

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**HUMAN SERVICES OF FARIBAULT
AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**HUMAN SERVICES OF FARIBAULT
AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Year Ended December 31, 2006



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

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

ORGANIZATION
2006

Name	Title	County
Gerald Boler	Board Secretary	Martin
Steven Pierce	Board Member	Martin
Steve Donnelly	Board Member	Martin
Dan Schmidtke	Board Chair	Martin
Jack Potter	Board Member	Martin
Martha Potter	Board Member	Martin
Barb Steier	Board Member	Faribault
Loren Lein	Board Member	Faribault
William Groskreutz, Jr.	Board Treasurer	Faribault
Tom Loveall	Board Vice-Chair	Faribault
Tom Warmka	Board Member	Faribault
Stephen Bohling	Board Member, Citizens' Advisory Committee Chair	Faribault
Warren Knudson	Human Services Executive Director	
Linda Mohwinkel	Assistant to the Executive Director	
Bill Clifford*	Director of Business Management	
Vickie Savick	Social Services Program Manager	
Kathy DeNeui	Income Maintenance Program Manager	
Carmen Reckard	Community Health Services Program Manager	
Maurice Shoen	Mental Health Program Manager	

*Retired in February 2007; replaced by Kathy Werner.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Human Services Board
Human Services of Faribault and Martin Counties

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of and for the year ended December 31, 2006, which collectively comprise the Human Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Human Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Human Services of Faribault and Martin Counties' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Human Services of Faribault and Martin Counties. Such 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 January 28, 2008, on our consideration of the Human Services of Faribault and Martin Counties' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

January 28, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

The Human Services of Faribault and Martin Counties' Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the Human Services of Faribault and Martin Counties for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the Human Services' basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- On December 31, 2006, our total assets were \$1,617,247, and our total liabilities were \$1,533,133. We showed net assets of \$84,114, of which \$49,926 is invested in capital assets, net of related debt. This was an increase of \$103,640 from 2005.
- Our income is mainly state and federal grants, charges for services, miscellaneous revenue and contributions from the two member counties. Miscellaneous income includes IV-E recoveries, foster care recoveries, chemical dependency recoveries, and mental health recoveries.
- Overall, the Human Services' government-wide revenues totaled \$10,373,174 and were \$103,640 more than expenses. The revenues increased 1.3 percent over 2005 due to the Minnesota Senior Health Options program, foster care recoveries, and contributions from the two member counties.
- Long-term liabilities are for compensated absences and capital leases.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial data and the fund financial data are reported in the same financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Human Services of Faribault and Martin Counties' finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Human Services of Faribault and Martin Counties' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Human Services is improving or deteriorating.

The Statement of Activities presents information showing how the Human Services of Faribault and Martin Counties' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Human Services of Faribault and Martin Counties that are principally supported by intergovernmental revenues. The activities of the Human Services of Faribault and Martin Counties include human services and health. There are no business-type activities within the Human Services of Faribault and Martin Counties.

Fund Financial Statements

A "fund" is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Human Services of Faribault and Martin Counties, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Human Services of Faribault and Martin Counties maintains a General Fund and fiduciary agency funds.

All of the Human Services' services are reported in the General Fund, which focuses on how money flows into and out of the fund and any balance left at year-end available for spending. This fund is reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The General Fund statements provide a detailed short-term view of the Human Services' operations and the basic services it provides. General Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Human Services' programs. We describe the relationship (or differences) between General Fund activities (reported in the first column of Exhibits 1 and 2) and governmental activities (reported in the final column) in a reconciliation in the middle column of the exhibits.

Fiduciary funds are used to account for assets held by the Human Services as an agent for individuals, private organizations, other governments, or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. All of the Human Services' fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the government-wide financial statements because the Human Services cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found directly after Exhibit 3.

Other Information

In addition to the basic financial statements and notes, the Human Services also provides supplementary information on General Fund departments, budgetary comparisons, fiduciary funds, and intergovernmental revenues (Schedules 1 through 7).

AGENCY-WIDE FINANCIAL ANALYSIS

Net assets may, over time, be a useful indicator of the Human Services' financial position. In the case of the Human Services, assets exceeded liabilities by \$84,114.

**Table 1
Agency Net Assets**

	2006	2005 (Restated)
Current and other assets	\$ 1,494,675	\$ 1,192,506
Capital assets	122,572	146,247
Total Assets	<u>\$ 1,617,247</u>	<u>\$ 1,338,753</u>
Current liabilities	\$ 1,287,951	\$ 1,141,537
Long-term liabilities	245,182	216,742
Total Liabilities	<u>\$ 1,533,133</u>	<u>\$ 1,358,279</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 49,926	\$ 83,722
Restricted	-	1,999
Unrestricted	34,188	(105,247)
Total Net Assets	<u>\$ 84,114</u>	<u>\$ (19,526)</u>

Governmental Activities

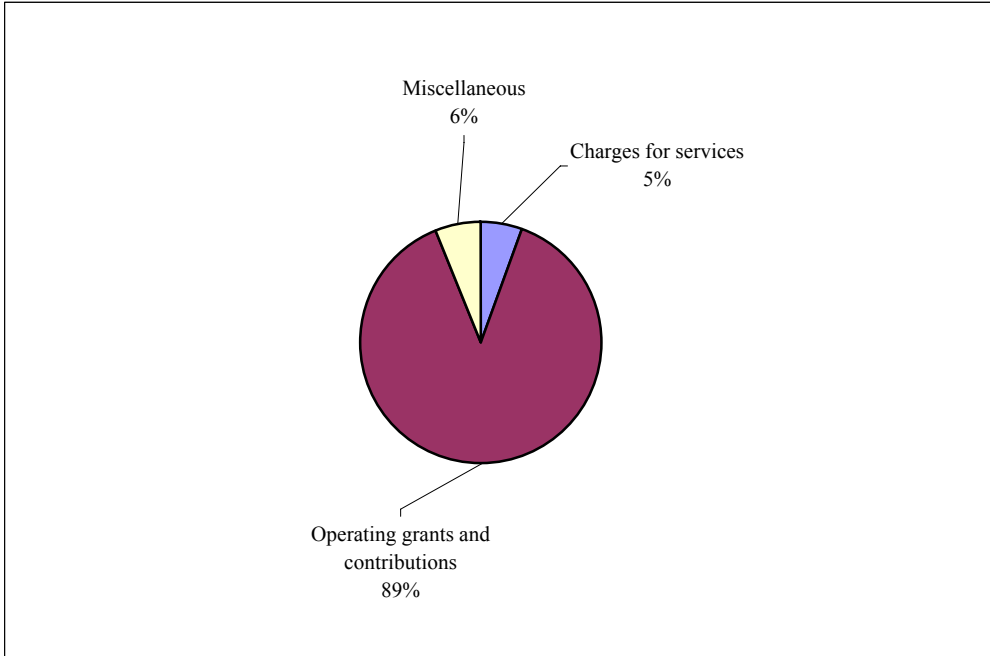
The Human Services' net assets increased by five times in 2006. There was an increase from (\$19,526) in 2005 to \$84,114 in 2006, for a total of \$103,640. Table 2 summarizes the changes in net assets for 2006.

The Human Services' long-term liabilities are for compensated absences and capital leases. Other liabilities are detailed on the General Fund balance sheet under liabilities.

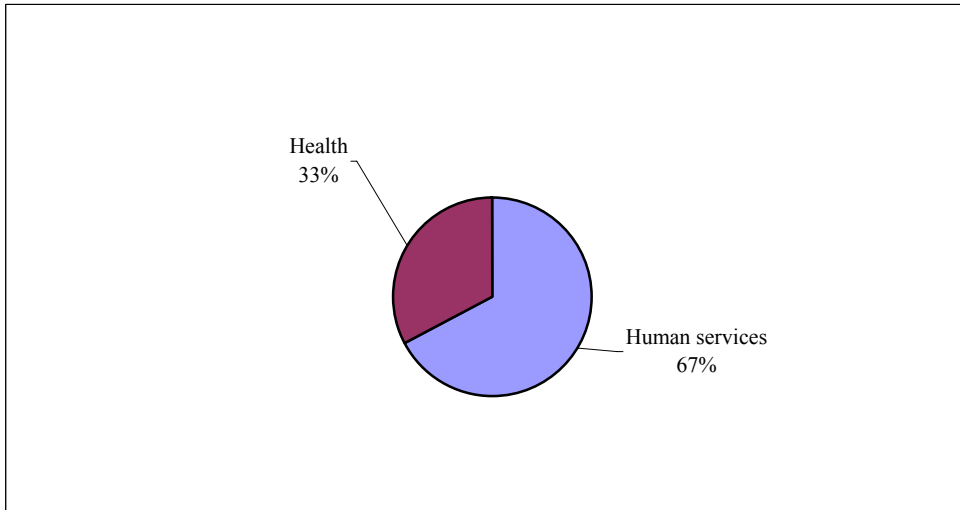
Table 2
Changes in Net Assets

	2006	2005 (Restated)
Revenues		
Program revenues		
Licenses and permits	\$ 41,633	\$ 37,720
Intergovernmental	9,149,308	9,533,367
Charges for services	545,146	412,952
General revenues		
Investment earnings	33,101	21,410
Miscellaneous	603,986	235,393
Total Revenues	<u>\$ 10,373,174</u>	<u>\$ 10,240,842</u>
Expenses		
Human services	\$ 6,910,699	\$ 8,676,931
Health	3,357,268	1,066,777
Interest	1,567	163
Total Expenses	<u>\$ 10,269,534</u>	<u>\$ 9,743,871</u>
Change in Net Assets	\$ 103,640	\$ 496,971
Net Assets - January 1 (restated)	<u>(19,526)</u>	<u>(516,497)</u>
Net Assets - December 31	<u>\$ 84,114</u>	<u>\$ (19,526)</u>

Revenues - 2006



Expenses - 2006



The following analysis focuses on the Human Services' changes in net assets (Table 2).

- Total revenues for the Human Services were \$10,373,174, while total expenses were \$10,269,534. This reflects a \$103,640 increase in net assets for the year ended December 31, 2006.
- Net assets at January 1, 2006, were restated to correct errors in recording billed receivables, unavailable deferred revenue, and various liabilities. See notes to financial statements.
- Revenues increased in 2006 due to the Minnesota Senior Health Program. Recoveries for foster care and chemical dependency also increased in 2006.
- Expenses increased in 2006 due to the Minnesota Senior Health Option program being fully operational.

FINANCIAL ANALYSIS OF THE HUMAN SERVICES' FUNDS

As noted earlier, the Human Services uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The General Fund provides information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Human Services' financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of 2006, the General Fund reported a fund balance of \$318,962, an increase of \$216,105 from the prior year, as restated. These funds constitute an unreserved fund balance, which is available for spending at the Human Services' discretion.

General Fund Budgetary Highlights

The General Fund is the chief operating fund of the Human Services of Faribault and Martin Counties. At the end of 2006, the unreserved fund balance of the General Fund was \$318,962. Total revenues were \$10,370,077, and total expenditures were \$10,183,420. (See Exhibit 2). The Human Services did not make any budget amendments during the year. Actual revenues were \$134,098 less than budgeted because of decreased earnings from the state. Actual expenditures were \$320,755 less than budgeted, with a majority due to program savings in the social service areas, less children in out-of-home placement.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the Human Services of Faribault and Martin Counties had invested over \$298,000 in capital assets. (More detailed information about our capital assets can be found in Note 2.A. to the financial statements). Total depreciation expense for the year was \$61,445. Net capital assets decreased by \$23,675.

Table 3
Capital Assets

	<u>2006</u>	<u>2005</u>
Equipment	\$ 298,832	\$ 261,062
Less: accumulated depreciation	<u>(176,260)</u>	<u>(114,815)</u>
Capital Assets, Net	<u>\$ 122,572</u>	<u>\$ 146,247</u>

LONG-TERM LIABILITIES

At year-end, the Human Services had \$593,329 in long-term liabilities outstanding. The Human Services' governmental activities long-term portion of debt increased by \$91,887, due to the increase in compensated absences and the issuance of a new capital lease.

Table 4
Long-Term Liabilities

	<u>2006</u>	<u>2005</u>
Capital leases payable	\$ 72,646	\$ 62,525
Compensated absences payable	<u>520,683</u>	<u>438,917</u>
Total	<u>\$ 593,329</u>	<u>\$ 501,442</u>

This table includes amounts due within one year of \$348,147 for 2006 and \$284,700 for 2005, which are considered current liabilities in Table 1.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Human Services of Faribault and Martin Counties is dependent on the State of Minnesota and federal government for a significant portion of its revenue. Funding will fluctuate according to state and federal actions.

In August of 2006, the Board approved the 2007 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the Human Services' finances for all those with an interest in our finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Human Services of Faribault and Martin Counties, Attention: Director of Business Management, 115 West 1st Street, Fairmont, Minnesota 56031.

BASIC FINANCIAL STATEMENTS

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**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 175,267	\$ -	\$ 175,267
Petty cash and change funds	39	-	39
Accounts receivable	236,382	-	236,382
Accrued interest receivable	3,248	-	3,248
Due from other governments	1,059,594	-	1,059,594
Prepaid items	20,145	-	20,145
Capital assets			
Depreciable assets - net	-	122,572	122,572
Total Assets	\$ 1,494,675	\$ 122,572	\$ 1,617,247
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 287,771	\$ -	\$ 287,771
Salaries payable	180,288	-	180,288
Accrued expenses	52,702	-	52,702
Due to other governments	128,889	-	128,889
Deferred revenue - unavailable	235,909	(235,909)	-
Deferred revenue - unearned	290,154	(290,154)	-
Unearned revenue	-	290,154	290,154
Long-term liabilities			
Due within one year	-	348,147	348,147
Due in more than one year	-	245,182	245,182
Total Liabilities	\$ 1,175,713	\$ 357,420	\$ 1,533,133
<u>Fund Balances/Net Assets</u>			
Fund Balances			
Unreserved			
Undesignated	318,962	\$ (318,962)	
Total Liabilities and Fund Balances	\$ 1,494,675		
Net Assets			
Invested in capital assets - net of related debt		\$ 49,926	\$ 49,926
Unrestricted		34,188	34,188
Total Net Assets		\$ 84,114	\$ 84,114

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006**

Reconciliation of the General Fund Balance to Net Assets		
Fund Balance - General Fund	\$	318,962
Capital assets are reported on the Statement of Net Assets but not on the Fund Balance Sheet.		122,572
Long-term assets not available to pay for current period expenditures are reported on the Fund Balance Sheet, but not on the Statement of Net Assets.		235,909
Long-term liabilities are reported on the Statement of Net Assets but not on the Fund Balance Sheet.		
Capital leases payable	\$ (72,646)	
Compensated absences payable	(520,683)	(593,329)
Net Assets - Governmental Activities		<u>\$ 84,114</u>

**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES AND
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Reconciliation</u>	<u>Governmental Activities</u>
Revenues			
Licenses and permits	\$ 41,633	\$ -	\$ 41,633
Intergovernmental	9,142,325	6,983	9,149,308
Charges for services	549,032	(3,886)	545,146
Investment earnings	33,101	-	33,101
Miscellaneous	603,986	-	603,986
Total Revenues	\$ 10,370,077	\$ 3,097	\$ 10,373,174
Expenditures/Expenses			
Current			
Human services	\$ 6,853,434	\$ 57,265	\$ 6,910,699
Health	3,309,092	48,176	3,357,268
Debt service			
Principal	19,327	(19,327)	-
Interest	1,567	-	1,567
Total Expenditures/Expenses	\$ 10,183,420	\$ 86,114	\$ 10,269,534
Revenues Over (Under) Expenditures	\$ 186,657	\$ (83,017)	\$ 103,640
Other Financing Sources (Uses)			
Capital lease issued	29,448	(29,448)	-
Change in Fund Balance/Net Assets	\$ 216,105	\$ (112,465)	\$ 103,640
Fund Balance/Net Assets - January 1, as previously reported	\$ 186,072	\$ (339,228)	\$ (153,156)
Restatement - Note 1.E.	(83,215)	216,845	133,630
Fund Balance/Net Assets - January 1, as restated	\$ 102,857	\$ (122,383)	\$ (19,526)
Fund Balance/Net Assets - December 31	\$ 318,962	\$ (234,848)	\$ 84,114

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

**EXHIBIT 2
(Continued)**

**STATEMENT OF ACTIVITIES AND
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balance - governmental fund (Exhibit 2) \$ 216,105

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay 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. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 37,770	
Depreciation expense	<u>(61,445)</u>	(23,675)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in deferred revenue for grants		3,097
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Capital lease incurred	\$ (29,448)	
Principal payments on debt	<u>19,327</u>	(10,121)

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 in compensated absences payable		<u>(81,766)</u>
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Change in Net Assets of Governmental Activities (Exhibit 2) \$ 103,640

HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA

EXHIBIT 3

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006

<u>Assets</u>	
Cash and pooled investments	<u>\$ 593,912</u>
<u>Liabilities</u>	
Accounts payable	\$ 38,027
Due to other governments	<u>555,885</u>
Total Liabilities	<u>\$ 593,912</u>

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

The Human Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Human Services are discussed below.

A. Financial Reporting Entity

The Human Services of Faribault and Martin Counties was established June 30, 1975, pursuant to Minn. Stat. §§ 402.01-.10. The Human Services is governed by a 12-member Board, which consists of the five County Commissioners and one citizen member from each of the two counties. The Board is organized with a chair, vice chair, secretary, and treasurer at the annual meeting in June of each year. The administrator, appointed by the Board, serves as its clerk. The general administrative offices are located in Fairmont, Minnesota.

Joint Venture

The Human Services participates in a joint venture described in Note 4.B.

B. Basic Financial Statements

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

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The governmental activities column is 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 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 are offset by revenues.

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

Additionally, the Human Services reports agency funds, which are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the Human Services holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 Human Services of Faribault and Martin Counties considers all revenues to be available if collected within 60 days after the end of the current period. Licenses 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 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.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

The cash balances of substantially all funds are pooled and invested by the Business Manager for the purpose of increasing earnings through investment activities. Pursuant to Minn. Stat. § 385.07, investment earnings on cash deposits are credited to the General Fund. Some agency funds received investment earnings based on other state statutes, grant agreements, and contracts. Pooled investment earnings for 2006 were \$33,101.

2. Capital Assets

Capital assets, comprised of equipment, are reported in the government-wide financial statements. Capital assets are defined by the Human Services as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased. 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.

Capital assets of the Human Services are depreciated using the straight-line method over 3 to 15 years.

3. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated vacation 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 government-wide financial statements.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Deferred Revenue

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

5. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the governmental fund recognizes the face amount of the obligation as an other financing source.

6. 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.

E. Restatement of Fund Balance/Net Assets

At January 1, 2006, fund balance and net assets were restated to correct errors in recording billed receivables and unavailable deferred revenue of \$216,845 and various liabilities totaling \$83,215. The following table summarizes this change:

	General Fund Fund Balance	Governmental Activities
Balance - January 1, as previously reported	\$ 186,072	\$ (153,156)
Restatement		
Billed receivables	\$ 216,845	\$ 216,845
Unavailable revenue	(216,845)	-
Various liabilities	(83,215)	(83,215)
	\$ (83,215)	\$ 133,630
Total restatement	\$ (83,215)	\$ 133,630
Balance - January 1, as restated	\$ 102,857	\$ (19,526)

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits

Reconciliation of the Human Services' total cash and pooled investments as reported in the basic financial statements to deposits and cash on hand follows:

Governmental fund	
Cash and pooled investments	\$ 175,267
Petty cash and change funds	39
Fiduciary funds	
Cash and pooled investments	<u>593,912</u>
 Total	 <u>\$ 769,218</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Human Services to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all 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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Human Services' deposits may not be returned to it. The Human Services does not have a deposit policy for custodial credit risk and follows Minnesota statutes for deposits. As of December 31, 2006, the Human Services' deposits were not exposed to custodial credit risk.

2. Receivables

The Human Services does not have any receivables not expected to be collected within the year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets				
Equipment	\$ 261,062	\$ 37,770	\$ -	\$ 298,832
Less: accumulated depreciation	<u>(114,815)</u>	<u>(61,445)</u>	<u>-</u>	<u>(176,260)</u>
Capital Assets, Net	<u>\$ 146,247</u>	<u>\$ (23,675)</u>	<u>\$ -</u>	<u>\$ 122,572</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Human services	\$ 39,939
Health	<u>21,506</u>
Total Depreciation Expense	<u>\$ 61,445</u>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Operating Leases

The Human Services rents office space from Faribault and Martin Counties on an annual rental from January 1 through December 31. Under the current agreements, total rent paid for 2006 was \$38,250 and \$145,869 to Faribault and Martin Counties, respectively. The minimum lease payments for 2007 are \$38,250 and \$149,515 to Faribault and Martin Counties, respectively. These leases automatically renew on an annual basis unless either of the parties notifies the other in writing at least 90 days and 180 days for Martin and Faribault Counties, respectively, before the expiration of the current lease.

2. Capital Leases

The Human Services has entered into five capital lease agreements. Three of the agreements are for copier machines and the other two are for phone systems. These leases qualify as capital leases for accounting purposes and, therefore, are recorded as capital assets at the present value of the future minimum payments as of the inception of the leases. The capital leases consist of the following at December 31, 2006:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Ricoh Copier	2009	Monthly	\$ 348	\$ 20,880	\$ 9,396
Ricoh Copier	2009	Monthly	396	23,760	10,692
Ricoh Copier	2009	Monthly	187	11,220	6,358
Phone System	2009	Monthly	810	34,742	24,132
Phone System	2012	Monthly	468	22,068	22,068
					<u>\$ 72,646</u>

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities

2. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

2007	\$	25,575
2008		26,511
2009		16,201
2010		5,617
2011		5,617
2012		935
		80,456
Total Lease Payments		80,456
Less: amount representing interest		(7,810)
Present Value of Minimum Lease Payments	\$	72,646

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 62,525	\$ 29,448	\$ 19,327	\$ 72,646	\$ 22,764
Compensated absences	438,917	81,766	-	520,683	325,383
Long-Term Liabilities	\$ 501,442	\$ 111,214	\$ 19,327	\$ 593,329	\$ 348,147

C. Risk Management

The Human Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Human Services has entered into a joint powers agreement with several Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

2. Detailed Notes on All Funds

C. Risk Management (Continued)

Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the Human Services carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Human Services in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Human Services pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Human Services in a method and amount to be determined by MCIT.

3. Pension Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated 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. All employees of the Human Services of Faribault and Martin Counties, who are members, participate in the Coordinated Plan.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

3. Pension Plans

Plan Description (Continued)

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 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 is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 1.7 percent for each year of service.

For all 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.

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 Human Services makes annual contributions to the pension plans equal to the amount required by state statutes. Members were required to contribute 5.50 percent of their annual covered salary in 2006. Contribution rates increased in 2007 to 5.75 percent. The Human Services was required to contribute 6.00 percent of annual covered payroll in 2006 and will be required to contribute 6.25 percent of annual covered payroll in 2007.

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

3. Pension Plans

Funding Policy (Continued)

The Human Services' contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund were \$235,497, \$196,243, and \$193,849, respectively.

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

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 Human Services expects such amounts, if any, to be immaterial.

B. Joint Ventures

Family Services Collaborative Joint Powers Board

The Family Services Collaborative Joint Powers Board ensures the availability of services designated to enhance and strengthen family functioning. During the year, the Human Services paid \$45,152 to the Board.

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REQUIRED SUPPLEMENTARY INFORMATION

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**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 40,749	\$ 40,749	\$ 41,633	\$ 884
Intergovernmental	9,743,273	9,743,273	9,142,325	(600,948)
Charges for services	346,809	346,809	549,032	202,223
Investment earnings	7,176	7,176	33,101	25,925
Miscellaneous	366,168	366,168	603,986	237,818
Total Revenues	\$ 10,504,175	\$ 10,504,175	\$ 10,370,077	\$ (134,098)
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,257,348	\$ 3,257,348	\$ 3,053,344	\$ 204,004
Social services	4,140,980	4,140,980	3,800,090	340,890
Total human services	\$ 7,398,328	\$ 7,398,328	\$ 6,853,434	\$ 544,894
Health				
Mental health	\$ 1,601,330	\$ 1,601,330	\$ 1,741,303	\$ (139,973)
Chemical dependency	282,560	282,560	266,525	16,035
Community health services	1,221,957	1,221,957	1,301,264	(79,307)
Total health	\$ 3,105,847	\$ 3,105,847	\$ 3,309,092	\$ (203,245)
Debt service				
Principal	\$ -	\$ -	\$ 19,327	\$ (19,327)
Interest	\$ -	\$ -	\$ 1,567	\$ (1,567)
Total Expenditures	\$ 10,504,175	\$ 10,504,175	\$ 10,183,420	\$ 320,755
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 186,657	\$ 186,657
Other Financing Sources (Uses)				
Capital lease issued	-	-	29,448	29,448
Net Change in Fund Balance	\$ -	\$ -	\$ 216,105	\$ 216,105
Fund Balance - January 1, as previously reported	\$ 186,072	\$ 186,072	\$ 186,072	\$ -
Restatement	(83,215)	(83,215)	(83,215)	-
Fund Balance - January 1, as restated	\$ 102,857	\$ 102,857	\$ 102,857	\$ -
Fund Balance - December 31	\$ 102,857	\$ 102,857	\$ 318,962	\$ 216,105

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Budgetary Information

The Human Services Board adopts an annual budget for the General Fund. The budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year-end.

Based on a process established by the Human Services Board, all departments of the Human Services submit requests for appropriations to the Fiscal Supervisor by the beginning of July. After review, analysis, and discussions with the departments, the proposed budget is presented to the Human Services Board by the Director of Business Management and Department Managers. The budget is approved/denied at the August Board meeting.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. The Human Services does not make budget changes during the year for any staffing or program changes. The changes are approved by the Human Services Board and reflected as budget variances in the financial statements.

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SUPPLEMENTARY INFORMATION

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GENERAL FUND DEPARTMENTS

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 2

**DEPARTMENTAL BALANCE SHEET
GENERAL FUND DEPARTMENTS
DECEMBER 31, 2006**

	Departments		Total
	Faribault County	Martin County	
<u>Assets</u>			
Cash and pooled investments	\$ 89,598	\$ 85,669	\$ 175,267
Petty cash and change funds	18	21	39
Accounts receivable	99,637	136,745	236,382
Accrued interest receivable	1,397	1,851	3,248
Due from other governments	436,737	622,857	1,059,594
Internal balances	(9,658)	9,658	-
Prepaid items	8,662	11,483	20,145
Total Assets	\$ 626,391	\$ 868,284	\$ 1,494,675
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 131,864	\$ 155,907	\$ 287,771
Salaries payable	80,633	99,655	180,288
Accrued expenses	10,939	41,763	52,702
Due to other governments	75,661	53,228	128,889
Deferred revenue - unavailable	104,338	131,571	235,909
Deferred revenue - unearned	124,766	165,388	290,154
Total Liabilities	\$ 528,201	\$ 647,512	\$ 1,175,713
Fund Balances			
Unreserved, undesignated	98,190	220,772	318,962
Total Liabilities and Fund Balances	\$ 626,391	\$ 868,284	\$ 1,494,675

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 3

**DEPARTMENTAL STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND DEPARTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Departments		Total
	Faribault County	Martin County	
Revenues			
Licenses and permits	\$ 16,588	\$ 25,045	\$ 41,633
Intergovernmental	3,834,628	5,307,697	9,142,325
Charges for services	239,733	309,299	549,032
Investment earnings	14,234	18,867	33,101
Miscellaneous	234,477	369,509	603,986
Total Revenues	\$ 4,339,660	\$ 6,030,417	\$ 10,370,077
Expenditures			
Current			
Human services	\$ 2,749,264	\$ 4,104,170	\$ 6,853,434
Health	1,587,142	1,721,950	3,309,092
Debt service			
Principal	4,176	15,151	19,327
Interest	-	1,567	1,567
Total Expenditures	\$ 4,340,582	\$ 5,842,838	\$ 10,183,420
Excess of Revenues Over (Under) Expenditures	\$ (922)	\$ 187,579	\$ 186,657
Other Financing Sources (Uses)			
Capital lease issued	22,068	7,380	29,448
Net Change in Fund Balance	\$ 21,146	\$ 194,959	\$ 216,105
Fund Balance - January 1, as previously reported	\$ 79,788	\$ 106,284	\$ 186,072
Restatement	(2,744)	(80,471)	(83,215)
Fund Balance - January 1, as restated	\$ 77,044	\$ 25,813	\$ 102,857
Fund Balance - December 31	\$ 98,190	\$ 220,772	\$ 318,962

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 4

**DEPARTMENTAL BUDGETARY COMPARISON SCHEDULE
FARIBAULT COUNTY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 16,240	\$ 16,240	\$ 16,588	\$ 348
Intergovernmental	3,897,685	3,897,685	3,834,628	(63,057)
Charges for services	152,816	152,816	239,733	86,917
Investment earnings	3,086	3,086	14,234	11,148
Miscellaneous	112,017	112,017	234,477	122,460
Total Revenues	\$ 4,181,844	\$ 4,181,844	\$ 4,339,660	\$ 157,816
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,259,541	\$ 1,259,541	\$ 1,249,305	\$ 10,236
Social services	1,525,791	1,525,791	1,499,959	25,832
Total human services	\$ 2,785,332	\$ 2,785,332	\$ 2,749,264	\$ 36,068
Health				
Mental health	\$ 702,973	\$ 702,973	\$ 855,547	\$ (152,574)
Chemical dependency	130,123	130,123	141,713	(11,590)
Community health services	563,416	563,416	589,882	(26,466)
Total health	\$ 1,396,512	\$ 1,396,512	\$ 1,587,142	\$ (190,630)
Debt service				
Principal	\$ -	\$ -	\$ 4,176	\$ (4,176)
Total Expenditures	\$ 4,181,844	\$ 4,181,844	\$ 4,340,582	\$ (158,738)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (922)	\$ (922)
Other Financing Sources (Uses)				
Capital lease issued	-	-	22,068	22,068
Net Change in Fund Balance	\$ -	\$ -	\$ 21,146	\$ 21,146
Fund Balance - January 1, as previously reported	\$ 79,788	\$ 79,788	\$ 79,788	\$ -
Restatement	(2,744)	(2,744)	(2,744)	-
Fund Balance - January 1, as restated	\$ 77,044	\$ 77,044	\$ 77,044	\$ -
Fund Balance - December 31	\$ 77,044	\$ 77,044	\$ 98,190	\$ 21,146

**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 5

**DEPARTMENTAL BUDGETARY COMPARISON SCHEDULE
MARTIN COUNTY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 24,509	\$ 24,509	\$ 25,045	\$ 536
Intergovernmental	5,845,588	5,845,588	5,307,697	(537,891)
Charges for services	193,993	193,993	309,299	115,306
Investment earnings	4,090	4,090	18,867	14,777
Miscellaneous	254,151	254,151	369,509	115,358
Total Revenues	\$ 6,322,331	\$ 6,322,331	\$ 6,030,417	\$ (291,914)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,997,807	\$ 1,997,807	\$ 1,804,039	\$ 193,768
Social services	2,615,189	2,615,189	2,300,131	315,058
Total human services	\$ 4,612,996	\$ 4,612,996	\$ 4,104,170	\$ 508,826
Health				
Mental health	\$ 898,357	\$ 898,357	\$ 885,756	\$ 12,601
Chemical dependency	152,437	152,437	124,812	27,625
Community health services	658,541	658,541	711,382	(52,841)
Total health	\$ 1,709,335	\$ 1,709,335	\$ 1,721,950	\$ (12,615)
Debt service				
Principal	\$ -	\$ -	\$ 15,151	\$ (15,151)
Interest	\$ -	\$ -	\$ 1,567	\$ (1,567)
Total Expenditures	\$ 6,322,331	\$ 6,322,331	\$ 5,842,838	\$ 479,493
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 187,579	\$ 187,579
Other Financing Sources (Uses)				
Capital lease issued	-	-	7,380	7,380
Net Change in Fund Balance	\$ -	\$ -	\$ 194,959	\$ 194,959
Fund Balance - January 1, as previously reported	\$ 106,284	\$ 106,284	\$ 106,284	\$ -
Restatement	(80,471)	(80,471)	(80,471)	-
Fund Balance - January 1, as restated	\$ 25,813	\$ 25,813	\$ 25,813	\$ -
Fund Balance - December 31	\$ 25,813	\$ 25,813	\$ 220,772	\$ 194,959

FIDUCIARY FUNDS

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

AGENCY FUNDS

The Mental Health Flex Spending Fund is used to account for incidental expenditures of the Mental Health Pilot Project of which Blue Earth County is the fiscal agent.

The Social Welfare Fund accounts for funds received by the Human Services of Faribault and Martin Counties for individuals receiving welfare assistance.

The MA Refund Fund accounts for Medical Assistance estate recoveries.

The Family Services Collaborative Fund accounts for funds of a multi-county/multi-school district family services collaborative program.

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**HUMAN SERVICES OF FARIBAUT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 6

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MENTAL HEALTH FLEX SPENDING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 44,696	\$ 209,737	\$ 262,412	\$ (7,979)
<u>Liabilities</u>				
Due to other governments	\$ 44,696	\$ 209,737	\$ 262,412	\$ (7,979)
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 46,552	\$ 481,329	\$ 489,854	\$ 38,027
<u>Liabilities</u>				
Accounts payable	\$ 46,552	\$ 481,329	\$ 489,854	\$ 38,027
 <u>MA REFUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 161,765	\$ 512,160	\$ 612,087	\$ 61,838
<u>Liabilities</u>				
Due to other governments	\$ 161,765	\$ 512,160	\$ 612,087	\$ 61,838

**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 6
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 651,677	\$ 434,190	\$ 583,841	\$ 502,026
<u>Liabilities</u>				
Due to other governments	\$ 651,677	\$ 434,190	\$ 583,841	\$ 502,026
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 904,690	\$ 1,637,416	\$ 1,948,194	\$ 593,912
<u>Liabilities</u>				
Accounts payable	\$ 46,552	\$ 481,329	\$ 489,854	\$ 38,027
Due to other governments	858,138	1,156,087	1,458,340	555,885
Total Liabilities	\$ 904,690	\$ 1,637,416	\$ 1,948,194	\$ 593,912

HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA

Schedule 7

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006

Shared Revenue	
State	
PERA rate reimbursement	\$ 17,412
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 2,873,345
Payments	
Local	
Tax allocation	\$ 3,042,775
Grants	
State	
Minnesota Department of Health	\$ 161,570
Human Services	1,805,258
Total State	\$ 1,966,828
Grants	
Federal	
Department of Agriculture	\$ 139,107
Health and Human Services	1,102,858
Total Federal	\$ 1,241,965
Total State and Federal Grants	\$ 3,208,793
Total Intergovernmental Revenue	\$ 9,142,325

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FAIRMONT, MINNESOTA**

Schedule 8

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the Human Services of Faribault and Martin Counties.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of the Human Services of Faribault and Martin Counties and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of the Human Services of Faribault and Martin Counties 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 Human Services of Faribault and Martin Counties 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 is:
 - Temporary Assistance to Needy Families CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Human Services of Faribault and Martin Counties was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Segregation of Duties and Procedures

Due to the limited number of office personnel within the Human Services of Faribault and Martin Counties business office, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the Human Services of Faribault and Martin Counties; however, the Human Services management should constantly be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the Human Services management be aware of the lack of segregation of duties within certain accounting functions and implement procedures to ensure adequate controls are in place over cash, receivables, and other items.

Client's Response:

We are aware of the lack of segregation of duties within certain accounting functions. Due to the limited number of personnel within the business management office, ideal conditions do not always exist. We will continue to provide checks and balances of totals and figures by supervisor.

ITEMS ARISING THIS YEAR

06-1 Preparation of Financial Statements

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

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

We recommend the Human Services obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP.

Client's Response:

We will pursue resources to obtain additional training in this area. We will work with the state auditors to develop worksheets and a process.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that should be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements not initially identified by the Human Services internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the Human Services financial statements.

- Allocations were required to reclassify the unallocated departments.
- Recording additional deferred revenue and receivable amounts was required.
- Corrections were made to reclassify various revenues.
- Recording additional payable amounts was required.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the Human Services modify internal controls over financial reporting to detect misstatements in the financial statements. We encourage review of draft financial statements by a qualified individual to identify potential misstatements.

Client's Response:

The director of business management will review draft financial statements and communicate with the state auditors on questions.

PREVIOUSLY REPORTED ITEMS RESOLVED

Bank Reconciliation Process (03-2)

Bank reconciliations were not being reviewed or signed as reviewed.

Resolution

Bank reconciliations are being reviewed and signed as reviewed.

Journal Entry Procedures (03-3)

Manual journal entries were not being signed by preparers or reviewers.

Resolution

Manual journal entries are being signed by the preparers of the journal entry and by the reviewers of the journal entry.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Board Approval of Credit Cards (05-1)

Credit cards were not approved by the Human Services Board.

Resolution

The Board approved the use of a Walmart charge card in 2006.

B. OTHER ITEM FOR CONSIDERATION

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, similar to 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.

Some of the issues that the 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 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 Human Services Board determines that the establishment of a trust is desirable in order to fund the OPEB, the 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 Human Services Board will have to decide whether to hire an actuary.

Schedule 8
(Continued)

If applicable for the Human Services of Faribault and Martin Counties, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

OTHER REQUIRED REPORTS

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STATE AUDITOR

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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*

Human Services Board
Human Services of Faribault and Martin Counties

We have audited the financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of and for the year ended December 31, 2006, and have issued our report thereon dated January 28, 2008. 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 Human Services of Faribault and Martin Counties internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Human Services internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Human Services internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Human Services of Faribault and Martin Counties ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Human Services financial statements that is more than inconsequential will not be prevented or detected by the Human Services internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 03-1, 06-1, and 06-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Human Services of Faribault and Martin Counties 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 Human Services of Faribault and Martin Counties complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Human Services of Faribault and Martin Counties, and it is reported for that purpose.

The Human Services of Faribault and Martin Counties written responses to the significant deficiencies identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 28, 2008

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REBECCA OTTO
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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

Human Services Board
Human Services of Faribault and Martin Counties

Compliance

We have audited the compliance of the Human Services of Faribault and Martin Counties 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, 2006. The Human Services of Faribault and Martin Counties 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 Human Services management. Our responsibility is to express an opinion on the Human Services compliance based on our audit.

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

In our opinion, the Human Services of Faribault and Martin Counties 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, 2006.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Human Services of Faribault and Martin Counties as of and for the year ended December 31, 2006, and have issued our report thereon dated January 28, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Human Services basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of

additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 28, 2008

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**HUMAN SERVICES OF FARIBAULT AND MARTIN COUNTIES
FARIMONT, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 125,397
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	13,710
Total U.S. Department of Agriculture		\$ 139,107
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Center for Disease Control and Prevention Temporary Assistance for Needy Families Maternal and Child Health Services Block Grant	93.283 93.558 93.994	\$ 69,375 27,339 47,020
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families Temporary Assistance for Needy Families Child Care Development Block Grant Community Based Family Resource and Support Child Welfare Services Foster Care - Title IV-E Social Services Block Grant - Title XX Independent Living Community Mental Health Services	93.556 93.558 93.575 93.590 93.645 93.658 93.667 93.674 93.958	19,714 328,150 20,320 141,767 14,505 135,722 275,606 5,691 20,390
Total U.S. Department of Health and Human Services		\$ 1,105,599
Total Federal Awards		\$ 1,244,706

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 Human Services of Faribault and Martin Counties. The reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. In some instances, expenditures shown are different than reported revenues because they are not available.
3. During the year, the Human Services of Faribault and Martin Counties did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.