STATE OF MINNESOTA
Office of the State Auditor

Patricia Anderson
State Auditor

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

FOR THE YEAR ENDED DECEMBER 31, 2005

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

For the Year Ended December 31, 2005

Audit Practice Division
Office of the State Auditor
State of Minnesota

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

TABLE OF CONTENTS

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Introductory Section

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

ORGANIZATION
2005

Board	County	Term Expires
Chair		
Robert Fenske	Lyon	December 31, 2006
Vice Chair		
Steve Ritter	Lyon	December 31, 2008
Secretary		
Ann Svendsen	Lincoln	July 5, 2006
Members		
Deane Sagmoe	Lincoln	December 31, 2008
Carmen Marben	Lyon	July 5, 2006
Gail Byers	Murray	July 5, 2006
Kevin Vickerman	Murray	December 31, 2006
Lyle Onken	Murray	December 31, 2006
Joan Jagt	Lincoln	December 31, 2008
Lincoln, Lyon, & Murray Human Services Board		
Attorney		
William Toulouse		Indefinite
Director		
Christopher Sorensen		Indefinite
Accounting Officers		
Steve Glaeser		Indefinite
Troy Knakmuhs		Indefinite
Lori Johnson		Indefinite
Mary Hauschild		Indefinite
Harvey Witt		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

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

We have audited the 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, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. 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, 2005, 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 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 February 28, 2006, 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	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: February 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)

The Lincoln, Lyon, & Murray Human Services Board's (Board) Management's Discussion and Analysis (MD&A) provide an overview of the Board's financial activities for the fiscal year ended December 31, 2005. 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

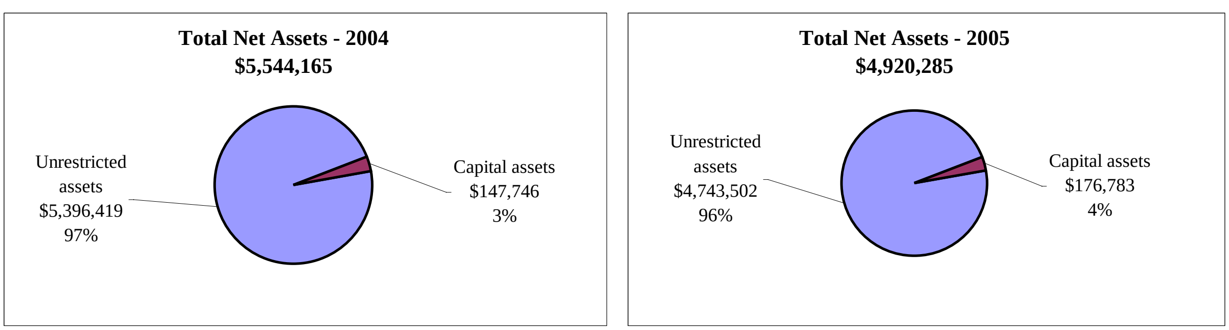
The Lincoln, Lyon, & Murray Human Services Board was formed pursuant to Minn. Stat. § 393.01, subd. 7, (joint powers agreement), by Lincoln, Lyon, and Murray Counties. The Board began official operation on July 1, 1974, and performs Board and welfare functions. Local financing is provided by the three 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 $4,920,285, of which $176,783 is invested in capital assets (Exhibit 1).

Comparative Data 11.25% Decrease
2004 to 2005 Net Assets



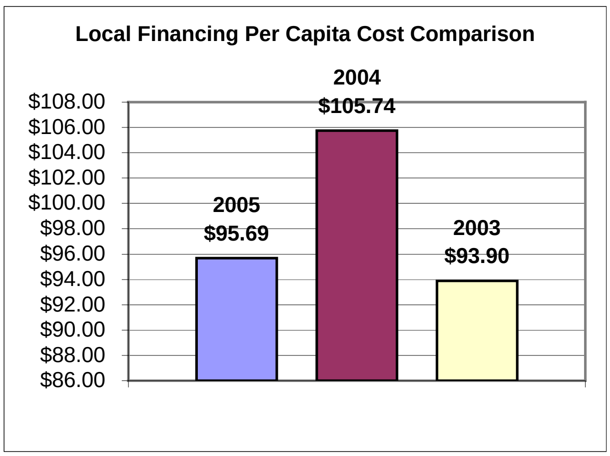
Governmental activities' total net assets decreased by $623,880. Most of the decrease was due to the decrease in funding from the state and not increasing the County levy.

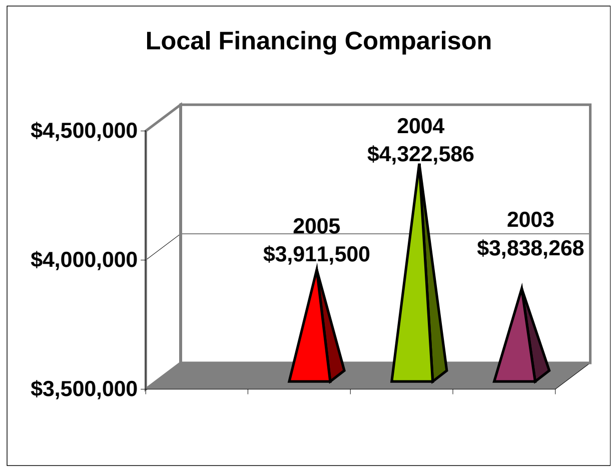
Local financing for the Board in the year 2005 was $3,911,500, which was 42.4 percent of intergovernmental revenue. Comparing 2005 with 2004 and 2003, the graphs below show local financing cost and per capita cost increased from 2003 to 2004 and decreased from 2004 to 2005.

Schedule of Intergovernmental Revenue (Schedule 1)

	2005	2004	2003
Payments from participating counties	$ 3,911,500	$ 4,322,586	$ 3,838,268

Population of all three counties is 40,878.



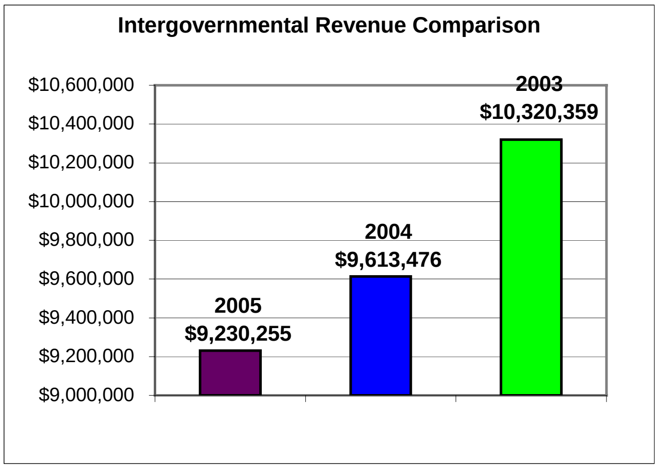


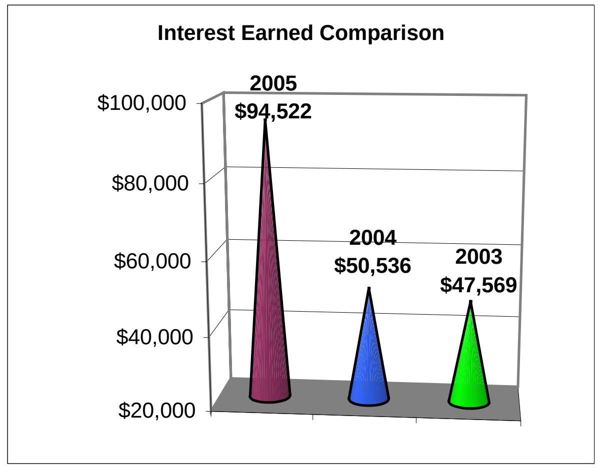
Schedule of Intergovernmental Revenue (Schedule 1)

	2005	2004	2003
Total intergovernmental revenue	$ 9,230,255	$ 9,613,476	$ 10,320,359

Statement of Activities and Governmental Revenue (Exhibit 2)

	2005	2004	2003
Investment earnings	$ 94,522	$ 50,536	$ 47,569





OVERVIEW OF THE FINANCIAL STATEMENTS

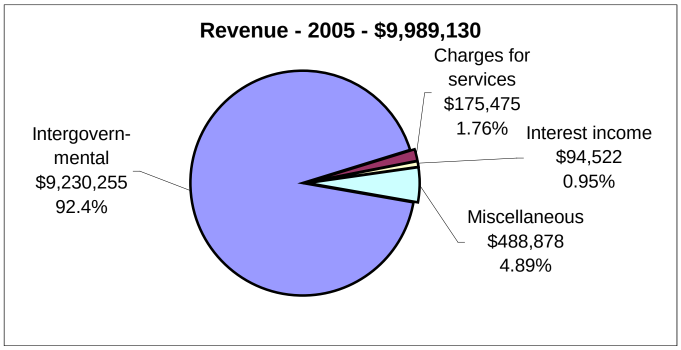
This MD&A is intended to serve as an introduction to the basic financial statements. The Lincoln, Lyon, & Murray Human Services Board's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement,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

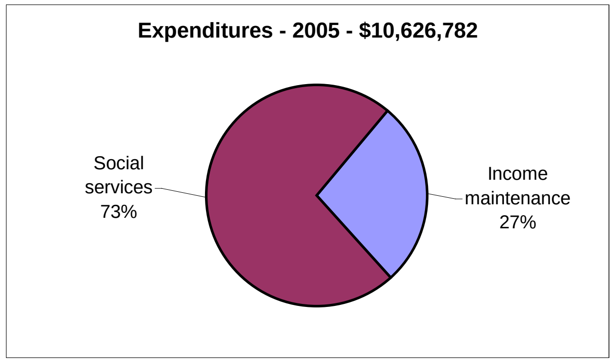
The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the 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 increased very little ($15,434) from prior year, while total expenditures increased by 4.68 percent ($475,102) from prior year. This results in a 11.00 percent decrease in fund balance in the year ended December 31, 2005.



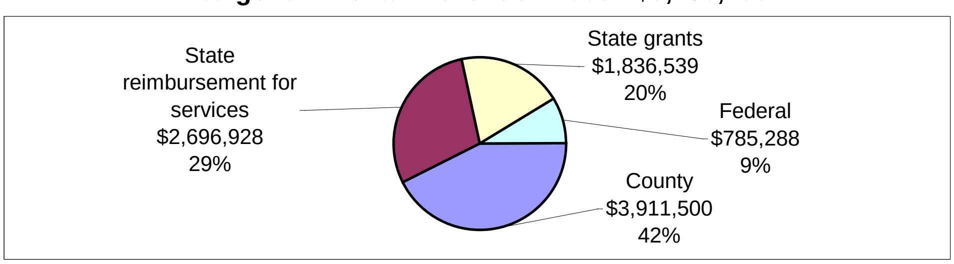


As shown in the Statement of Activities on Exhibit 2, the amount that was received through intergovernmental revenue was 92.4 percent of the total revenue received. See graph for breakout of intergovernmental revenue.

General Fund - 2005

Revenues	Amount
Intergovernmental	$ 9,230,255
Charges for services	175,475
Interest on investments	94,522
Miscellaneous	488,878
Total Revenues	$ 9,989,130

Intergovernmental Revenue - 2005 - $9,230,255



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 $602,315. 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 exceeded budgeted by $35,337. Normal purchase of services and back pay for the negotiated union contract resulted in the variance of budget to actual expenditures.

Original budget compared with the final budget for fiscal year 2005 were similar. Out of Home Placement for children in 2005 was higher than forecasted, notwithstanding the general instability in placements, particularly court, probationary, and emergency placements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Board's investment in capital assets for its governmental activities for the year ended December 31, 2005, is $176,783 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. The total increase in the Board's investment in capital assets for the current fiscal year was 19.65 percent.

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	$ 299,389	$ 79,577	$ 151,055	$ 227,911
Automotive equipment	233,356	25,245	33,198	225,403
Total capital assets depreciated	$ 532,745	$ 104,822	$ 184,253	$ 453,314
Less: accumulated depreciation for				
Office furniture and equipment	$ 249,591	$ 37,476	$ 151,055	$ 136,012
Automotive equipment	135,408	38,309	33,198	140,519
Total accumulated depreciation	$ 384,999	$ 75,785	$ 184,253	$ 276,531
Total Capital Assets, Depreciated, Net	$ 147,746	$ 29,037	$ -	$ 176,783

Depreciation expense was charged to Income Maintenance and Social Services programs for the year ended December 31, 2005.

Additional information on the Board's capital assets can be found in the notes to the financial statements.

Long-Term Liabilities

The Board's long-term liabilities consist of compensated absences at December 31, 2005, as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 401,365	$ 15,265	$ -	$ 416,630	$ 68,744

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board's elected and appointed officials considered many factors when setting the fiscal year 2006 budget.

The Lincoln, Lyon, & Murray Human Services Board has included the use of $219,487 of the cash balance for the 2006 budget. The 2006 Federal Budget Reconciliation Act, passed on February 1, 2006, provides for many changes affecting the Board in the area of federal revenues. For example, Targeted Case Management (TCM) funding, currently a source of revenue for Child Welfare, Children and Adult Mental Health, and Vulnerable Adults, is largely considered to be at risk for elimination in 2006. These targeted funds represent approximately $525,000 in budgeted revenue for 2006. Additionally, case management funding for Waivered Services (Developmental Disabled, Elderly, etc.) is also at risk. Other areas affected by this federal legislation are the loss, $76,725, of matching Federal Financial Participation (FFP) for incentives for Child Support (changes for fiscal year 2008) and increases in work participation rates for Minnesota Family Investment Program (MFIP) that may reduce funding for the Consolidated Fund by approximately $30,000.

Although the federal legislative changes present a potential reduction in revenues for counties, the interpretation of eligible services for Targeted Case Management, etc., from the Center for Medicaid Services is the determining factor in quantifying the revenue loss.

The Lincoln, Lyon, & Murray Human Services Board has responded to the potential changes in revenue for 2006 and beyond by limiting program and FTE growth until final determinations are made.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Lincoln, Lyon, & 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 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, 2005

	General Fund	Reconciliation (Note 2)	Governmental Activities
Assets			
Current assets			
Cash and pooled investments	$ 4,929,032	$ -	$ 4,929,032
Petty cash and change funds	540	-	540
Accounts receivable	15,315	-	15,315
Accrued interest receivable	17,888	-	17,888
Due from other governments	542,742	-	542,742
Due from counties	402,096	-	402,096
Capital assets			
Depreciable - net	-	176,783	176,783
Total Assets	**$ 5,907,613**	**$ 176,783**	**$ 6,084,396**
Liabilities			
Current liabilities			
Accounts payable	$ 370,295	$ -	$ 370,295
Salaries payable	233,016	-	233,016
Due to other governments	130,405	-	130,405
Deferred revenue - unearned	13,765	-	13,765
Long-term liabilities			
Due within one year	-	68,744	68,744
Due in more than one year	-	347,886	347,886
Total Liabilities	**$ 747,481**	**$ 416,630**	**$ 1,164,111**
Fund Balance/Net Assets			
Fund Balance			
Unreserved			
Undesignated	5,160,132	**$ (5,160,132)**	
Total Liabilities and Fund Balance	**$ 5,907,613**		
Net Assets			
Invested in capital assets		$ 176,783	$ 176,783
Unrestricted		4,743,502	4,743,502
Total Net Assets		**$ 4,920,285**	**$ 4,920,285**

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, 2005

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	$ 9,230,255	$ -	$ 9,230,255
Charges for services	175,475	-	175,475
Investment earnings	94,522	-	94,522
Miscellaneous	488,878	-	488,878
Total Revenues	**$ 9,989,130**	**$ -**	**$ 9,989,130**
Expenditures/Expenses			
Current			
Human services			
Income maintenance	$ 2,886,743	$ (5,509)	$ 2,881,234
Social services	7,740,039	(8,263)	7,731,776
Total human services	**$ 10,626,782**	**$ (13,772)**	**$ 10,613,010**
Net Change in Fund Balance/Net Assets	**$ (637,652)**	**$ 13,772**	**$ (623,880)**
Fund Balance/Net Assets - January 1	**5,797,784**	**(253,619)**	**5,544,165**
Fund Balance/Net Assets - December 31	**$ 5,160,132**	**$ (239,847)**	**$ 4,920,285**

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		**$ (637,652)**
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	$ 104,822	
Current year depreciation expense	(75,785)	29,037
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 payable		(15,265)
Change in Net Assets of Governmental Activities		**$ (623,880)**

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

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, 2005

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Intergovernmental	$ 9,966,445	$ 9,966,445	$ 9,230,255	$ (736,190)
Charges for services	161,500	161,500	175,475	13,975
Interest on investments	130,000	130,000	94,522	(35,478)
Miscellaneous	333,500	333,500	488,878	155,378
Total Revenues	**$ 10,591,445**	**$ 10,591,445**	**$ 9,989,130**	**$ (602,315)**
Expenditures				
Current				
Human services				
Income maintenance	$ 2,812,100	$ 2,812,100	$ 2,886,743	$ (74,643)
Social services	7,779,345	7,779,345	7,740,039	39,306
Total human services	**$ 10,591,445**	**$ 10,591,445**	**$ 10,626,782**	**$ (35,337)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (637,652)**	**$ (637,652)**
Fund Balance - January 1	**5,797,784**	**5,797,784**	**5,797,784**	**-**
Fund Balance - December 31	**$ 5,797,784**	**$ 5,797,784**	**$ 5,160,132**	**$ (637,652)**

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005. 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 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 6.B.

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 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.

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, 2005, 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.

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.

2. Receivables

The financial statements for the Board 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 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:

Assets	Years
Office furniture and equipment	3 to 10
Automotive equipment	5

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.

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 that are 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 Board reported no reservations or designations for the year ended December 31, 2005.

      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. 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, 2005. The reconciling amounts are as follows:

Fund Balance	$ 5,160,132
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	$ 176,783
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.	
Compensated absences payable.	(416,630)
Net Adjustment to Fund Balance to Arrive at Net Assets	$ (239,847)
Net Assets	$ 4,920,285

3. Detailed Notes

A. Assets

1. Deposits and Investments

Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Lincoln, Lyon, & Murray Human Services Board to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all Board deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require

3. Detailed Notes

A. Assets

1. Deposits and Investments

Deposits (Continued)

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 that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the Board's deposits may not be returned to it. The Board does not have a policy for custodial credit risk. As of December 31, 2005, the Board's deposits were not exposed to custodial credit risk.

Investments

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;

(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

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 Board minimizes its exposure to interest rate risk by investing in both shorter and longer-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 Board's 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.

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

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

At December 31, 2005, the Board had the following deposits and investments.

Petty cash and change funds	$	540
MAGIC Fund		1,821,300
Cash in bank		2,057,732
Certificates of deposit		1,050,000
Total Cash and Investments	$	4,929,572

2. Receivables

The Board did not have any receivables scheduled to be collected beyond one year as of December 31, 2005.

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	$ 299,389	$ 79,577	$ 151,055	$ 227,911
Automotive equipment	233,356	25,245	33,198	225,403
Total capital assets depreciated	$ 532,745	$ 104,822	$ 184,253	$ 453,314
Less: accumulated depreciation for				
Office furniture and equipment	$ 249,591	$ 37,476	$ 151,055	$ 136,012
Automotive equipment	135,408	38,309	33,198	140,519
Total accumulated depreciation	$ 384,999	$ 75,785	$ 184,253	$ 276,531
Total Capital Assets, Depreciated, Net	$ 147,746	$ 29,037	$ -	$ 176,783

Depreciation expense was charged to Income Maintenance and Social Services programs for the year ended December 31, 2005.

3. Detailed Notes (Continued)

B. Liabilities

1. Other Postemployment 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, 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, 2005, were for 11 employees, for a total of $48,988. 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, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 401,365	$ 15,265	$ -	$ 416,630	$ 68,744

4. 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 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.

4. Pension Plans

A. Plan Description (Continued)

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 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 of service 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.

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 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.

4. Pension Plans (Continued)

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 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 in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. The Board is required to contribute the following percentages of annual covered payroll:

In 2005	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

The Board's contributions for the years ending December 31, 2005, 2004, and 2003, were $197,630, $190,578, and $193,068, respectively, equal to the contractually required contributions for each year as set by state statute.

5. 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 the 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.

5. Risk Management (Continued)

The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $760,000 per claim in 2005 and at $390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Board in a method and amount to be determined by the MCIT.

The Property and Casualty Division of the 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, the MCIT may assess the Board in a method and amount to be determined by the MCIT.

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 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.

6. Summary of Significant Contingencies and Other Items

B. Joint Venture

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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.

SUPPORTING SCHEDULE

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

Schedule 1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005

Shared Revenue		
Payments from participating counties	**$**	**3,911,500**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**2,696,928**
Grants		
State		
Minnesota Department of Human Services	**$**	**1,836,539**
Federal		
Department of		
Agriculture	$	12,491
Health and Human Services		772,797
Total Federal	**$**	**785,288**
Total State and Federal Grants	**$**	**2,621,827**
Total Intergovernmental Revenue	**$**	**9,230,255**

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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, 2005

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 matters involving internal control over financial reporting were 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.*"

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

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Schedule 2
(Continued)

Some of the issues that the Lincoln, Lyon, & Murray Human Services Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;

- if OPEB are being provided, the Lincoln, Lyon, & Murray Human Services Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

- if OPEB are being provided, and the Lincoln, Lyon, & Murray Human Services Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Lincoln, Lyon, & Murray Human Services Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and

- in order to determine annual costs and liabilities that need to be recognized, the Lincoln, Lyon, & Murray Human Services Board will have to decide whether to hire an actuary.

If applicable for the Lincoln, Lyon, & Murray Human Services, GASB Statements 43 and 45 would be implemented for years ended December 31, 2007 and 2008, respectively.

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OTHER REQUIRED REPORTS

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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*

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

We have audited the 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, 2005, and have issued our report thereon dated February 28, 2006. 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, 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	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: February 28, 2006

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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

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, 2005. 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, 2005.

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 governmental activities and the major fund of the Lincoln, Lyon, & Murray Human Services Board as of and for the year ended December 31, 2005, and have issued our report thereon dated February 28, 2006. 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: February 28, 2006

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

Schedule 3

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
Matching Grants for Food Stamp Program	10.561	**$ 12,491**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	$ 88,812
Temporary Assistance for Needy Families	93.558	202,376
Child Care Development Block Grant	93.575	15,487
Child Care Mandatory and Matching Funds	93.596	15,581
Foster Care Title IV-E	93.658	132,132
Social Services Block Grant Title XX	93.667	284,284
Chafee Foster Care Independent Living	93.674	24,195
Block Grant - Community Mental Health Services	93.958	9,930
Total U.S. Department of Health and Human Services		**$ 772,797**
Total Federal Awards		**$ 785,288**

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.