Murray Human Services Board 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 Board has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). For all other risk, the Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of 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 \$720,000 per claim in 2004 and at \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Board in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Board pays an annual premium to cover current and future losses. The 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 Board in a method and amount to be determined by MCIT.

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

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4. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The Lincoln, Lyon, & Murray Human Services Board is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Board's 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

In November 1997, the Lincoln, Lyon, & Murray Human Services Board entered into a joint powers agreement with several counties creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Consortium Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Consortium Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Consortium 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.

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2003 (the latest information available):

Total assets	\$ 220,978
Total liabilities	5,230
Total equity	215,748
Total revenues	889,414
Total expenditures	856,904
Net increase to fund balance	32,510

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

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4. Summary of Significant Contingencies and Other Items

B. Joint Venture

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Consortium Board reported no long-term obligations at December 31, 2003.

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.

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

**Schedule 1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Shared Revenue</b>	
Payments from participating counties	\$ <u>4,322,586</u>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	\$ <u>2,544,330</u>
<b>Grants</b>	
<b>State</b>	
Minnesota Department of Human Services	\$ <u>1,982,467</u>
<b>Federal</b>	
Department of	
Agriculture	\$ 12,188
Health and Human Services	<u>751,905</u>
<b>Total Federal</b>	\$ <u>764,093</u>
<b>Total State and Federal Grants</b>	\$ <u>2,746,560</u>
<b>Total Intergovernmental Revenue</b>	\$ <u><u>9,613,476</u></u>

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**MANAGEMENT AND COMPLIANCE SECTION**

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

**Schedule 2**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the basic financial statements of the Lincoln, Lyon, & Murray Human Services Board.
- B. No reportable conditions in internal control are disclosed by the audit of financial statements of the Lincoln, Lyon, & Murray Human Services Board and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- C. No instances of noncompliance material to the financial statements of the Lincoln, Lyon, & Murray Human Services Board were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program 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 program for the Lincoln, Lyon, & Murray Human Services Board 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 program was:
  - Social Services Block Grant Title XX
  - CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Lincoln, Lyon, & Murray Human Services Board was determined to be a low-risk auditee.

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

None.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

None.



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**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

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PATRICIA ANDERSON  
STATE AUDITOR

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

Lincoln, Lyon, & Murray Human Services Board  
Marshall, Minnesota

We have audited the financial statements of the Lincoln, Lyon, & Murray Human Services Board as of and for the year ended December 31, 2004, and have issued our report thereon dated March 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln, Lyon, & Murray Human Services Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lincoln, Lyon, & Murray Human Services Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Minnesota Legal Compliance

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

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

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

This report is intended solely for the information and use of the Lincoln, Lyon, & Murray Human Services Board and management and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 10, 2005



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PATRICIA ANDERSON  
STATE AUDITOR

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

Lincoln, Lyon, & Murray Human Services Board  
Marshall, Minnesota

Compliance

We have audited the compliance of the Lincoln, Lyon, & Murray Human Services Board with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The Lincoln, Lyon, & Murray Human Services Board's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lincoln, Lyon, & Murray Human Services Board's 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 Board's compliance with those requirements.

In our opinion, the Lincoln, Lyon, & Murray Human Services Board complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

## Internal Control Over Compliance

The management of the Lincoln, Lyon, & Murray Human Services Board 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 Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Lincoln, Lyon, & Murray Human Services Board as of and for the year ended December 31, 2004, and have issued our report thereon dated March 10, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Board's 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 Lincoln, Lyon, & Murray Human Services Board, management, 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 10, 2005

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

Schedule 3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	\$ <u>12,188</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds	93.596	\$ 13,749
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	16,926
Temporary Assistance for Needy Families	93.558	170,380
Foster Care Title IV-E	93.658	202,861
Social Services Block Grant Title XX	93.667	311,884
Chafee Foster Care Independent Living	93.674	28,015
Block Grant - Community Mental Health Services	93.958	<u>8,090</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>751,905</u></b>
<b>Total Federal Awards</b>		<b>\$ <u><u>764,093</u></u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Lincoln, Lyon, & Murray Human Services Board. The Board's reporting entity is defined in Note 1.A. to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the Board did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.