

Southwest Health and Human Services Marshall, Minnesota

Annual Financial Report and Management and Compliance Report
Year Ended December 31, 2025
Audit Practice Division



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR
State Auditor Julie Blaha

Southwest Health and Human Services Marshall, Minnesota

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**Southwest Health and Human Services
Marshall, Minnesota**

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Introductory Section

Southwest Health and Human Services Marshall, Minnesota

Organization 2025

Health and Human Services Governing Board	County	Appointment Expires
Chair		
Dennis Welgraven	Murray	December 31, 2025
Vice Chair		
Gary Crowley	Lyon	December 31, 2025
Members		
Steve Hauswedell	Lincoln	December 31, 2025
Todd Draper	Lyon	December 31, 2025
Jackie Meier	Murray	December 31, 2025
Greg Burger	Rock	December 31, 2025
Doug Nagel	Pipestone	December 31, 2025
Dan Wildermuth	Pipestone	December 31, 2025
Jim Salfer	Redwood	December 31, 2025
Rick Wakefield	Redwood	December 31, 2025
Gary Overgaard	Rock	December 31, 2025
Joan Jagt	Lincoln	December 31, 2025
Maydra Maas	Redwood	December 31, 2025
Dean Nielsen	Lincoln	December 31, 2025
Lois Schmidt	Lyon	December 31, 2025
Les Nath	Pipestone	December 31, 2025
Suanne Ohme	Rock	December 31, 2025
Jeane Anderson	Murray	December 31, 2025
Human Services Board		
Chair		
Rick Wakefield	Redwood	December 31, 2025
Vice Chair		
Doug Nagel	Pipestone	December 31, 2025
Members		
Joan Jagt	Lincoln	December 31, 2025
Steve Hauswedell	Lincoln	December 31, 2025
Todd Draper	Lyon	December 31, 2025
Gary Crowley	Lyon	December 31, 2025
Lois Schmidt	Lyon	December 31, 2025
Jackie Meier	Murray	December 31, 2025
Dennis Welgraven	Murray	December 31, 2025
Jeane Anderson	Murray	December 31, 2025
Les Nath	Pipestone	December 31, 2025
Dan Wildermuth	Pipestone	December 31, 2025
Jim Salfer	Redwood	December 31, 2025
Maydra Maas	Redwood	December 31, 2025
Greg Burger	Rock	December 31, 2025
Gary Overgaard	Rock	December 31, 2025
Suanne Ohme	Rock	December 31, 2025
Dean Nielsen	Lincoln	December 31, 2025

Southwest Health and Human Services Marshall, Minnesota

Organization

2025

(Continued)

Community Health Board	County	Appointment Expires
Chair		
Greg Burger	Rock	December 31, 2025
Vice Chair		
Dean Nielson	Lincoln	December 31, 2025
Members		
Steve Hauswedell	Lincoln	December 31, 2025
Todd Draper	Lyon	December 31, 2025
Gary Crowley	Lyon	December 31, 2025
Jackie Meier	Murray	December 31, 2025
Doug Nagel	Pipestone	December 31, 2025
Dan Wildermuth	Pipestone	December 31, 2025
Jim Salfer	Redwood	December 31, 2025
Rick Wakefield	Redwood	December 31, 2025
Gary Overgaard	Rock	December 31, 2025
Dennis Welgraven	Murray	December 31, 2025
Director		
Beth Wilms*		Indefinite
Deputy Director		
Nancy Walker		Indefinite
Director of Business Management		
Lisa DeBoer		Indefinite
Attorney		
William J. Toulouse		Indefinite

*Beth Wilms retired in July 2025, and the position was filled by Stacey Timm in August 2025.

Financial Section



Independent Auditor's Report

Members of the Joint Health and Human Services Board
Southwest Health and Human Services
Marshall, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of December 31, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Health and Human Services, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health and Human Services' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health and Human Services' internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health and Human Services' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedules for the General Fund and the Health Services Special Revenue Fund, Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, PERA retirement plan schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southwest Health and Human Services' basic financial statements. The combining fiduciary fund financial statements, Schedule of Intergovernmental Revenue, and Schedule of Expenditures of Federal Awards and related

notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **Supplementary Information** as identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the Annual Financial Report. The other information comprises the Introductory Section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2026, on our consideration of Southwest Health and Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Southwest Health and Human Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwest Health and Human Services' internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

/s/Lisa Young

Lisa Young, CPA
Deputy State Auditor

August 27, 2026

Management's Discussion and Analysis

Southwest Health and Human Services Marshall, Minnesota

Management's Discussion and Analysis December 31, 2025 (Unaudited)

Southwest Health and Human Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health and Human Services' financial activities for the fiscal year ended December 31, 2025. 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 Health and Human Services' basic financial statements that follow this section.

Financial Reporting Entity

Southwest Health and Human Services (SWHHS) was formed under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59 by terminating the joint powers agreements for Lincoln, Lyon, & Murray Human Services (LLMHS) and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Dissolution of LLMHS and LLMPPHS was effective December 31, 2010, although the agreement stated that both LLMHS and LLMPPHS continued to exist after dissolution as long as necessary to conclude the affairs of the agencies.

SWHHS began official operations on January 1, 2011, and performs health and human services functions formerly performed by the two previous joint ventures. SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community Health Board and one Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is made up of 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. The Community Health Board is made up of one County Commissioner and one alternate from each member county, unless such county shall have a population in excess of twice that of any other member county, in which case, it shall have two Commissioners and two alternates. Local financing for the first year of operations was based on the 2010 contribution amounts of LLMHS and LLMPPHS. In 2025, the local financing for human services was based on consideration of: (1) population based on the most recent national census, (2) tax capacity, and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report, each factor to be weighted equally. Public health financing for 2025 was based on \$15.25 per capita.

Financial Highlights

- Governmental activities' total net position is \$6,729,094, of which \$438,214 represents the net investment in capital assets (Exhibit 1). In 2025, governmental activities' total net position increased by \$2,811,977.
- Local financing for the Health and Human Services in 2025 was \$15,122,073, which comprised 46.2 percent of the total intergovernmental revenue.
- Total federal and state grants comprised 36.9 percent of the total intergovernmental revenue.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the basic financial statements. Southwest Health and Human Services' basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section), certain budgetary information, a schedule of

changes in total other postemployment benefits (OPEB) liability and related ratios, and schedules of proportionate share of net pension liability and of contributions for the pension plan are required to accompany the basic financial statements and, therefore, are included as required supplementary information. Other information is provided as supplementary information regarding Southwest Health and Human Services' intergovernmental revenue and federal award programs.

Government-Wide Financial Statements

There are two government-wide financial statements. The statement of net position and the statement of activities provide information about the activities of the Health and Human Services as a whole and present a longer-term view of the Health and Human Services' finances. The statement of net position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the full 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 Health and Human Services' net position are one indicator of whether its financial health is improving or deteriorating.

The government-wide financial statements are Exhibits 1 and 2 of this report.

The governmental funds financial statements focus on how money flows in and out and the balances left at year-end available for spending. These statements provide a detailed short-term view of the Health and Human Services' general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health and Human Services' programs. We reconcile the relationship (or differences) between governmental funds and governmental activities.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

A proprietary fund is maintained by Southwest Health and Human Services. Internal service funds are an accounting device used to accumulate and allocate costs internally among Southwest Health and Human Services' various functions. Southwest Health and Human Services uses the Internal Service Fund to account for its self-insurance. The service benefits the governmental functions and has been allocated to the governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements are Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the Health and Human Services. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the Health and Human Services' own programs or activities. The Health and Human Services is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

All fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Exhibit 10 and Statement of Changes in Fiduciary Net Position on Exhibit 11. The Custodial Funds Combining Statements are shown on Exhibits B-1 and B-2.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 22 through 46 of this report.

Other Information

Other information is provided as supplementary information regarding Southwest Health and Human Services' intergovernmental revenue and federal awards programs.

Government-Wide Financial Analysis

Governmental Activities

Over time, net position serves as a useful indicator of the Health and Human Services' financial position. The Health and Human Services' assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,729,094. The Health and Human Services' net investment in capital assets is \$438,214 of total net position. It should be noted that these assets are not available for future spending. Comparative data with 2024 is presented.

Statement of Net Position

Condensed Statement of Net Position	2025	2024
Assets		
Current assets	\$ 20,545,214	\$ 19,486,381
Capital assets, net of depreciation and amortization	1,242,122	2,019,305
Total Assets	\$ 21,787,336	\$ 21,505,686
Deferred Outflows of Resources		
Deferred OPEB outflows	\$ 163,447	\$ 166,465
Deferred pension outflows	1,246,827	1,304,416
Total Deferred Outflows of Resources	\$ 1,410,274	\$ 1,470,881
Liabilities		
Long-term liabilities	\$ 9,708,187	\$ 11,045,297
Other liabilities	2,972,255	3,344,149
Total Liabilities	\$ 12,680,442	\$ 14,389,446
Deferred Inflows of Resources		
Deferred OPEB inflows	\$ 205,824	\$ 314,156
Deferred pension inflows	3,582,250	4,355,848
Total Deferred Inflows of Resources	\$ 3,788,074	\$ 4,670,004
Net Position		
Net investment in capital assets	\$ 438,214	\$ 537,840
Restricted	1,285,752	1,225,710
Unrestricted	5,005,128	2,153,567
Total Net Position	\$ 6,729,094	\$ 3,917,117

The Health and Human Services' activities increased net position by \$2,811,977. Key elements in this increase in net position are as follows for 2025, with comparative data for 2024.

Changes in Net Position

Condensed Statement of Activities	2025	2024
Revenues		
Intergovernmental	\$ 32,941,934	\$ 32,060,451
Fees, charges, fines, and other	3,730,743	3,631,181
Investment earnings	553,610	534,169
Miscellaneous	3,813	10,483
Total Revenues	<u>\$ 37,230,100</u>	<u>\$ 36,236,284</u>
Expenses		
Human services	\$ 29,996,375	\$ 30,424,175
Health services	4,402,629	4,381,426
Interest	19,119	28,956
Total Expenses	<u>\$ 34,418,123</u>	<u>\$ 34,834,557</u>
Change in Net Position	\$ 2,811,977	\$ 1,401,727
Net Position – January 1	<u>3,917,117</u>	<u>2,515,390</u>
Net Position – December 31	<u>\$ 6,729,094</u>	<u>\$ 3,917,117</u>

Financial Statement Analysis of the Governmental Funds

Governmental Funds

The focus of the Health and Human Services' governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the Health and Human Services' financing requirements.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$15,801,285, an increase of \$1,839,908 in comparison with the prior year. The combined ending fund balances include \$1,285,752 of restricted fund balance, \$4,285,949 of assigned fund balance, and \$10,229,584 of unassigned fund balance. The assigned and unassigned fund balance of \$14,515,533 is available for spending at the agency's discretion.

The General Fund is the operating fund for the human services portion of the agency. At the end of the current fiscal year, it had restricted fund balance of \$183,383 and unassigned fund balance of \$10,229,584. The General Fund's unassigned fund balance represents 33.0 percent of total General Fund expenditures. During 2025, the ending fund balance increased by \$1,647,901. This is primarily due to an increase in revenues for mental health case management, placements, and waived services.

The Health Services Special Revenue Fund had a restricted fund balance of \$1,102,369 and an assigned fund balance of \$4,285,949. The ending balance increased by \$192,007 during 2025, primarily due to difficulty filling budgeted open public health nurse positions and related cost savings.

General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Actual revenue was more than budgeted revenue by \$469,065. Charges for services revenues were more than the budget by \$81,832 due to an increase in placement revenue that was not anticipated or budgeted. Intergovernmental revenues were less than the budget amount by \$351,988 due to receiving less funding and differences in timing of revenues received compared to budgeted amounts. Investment earnings were more than the budget by \$264,451 due to higher market interest rates. Expenditures were \$1,081,537 less than budgeted due to a decrease in clients served, related placement costs, client care, and a decrease in salary from vacancy to hire.

Capital Assets and Debt Administration

Capital Assets

The Health and Human Services' investment in capital assets for its governmental activities for the year ended December 31, 2025, is \$1,242,122 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, lease equipment, lease buildings, and software subscriptions.

The following table shows capital assets, net of depreciation and amortization, at December 31, 2025.

Capital Assets at Year-End (Net of Accumulated Depreciation and Amortization)

Capital Assets	2025	2024
Equipment	\$ 320,859	\$ 341,915
Lease equipment	153,873	279,882
Lease buildings	572,002	1,126,179
Software subscriptions	195,388	271,329
Total	\$ 1,242,122	\$ 2,019,305

Long-Term Liabilities

At year-end, the Health and Human Services had no outstanding bonded debt.

Economic Factors and Next Year's Budgets and Rates

Southwest Health and Human Services planned a balanced budget for 2026. The levy for Human Services was approved at an eight percent increase for the General Fund.

Requests for Information

This financial report is designed to provide a general overview of Southwest Health and Human Services' financial statements. Additional questions or further explanation of this report can be obtained by writing to Tiffany Bailey, Fiscal Manager of Southwest Health and Human Services, 607 West Main Street, Suite 100, Marshall, Minnesota 56258, or by calling 507-532-1252.

Basic Financial Statements

Government-Wide Financial Statements

Exhibit 1**Southwest Health and Human Services
Marshall, Minnesota****Statement of Net Position
Governmental Activities
December 31, 2025****Assets**

Cash and pooled investments	\$	15,965,346
Receivable – net		4,579,868
Capital assets		
Depreciable and amortizable – net of accumulated depreciation and amortization		1,242,122
Total Assets	\$	21,787,336

Deferred Outflows of Resources

Deferred other postemployment benefits outflows	\$	163,447
Deferred pension outflows		1,246,827
Total Deferred Outflows of Resources	\$	1,410,274

Liabilities

Accounts payable and other current liabilities	\$	2,937,080
Unearned revenue		35,175
Long-term liabilities		
Due within one year		1,004,032
Due in more than one year		2,181,255
Other postemployment benefits liability		
Due within one year		77,620
Due in more than one year		1,013,980
Net pension liability		5,431,300
Total Liabilities	\$	12,680,442

Deferred Inflows of Resources

Deferred other postemployment benefits inflows	\$	205,824
Deferred pension inflows		3,582,250
Total Deferred Inflows of Resources	\$	3,788,074

Net Position

Net investment in capital assets	\$	438,214
Restricted for		
Opioid remediation activities		1,102,369
Human services		183,383
Unrestricted		5,005,128
Total Net Position	\$	6,729,094

Exhibit 2

**Southwest Health and Human Services
Marshall, Minnesota**

**Statement of Activities
For the Year Ended December 31, 2025**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	
Governmental activities				
Human services	\$ 29,996,375	\$ 3,136,665	\$ 14,894,546	\$ (11,965,164)
Health services	4,402,629	594,078	3,019,598	(788,953)
Interest	19,119	-	-	(19,119)
Total Governmental Activities	\$ 34,418,123	\$ 3,730,743	\$ 17,914,144	\$ (12,773,236)
General Revenues				
Grants and contributions not restricted to specific programs				\$ 15,027,790
Unrestricted investment earnings				553,610
Miscellaneous				3,813
Total general revenues				\$ 15,585,213
Change in net position				\$ 2,811,977
Net Position – January 1				3,917,117
Net Position – December 31				\$ 6,729,094

Fund Financial Statements

Governmental Funds

Exhibit 3

**Southwest Health and Human Services
Marshall, Minnesota**

**Balance Sheet
Governmental Funds
December 31, 2025**

	General	Health Services	Total
<u>Assets</u>			
Cash and pooled investments	\$ 9,351,172	\$ 5,261,954	\$ 14,613,126
Accounts receivable – net	1,044,241	35,968	1,080,209
Accrued interest receivable	34,639	7,862	42,501
Advance to other governments	111,139	-	111,139
Due from other governments	2,912,733	334,780	3,247,513
Total Assets	\$ 13,453,924	\$ 5,640,564	\$ 19,094,488
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 900,874	\$ 34,499	\$ 935,373
Salaries payable	817,932	182,987	1,000,919
Due to other funds	441,035	-	441,035
Due to other governments	228,608	4,898	233,506
Unearned revenue	35,175	-	35,175
Total Liabilities	\$ 2,423,624	\$ 222,384	\$ 2,646,008
Deferred Inflows of Resources			
Unavailable revenue	\$ 617,333	\$ 29,862	\$ 647,195
Fund Balances			
Restricted for			
Opioid remediation activities	\$ -	\$ 1,102,369	\$ 1,102,369
Medical assistance eligibility renewal	7,140	-	7,140
Adult protection	176,243	-	176,243
Assigned			
Health services	-	4,285,949	4,285,949
Unassigned	10,229,584	-	10,229,584
Total Fund Balances	\$ 10,412,967	\$ 5,388,318	\$ 15,801,285
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 13,453,924	\$ 5,640,564	\$ 19,094,488

Exhibit 4

**Southwest Health and Human Services
Marshall, Minnesota**

**Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Position—Governmental Activities
December 31, 2025**

Fund balances – total governmental funds (Exhibit 3)	\$ 15,801,285
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	<u>\$ 1,242,122</u>
Deferred outflows of resources resulting from the other postemployment benefits liability are not available resources and, therefore, are not reported in the governmental funds.	<u>\$ 163,447</u>
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.	<u>\$ 1,246,827</u>
An internal service fund is used to charge the cost of the self-funded insurance programs to functions. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	<u>\$ 1,124,479</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources – unavailable revenue in the governmental funds.	<u>\$ 647,195</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Leases payable	\$ (803,908)
Compensated absences	(2,381,379)
Other postemployment benefits liability	(1,091,600)
Net pension liability	<u>(5,431,300)</u>
Long-term liabilities not reported in the governmental funds	<u>\$ (9,708,187)</u>
Deferred inflows of resources resulting from the other postemployment benefits liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>\$ (205,824)</u>
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>\$ (3,582,250)</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 6,729,094</u></u>

Exhibit 5

**Southwest Health and Human Services
Marshall, Minnesota**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2025**

	General	Health Services	Total
Revenues			
Intergovernmental	\$ 28,802,109	\$ 3,900,456	\$ 32,702,565
Settlements	-	217,959	217,959
Charges for services	2,573,609	584,625	3,158,234
Investment earnings	450,969	102,641	553,610
Miscellaneous	795,320	9,873	805,193
Total Revenues	\$ 32,622,007	\$ 4,815,554	\$ 37,437,561
Expenditures			
Current			
Human services	\$ 30,406,316	-	\$ 30,406,316
Health	-	4,494,661	4,494,661
Debt service			
Principal	583,715	132,499	716,214
Interest	15,581	3,538	19,119
Total Expenditures	\$ 31,005,612	\$ 4,630,698	\$ 35,636,310
Excess of Revenues Over (Under) Expenditures	\$ 1,616,395	\$ 184,856	\$ 1,801,251
Other Financing Sources (Uses)			
Leases issued	31,506	7,151	38,657
Net Change in Fund Balance	\$ 1,647,901	\$ 192,007	\$ 1,839,908
Fund Balance – January 1	8,765,066	5,196,311	13,961,377
Fund Balance – December 31	\$ 10,412,967	\$ 5,388,318	\$ 15,801,285

Exhibit 6

**Southwest Health and Human Services
Marshall, Minnesota**

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities—Governmental Activities
For the Year Ended December 31, 2025**

Net change in fund balance – total governmental funds (Exhibit 5)	\$ 1,839,908
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Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred inflows of resources – unavailable revenue – December 31	\$ 647,195
Deferred inflows of resources – unavailable revenue – January 1	(810,750)

Total adjustment to revenue in the government-wide statements for current and prior year unavailable revenue	\$ (163,555)
--	---------------------

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 and amortization expense.

Expenditures for general capital assets and infrastructure	\$ 175,940
Current year depreciation and amortization	(953,123)

Total adjustment to the government-wide statements for current year capital asset activity	\$ (777,183)
--	---------------------

Some capital asset additions are acquired through financing. In governmental funds, these arrangements are considered an other financing source, but in the statement of net position, the obligation is reported as a liability. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Leases issued	\$ (38,657)
Principal payments on leases	716,214

Total adjustment to the government-wide statements for financing right-to-use assets	\$ 677,557
--	-------------------

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 the governmental funds.

Change in deferred other postemployment benefits outflows	\$ (3,018)
Change in deferred pension outflows	(57,589)
Change in compensated absences	(41,270)
Change in other postemployment benefits liability	6,633
Change in net pension liability	694,190
Change in deferred other postemployment benefits inflows	108,332
Change in deferred pension inflows	773,598

Total adjustment to the government-wide statements for other activities not reported in governmental funds	\$ 1,480,876
--	---------------------

An internal service fund is used by Southwest Health and Human Services to charge the cost of the self-funded insurance programs to functions. The increase or decrease in net position of the internal service fund is reported in the government-wide statement of activities.

	\$ (245,626)
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Change in Net Position of Governmental Activities (Exhibit 2)	\$ 2,811,977
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Proprietary Fund

Exhibit 7

**Southwest Health and Human Services
Marshall, Minnesota
Statement of Net Position
Self-Insurance Internal Service Fund
December 31, 2025**

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 1,352,220
Accounts receivable	565
Due from other governments	97,941
Total Assets	\$ 1,450,726
<u>Liabilities</u>	
Claims payable	\$ 326,247
<u>Net Position</u>	
Unrestricted	\$ 1,124,479

Exhibit 8**Southwest Health and Human Services
Marshall, Minnesota****Statement of Revenues, Expenses, and Changes in Net Position
Self-Insurance Internal Service Fund
For the Year Ended December 31, 2025**

	Governmental Activities
Operating Revenues	
Charges for services	\$ 3,261,867
Operating Expenses	
Cost of service	<u>3,507,493</u>
Operating Income (Loss)	\$ (245,626)
Net Position – January 1	<u>1,370,105</u>
Net Position – December 31	<u>\$ 1,124,479</u>

Exhibit 9**Southwest Health and Human Services
Marshall, Minnesota****Statement of Cash Flows
Self-Insurance Internal Service Fund
For the Year Ended December 31, 2025**

	Governmental Activities
Cash Flows From Operating Activities	
Receipts from internal services provided	\$ 3,640,233
Payments to suppliers	(3,798,603)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (158,370)
Cash and Cash Equivalents at January 1	1,510,590
Cash and Cash Equivalents at December 31	\$ 1,352,220
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (245,626)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
(Increase) decrease in accounts receivable	\$ (436)
(Increase) decrease in due from other governments	(97,941)
Increase (decrease) in claims payable	185,633
Total adjustments	\$ 87,256
Net Cash Provided by (Used in) Operating Activities	\$ (158,370)

Fiduciary Funds

Exhibit 10**Southwest Health and Human Services
Marshall, Minnesota****Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2025**

	RSDI/SSI Private- Purpose Trust Fund Custodial Funds	
<u>Assets</u>		
Cash and pooled investments	\$ 16,407	\$ 294,205
Due from other funds	-	441,035
Total Assets	\$ 16,407	\$ 735,240
<u>Liabilities</u>		
Due to others	\$ 16,407	\$ -
Due to other governments	-	353,738
Total Liabilities	\$ 16,407	\$ 353,738
<u>Net Position</u>		
Restricted for individuals, organizations, and other governments	\$ -	\$ 381,502

Exhibit 11

**Southwest Health and Human Services
Marshall, Minnesota**

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2025**

	RSDI/SSI Private- Purpose Trust Fund	Custodial Funds
<u>Additions</u>		
Contributions from individuals	\$ 74,091	\$ 1,000,503
Fees collected for the state	-	78,796
Payments from the state	-	284,798
Payments from other entities	-	4,488
Total Additions	\$ 74,091	\$ 1,368,585
<u>Deductions</u>		
Payments to the state	\$ -	\$ 1,079,299
Administrative expense	74,091	2,800
Payments to other individuals/entities	-	273,878
Total Deductions	\$ 74,091	\$ 1,355,977
Change in Net Position	\$ -	\$ 12,608
Net Position – January 1	-	368,894
Net Position – December 31	\$ -	\$ 381,502

Southwest Health and Human Services Marshall, Minnesota

Notes to the Financial Statements

As of and for the Year Ended December 31, 2025

Note 1 – Summary of Significant Accounting Policies

Southwest Health and Human Services' financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2025. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Southwest Health and Human Services are discussed below.

Financial Reporting Entity

Southwest Health and Human Services was formed pursuant to Minn. Stat. § 471.59, by Lincoln, Lyon, Murray, and Pipestone Counties. Political subdivisions are required by Minn. Stat. ch. 145A to undertake the responsibilities of the Minnesota Local Public Health Act. Minnesota Statute chapter 393 and other applicable state statutes and rules require counties, through the creation of a local social services agency, to undertake responsibilities related to the provision of health and human services. Southwest Health and Human Services began official operations on January 1, 2011, and performs health and human services in the counties that are signatories to the joint powers agreement (JPA). In 2012 and after, local financing will be provided based on consideration of: (1) population based on the most recent national census, (2) tax capacity, and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report, each factor to be weighted equally. As of January 1, 2012, Rock County Human Services and Rock County Public Health joined the JPA of Southwest Health and Human Services. As of January 1, 2013, Pipestone County Family Services, Redwood County Human Services, and Redwood County Public Health joined the JPA of Southwest Health and Human Services.

Southwest Health and Human Services is governed by a Joint Health and Human Services Board, made up of one County Commissioner (or alternate) from each county serving on the Community Health Board and one County Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is made up of 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. The Community Health Board is made up of one County Commissioner and one alternate from each member county, unless such county shall have a population in excess of twice that of any other member county, in which case, it shall have two Commissioners and two alternates.

Southwest Health and Human Services is an independent joint venture and is not included in any of the member counties' reporting entities.

Joint Ventures and Jointly-Governed Organizations

Southwest Health and Human Services participates in joint ventures and jointly-governed organizations which are described in Note 4.

Southwest Health and Human Services

Marshall, Minnesota

Basic Financial Information

Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Southwest Health and Human Services. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and are reported on a full accrual accounting basis with an economic resource focus, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Health and Human Services' net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The Health and Human Services first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the Health and Human Services' governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues. The Health and Human Services does not allocate interest expenses to functions within the financial statements.

Fund Financial Statements

The fund financial statements provide information about the Health and Human Services' funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The Health and Human Services reports all of its governmental funds as major funds.

The Health and Human Services reports the following major governmental funds:

- The General Fund is the Health and Human Services' primary operating fund. It accounts for all financial resources of the Health and Human Services, except those accounted for in another fund. Southwest Health and Human Services has chosen to use the General Fund to account for human service programs and information technology. Financing comes primarily from contributions of participating counties and intergovernmental revenue provided by the state and federal governments.
- The Health Services Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed contributions from participating counties for community health programs.

Additionally, the Health and Human Services reports the following fund types:

- The Internal Service Fund accounts for health insurance premiums and payments.

Southwest Health and Human Services Marshall, Minnesota

- The RSDI/SSI Private-Purpose Trust Fund accounts for funds held in trust that Southwest Health and Human Services is holding on behalf of individuals receiving Retirement, Survivors, and Disability Insurance (RSDI) or Supplement Security Income (SSI).
- The custodial funds account for monies held in a fiduciary capacity for local collaboratives' and a special district's collections and disbursements that use Southwest Health and Human Services as a depository as well as funds collected on behalf of the state.

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the full 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.

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. Southwest Health and Human Services considers all revenues as available if collected within 60 days after the end of the current period. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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 leases and software subscriptions are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Cash and Cash Equivalents

Southwest Health and Human Services has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, the resources available to the Internal Service Fund are considered to be cash equivalents, since the fund can deposit or effectively withdraw cash at any time without notice or penalty.

Deposits and Investments

Lyon County assists in the administration of Southwest Health and Human Services' cash and investments and, under the direction of the Investment Committee and the Board, the cash balances of substantially all funds are invested by the Lyon County Auditor/Treasurer for the purpose of increasing earnings through investment

Southwest Health and Human Services Marshall, Minnesota

activities. Funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Investment earnings for 2025 were \$553,610.

Southwest Health and Human Services invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value (NAV) per share provided by the pool.

Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in the General Fund to indicate that they are not available for appropriation and are not expendable available financial resources.

Accounts receivable is shown net of an allowance for uncollectible balances.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased.

Capital Assets

Capital assets, which include office furniture, equipment, automotive equipment, and right-to-use assets acquired under leasing and software subscription arrangements, are reported by the Health and Human Services in the government-wide financial statements. Capital assets are defined by the Health and Human Services as assets with an initial, individual cost of more than \$5,000 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 acquisition value (entry price) on the date of donation.

Additions, improvements, and other capital outlays that significantly extend the useful life or increase capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Southwest Health and Human Services Marshall, Minnesota

Office furniture and equipment are depreciated using the straight-line method over the following estimated useful lives, while right-to-use assets are amortized over the shorter of the underlying assets' estimated useful life or lease term:

Estimated Useful Lives of Capital Assets

Assets	Years
Equipment	3-10
Right-to-use equipment and software subscriptions	3-10
Right-to-use buildings	2-5

Compensated Absences

The liability for compensated absences is reported in the government-wide financial statements. The leave consists of vacation leave, sick leave, and compensatory time that is attributable to services already rendered, it accumulates, and it is more likely than not to be used or settled through cash or noncash means. 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. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of compensatory time and an amount based on a trend analysis of current usage of vacation and sick leave. The noncurrent portion consists of the remaining amount of vacation and sick leave.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. The governmental fund financial statements report only liabilities expected to be financed with available, spendable financial resources. Acquisitions under leases and software subscriptions are reported as an other financing source at the present value of the future minimum lease payments as of the inception date.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association of Minnesota (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The net pension liability is liquidated through the General Fund and Health Services Special Revenue Fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until that time. The Health and Human Services reports deferred outflows of resources

Southwest Health and Human Services Marshall, Minnesota

only under the full accrual basis of accounting associated with defined benefit pension plans and other postemployment benefits (OPEB) and, accordingly, they are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenue associated with revenue received after the period of availability. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental fund balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amount becomes available. The Health and Human Services also reports deferred inflows of resources associated with defined benefit pension plans and OPEB. These inflows arise only under the full accrual basis of accounting and, accordingly, are only reported in the statement of net position.

Unearned Revenue

Proprietary funds, governmental funds, and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

- Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation and amortization, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Southwest Health and Human Services is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable – amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted – amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Southwest Health and Human Services Marshall, Minnesota

- Committed – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned – amounts the Health and Human Services intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or an individual who has been delegated that authority by Board resolution.
- Unassigned – the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

Southwest Health and Human Services applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Minimum Fund Balance

Southwest Health and Human Services adopted a minimum fund balance policy for its General Fund to maintain a minimum unassigned fund balance equal to 35 to 50 percent of the General Fund's operating expenditures. At December 31, 2025, unassigned fund balance in the General Fund was below the minimum fund balance level.

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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

Southwest Health and Human Services

Marshall, Minnesota

Note 2 – Detailed Notes

Assets and Deferred Outflows of Resources

Deposits and Investments

Reconciliation of the Health and Human Services' total cash and cash equivalents to the basic financial statements follows:

Reconciliation of the County's Total Cash and Investments to the Basic Financial Statements as of December 31, 2025

Basic Financial Statement Accounts	Governmental Activities	Fiduciary Funds	Total
Cash and pooled investments	\$ 15,965,346	\$ 310,612	\$ 16,275,958

Cash and Investments	Amount
Investments	\$ 13,514,040
Checking	2,126,772
Savings	635,146
Total Cash and Investments	<u>\$ 16,275,958</u>

Deposits

Southwest Health and Human Services is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Southwest Health and Human Services is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health and Human Services' deposits may not be returned to it. The Health and Human Services has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2025, Southwest Health and Human Services' deposits were not exposed to custodial credit risk.

Southwest Health and Human Services

Marshall, Minnesota

Investments

Southwest Health and Human Services may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) time deposits fully insured by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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. Southwest Health and Human Services minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Health and Human Services’ policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The Health and Human Services has adopted a policy for custodial credit risk that permits brokers to hold investments only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available.

Southwest Health and Human Services

Marshall, Minnesota

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Health and Human Services' investment in a single issuer. It is Southwest Health and Human Services' policy to diversify the investment portfolio so that the impact of potential losses from one type of security will be minimized.

Investments Measured at Net Asset Value

Southwest Health and Human Services' investments are held in a MAGIC investment pool. MAGIC is a local government investment pool which is quoted at a NAV. The Health and Human Services invests in this pool for the purpose of the joint investment with that of other counties to enhance the investment earnings accruing to each member. The MAGIC Fund currently consists of the MAGIC Portfolio.

MAGIC Portfolio is valued using amortized cost. Shares of MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the Health and Human Services has a sufficient number of shares to meet the redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its NAV not reasonably practical.

Receivables

Governmental Activities Receivables as of December 31, 2025

Receivables	Total Receivables	Less: Allowance for Uncollectible Accounts	Net Receivables
Accounts receivable	\$ 5,030,054	\$ (3,949,280)	\$ 1,080,774
Interest	42,501	-	42,501
Advance to other governments	111,139	-	111,139
Due from other governments	3,345,454	-	3,345,454
Total Governmental Activities	\$ 8,529,148	\$ (3,949,280)	\$ 4,579,868

Net receivables, excluding the advance to other governments, are expected to be collected in the subsequent year.

Chippewa County is the designated fiscal host for southwest Minnesota's region of Minnesota Family Investment Program/Divisionary Work Program (MFIP/DWP) Partnership. This is a 14-county partnership created to administer MFIP/DWP funds. Southwest Health and Human Services advanced \$111,139 to Chippewa County for cash flow purposes. The funds will be returned when the partnership is dissolved.

Southwest Health and Human Services Marshall, Minnesota

Capital Assets

Changes in Capital Assets for the Year Ended December 31, 2025

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated and amortized				
Equipment	\$ 1,382,746	\$ 136,531	\$ (366)	\$ 1,518,911
Lease equipment	783,571	10,796	(352,250)	442,117
Lease buildings	2,777,792	28,613	(370,500)	2,435,905
Software subscriptions	362,959	-	-	362,959
 Total capital assets depreciated and amortized	 \$ 5,307,068	 \$ 175,940	 \$ (723,116)	 \$ 4,759,892
Less: accumulated depreciation and amortization for				
Equipment	\$ 1,040,831	\$ 157,587	\$ (366)	\$ 1,198,052
Lease equipment	503,689	136,805	(352,250)	288,244
Lease buildings	1,651,613	582,790	(370,500)	1,863,903
Software subscriptions	91,630	75,941	-	167,571
 Total accumulated depreciation and amortization	 \$ 3,287,763	 \$ 953,123	 \$ (723,116)	 \$ 3,517,770
 Total Capital Assets, Net	 \$ 2,019,305	 \$ (777,183)	 \$ -	 \$ 1,242,122

Depreciation and Amortization Expense Charged to Functions/Programs

Governmental Activities	Amount
Human services	\$ 767,148
Health services	185,975
 Total Depreciation and Amortization Expense – Governmental Activities	 <u>\$ 953,123</u>

Interfund Receivables and Payables

Due To/From Other Funds

Interfund Balances as of December 31, 2025

Receivable Fund	Payable Fund	Amount
State Revenue Custodial Fund	General Fund	\$ 353,738
LCTS Lyon Murray Collaborative Custodial Fund	General Fund	45,699
LCTS Rock-Pipestone Collaborative Custodial Fund	General Fund	15,145
LCTS Redwood Collaborative Custodial Fund	General Fund	26,453
 Total Due To/From Other Funds		 <u>\$ 441,035</u>

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

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Liabilities and Deferred Inflows of Resources

Payables

Governmental Activities Payables as of December 31, 2025

Accounts Payable and Other Current Liabilities	Amount
Accounts payable	\$ 935,373
Claims payable	326,247
Salaries payable	1,000,919
Due to other governments	674,541
Total Payables	<u>\$ 2,937,080</u>

Deferred Inflows of Resources – Unavailable Revenue

Unavailable revenue consists of state grants, federal grants, intergovernmental reimbursements, charges for services, and miscellaneous revenue not collected soon enough after year-end to pay liabilities of the current period.

Deferred Inflows of Resources by Fund as of December 31, 2025

Major Governmental Funds	Intergovernmental	Other	Total
General	\$ 429,274	\$ 188,059	\$ 617,333
Health Services	29,862	-	29,862
Total	<u>\$ 459,136</u>	<u>\$ 188,059</u>	<u>\$ 647,195</u>

Leases

Southwest Health and Human Services entered into lease agreements as lessee for financing the acquisition of office space, vehicles, copiers, and postage machines. Leases are two years or five years and have been recorded at the present value of their future minimum lease payments as of the inception date. Lease payments are split between the General Fund and the Health Services Special Revenue Fund.

Future Minimum Lease Obligations and Present Value of Minimum Lease Payments As of December 31, 2025

Year Ending December 31	Principal	Interest
2026	\$ 602,802	\$ 9,932
2027	178,184	2,986
2028	15,865	381
2029	6,520	81
2030	537	3
Total Governmental Activities Lease Payments	<u>\$ 803,908</u>	<u>\$ 13,383</u>

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Changes in Long-Term Liabilities

Changes in Long-Term Liabilities for the Year Ended December 31, 2025

Long-Term Liabilities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 2,340,109	\$ 41,270*	\$ -	\$ 2,381,379	\$ 401,230
Leases	1,481,465	38,657	(716,214)	803,908	602,802
Total	\$ 3,821,574	\$ 79,927	\$ (716,214)	\$ 3,185,287	\$ 1,004,032

*The change in the compensated absences liability is presented as a net change.

Other Postemployment Benefits (OPEB)

Plan Description

Southwest Health and Human Services administers an other postemployment benefits plan, a single-employer defined benefit health care plan, to eligible retirees and their dependents.

Funding Policy

Employees who were employed by Lincoln, Lyon, and Murray Human Services (LLMHS) and were employed by that agency prior to August 22, 2005, and worked continuously for LLMHS through December 31, 2010, with no break in service, were hired by Southwest Health and Human Services as of January 1, 2011. These employees are entitled to receive four percent of the cost of single premium per year of service toward the employee's health and dental single insurance premium, including years of service at LLMHS. Payments will be discontinued when the retiree becomes eligible for Medicare or if the retiree obtains employment where single health insurance is available at no cost to the employee. The amount shall not exceed the total amount paid by the Health and Human Services on behalf of their employees.

The Health and Human Services also provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate subsidy.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

Employees Covered by the OPEB Benefit Terms As of the January 1, 2024, Actuarial Valuation

Type of Participant Covered by the OPEB Benefit Terms	Number of Participants
Inactive employees or beneficiaries currently receiving benefit payments	7
Active plan participants	248
Total	255

Southwest Health and Human Services Marshall, Minnesota

Total OPEB Liability

The Health and Human Services' total OPEB liability of \$1,091,600 was measured as of January 1, 2024, and was rolled forward to a measurement date of January 1, 2025. OPEB liability is liquidated through the General Fund and Health Services Fund.

The total OPEB liability in the fiscal year-end December 31, 2025, reporting date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- The actuarial cost method is entry age normal percent of salary.
- The current inflation rate is 2.50 percent.
- The salary increases follow the service graded table.
- The health care cost trend is 8.00 percent, decreasing 0.25 percent per year to an ultimate rate of 4.50 percent.
- The salary scales used to value GASB 75 liabilities are similar to the table used to value pension liabilities for PERA. The rates are based on the four-year experience study for the PERA General Employees Plan completed in 2019, with a review of the inflation assumption.
- The current year discount rate is 4.20 percent. The discount rate is the 20-year municipal bond yield. The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of January 1, 2024.
- Mortality rates are based on Society of Actuaries Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2021 Generational Improvement Scale.
- Economic assumptions are based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as consistency with the other economic assumptions.
- Retirement and withdrawal assumptions used are similar to those used to value pension liabilities for Minnesota public employees. PERA bases its assumptions on periodic experience studies.

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Changes in the Total OPEB Liability

Changes in the Total OPEB Liability For the Year Ended December 31, 2025

OPEB Liability Changes	Amount
Total OPEB liability, balance at December 31, 2024	\$ 1,098,233
Service cost	\$ 43,855
Interest	41,007
Assumption changes	(23,319)
Benefit payments	(68,176)
Net change	\$ (6,633)
Balance at December 31, 2025	\$ 1,091,600

OPEB Liability Sensitivity

The following presents the total OPEB liability of the Health and Human Services, calculated using the discount rate previously disclosed, as well as what the Health and Human Services' total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate as of December 31, 2025

Change in Discount Rate	Discount Rate	Total OPEB Liability
1% Decrease	3.20%	\$ 1,146,978
Current	4.20%	1,091,600
1% Increase	5.20%	1,038,116

The following presents the total OPEB liability of the Health and Human Services, calculated using the health care cost trend previously disclosed, as well as what the Health and Human Services' total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate.

Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates as of December 31, 2025

Change in Health Care Trend Rate	Health Care Trend Rate	Total OPEB Liability
1% Decrease	7.00% Decreasing to 3.50%	\$ 1,007,646
Current	8.00% Decreasing to 4.50%	1,091,600
1% Increase	9.00% Decreasing to 5.50%	1,187,077

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OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2025, the Health and Human Services recognized OPEB expense of (\$21,291).

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB as of December 31, 2025

Individual Deferred Outflows of Resources and Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gains	\$ -	\$ 100,440
Changes in actuarial assumptions	72,793	105,384
Contributions made subsequent to the measurement date	90,654	-
Total	<u>\$ 163,447</u>	<u>\$ 205,824</u>

The \$90,654 reported as deferred outflows of resources related to OPEB resulting from contributions made subsequent to the measurement will be recognized as a reduction of the OPEB liability for the year ended December 31, 2026. The amount reported as deferred inflows of resources related to OPEB will be recognized in expense as follows:

Schedule of Amortization of Deferred Outflows and Inflows of Resources Related to OPEB as of December 31, 2025

Year Ended December 31	OPEB Expense Amount
2026	\$ (99,744)
2027	(27,730)
2028	(8,672)
2029	7,002
2030	(3,887)

Change in Actuarial Assumptions

The following change in actuarial assumptions occurred in 2025:

- The discount rate was changed from 3.70 percent to 4.20 percent.

Pension Plans

Defined Benefit Pension Plan

Plan Description

All full-time and certain part-time employees of Southwest Health and Human Services are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minn. Stat. chs.

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353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, while the Basic Plan and Minneapolis Employees Retirement Fund members are not covered. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members in 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after three years of credited service. No Southwest Health and Human Services employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost-of-living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and a maximum of 1.50 percent. The 2025 annual increase was 1.25 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

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Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2025. The employer was required to contribute 7.50 percent of annual covered salary in 2025. Rates did not change from 2024.

The Health and Human Services' contributions for the General Employees Plan for the year ended December 31, 2025, were \$1,103,610. The contributions are equal to the statutorily required contributions as set by state statute.

Pension Costs

At December 31, 2025, the Health and Human Services reported a liability of \$5,431,300 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health and Human Services' proportion of the net pension liability was based on the Health and Human Services' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024, through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2025, the Health and Human Services' proportion was 0.1639 percent. It was 0.1657 percent measured as of June 30, 2024. The Health and Human Services recognized pension expense of (\$326,686) for its proportionate share of the General Employees Plan's pension expense.

Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031. This contribution meets the definition of a special funding situation. The Health and Human Services recognized an additional (\$20,097) as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

Employer's Share of the Net Pension Liability and the State's Related Liability As of December 31, 2025

Total General Employees Plan Net Pension Liability Associated with the County		Amount
The Health and Human Services' proportionate share of the net pension liability	\$	5,431,300
State of Minnesota's proportionate share of the net pension liability associated with the Health and Human Services		131,020
Total	\$	5,562,320

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The Health and Human Services reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources As of December 31, 2025

Individual Deferred Outflows of Resources and Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 517,484	\$ -
Changes in actuarial assumptions	130,863	1,249,723
Difference between projected and actual investment earnings	-	2,161,166
Changes in proportion	54,579	171,361
Contributions paid to PERA subsequent to the measurement date	543,901	-
Total	<u>\$ 1,246,827</u>	<u>\$ 3,582,250</u>

The \$543,901 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of Amortization of Deferred Outflows and Inflows of Resources As of December 31, 2025

Year Ended December 31	Pension Expense Amount
2026	\$ (648,552)
2027	(1,061,343)
2028	(783,365)
2029	(386,064)

Actuarial Assumptions

The total pension liability in the June 30, 2025, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Actuarial Assumptions for the Year Ended June 30, 2025

Actuarial Assumptions	General Employees Plan
Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan, with

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slight adjustments. Cost-of-living benefit increases for retirees are assumed to be 1.50 percent for the General Employees Plan.

Actuarial assumptions used in the June 30, 2025, valuations were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 29, 2023. A review of inflation and investment assumptions dated June 29, 2023, was utilized.

The long-term expected rate of return on pension plan investments is 7.00 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

Pension Plan Investment Target Allocation and Best Estimates of Geometric Real Rates of Return for Each Major Asset Class

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.50%	5.10%
International equity	16.50%	5.30%
Fixed income	25.00%	0.75%
Private markets	25.00%	5.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent in 2025, which remains consistent with 2024. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2025:

- The combined service annuity loading factors increased from 15 percent to 19 percent for vested terminated members and from 3.00 percent to 44 percent for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25 percent to 1.50 percent.
- The post-retirement benefit increase formula changed to 100 percent of the Social Security annual increase, between 1.00 percent and 1.75 percent, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85 percent for the last two consecutive annual valuations or is less than 80 percent in the most recent actuarial valuation, the maximum is reduced to 1.50 percent. Previously, the benefit increase was 50 percent of the Social Security annual increase, between 1.00 percent and 1.50 percent.

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- The 1.00 percent additional employer contribution is eliminated when the plan reaches 98 percent funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100 percent funded status.

Pension Liability Sensitivity

The following presents the Health and Human Services' proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the Health and Human Services' proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate As of December 31, 2025

Discount Rate	Net Pension Liability
6.00%	\$ 13,191,774
7.00%	5,431,300
8.00%	(864,192)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

Note 3 – Risk Management

Southwest Health and Human Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters for which the Health and Human Services carries commercial insurance. To manage these risks, the Health and Human Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The Health and Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, other than pertaining to health insurance, the Health and 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 \$1,000,000 per claim in 2025 and 2026. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health and Human Services in a method and amount to be determined by MCIT.

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The Property and Casualty Division of MCIT is self-sustaining, and the Health and 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 Southwest Health and Human Services in a method and amount to be determined by MCIT.

On October 15, 2013, Southwest Health and Human Services entered into a joint powers agreement with four counties (Lyon, Murray, Redwood, and Swift) to form the Minnesota Public Sector Collaborative to self-insure health insurance as of January 1, 2014. Benton County joined as of January 1, 2018, and Chippewa County joined as of January 1, 2020. Premiums will be withheld from employees and transferred into an internal service fund. Claims will be managed and paid by a third party, and the Health and Human Services will be billed weekly, in aggregate, for claims incurred.

The Health and Human Services established a limited risk management program for health coverage in 2014. Premiums are paid into the Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The Health and Human Services retained risk up to a \$70,000 stop-loss per person insured (employee and eligible dependent) per year with an aggregate stop loss of 125 percent of the estimated monthly covered benefits. Liabilities of the Internal Service Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The December 31, 2025, liability is determined based on detailed reports received by the Health and Human Services from the third-party administrator for claims incurred, adjusted, and paid through February 28, 2026.

Changes in Claims Liabilities For the Years Ended December 31, 2024, and 2025

Unpaid Claims	2024	2025
Unpaid claims, January 1	\$ 487,459	\$ 140,614
Incurred claims	2,788,184	3,941,530
Claims payments	(3,135,029)	(3,755,897)
Unpaid Claims, December 31	\$ 140,614	\$ 326,247

Note 4 – Summary of Significant Contingencies and Other Items

Contingent Liabilities

Amounts received or receivable from grantor 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 Southwest Health and Human Services expects such amounts, if any, to be immaterial.

The Health and Human Services is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Health and Human Services' attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Health and Human Services.

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Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties; and Des Moines Valley Health and Human Services (DVHHS) representing Cottonwood and Jackson Counties. The Board is headquartered in Windom, Minnesota, where DVHHS acts as fiscal agent.

The Board takes actions and enters into agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves 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.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56101.

PrimeWest Health

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Health) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to PrimeWest Health. In 2023, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, Lincoln, Lyon, Nobles, Redwood, Swift, and Yellow Medicine Counties were added to PrimeWest Health. Southwest Health and Human Services represents Lincoln, Lyon, Redwood, and Pipestone Counties in PrimeWest Health. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of PrimeWest Health is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county represented.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Southwest Health and Human Services did not make any contributions to PrimeWest Health in 2025.

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Complete financial information can be obtained from its administrative office at PrimeWest Health, 3905 Dakota Street, Suite 101, Alexandria, Minnesota 56308.

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Kandiyohi, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Rock, Sibley, Stevens, Swift, Traverse, and Yellow Medicine. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties in this agreement. Horizon Public Health represents Douglas, Grant, Pope, Stevens, and Traverse Counties in this agreement. Countryside Public Health represents Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties in this agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county-based nurse family partnership program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2025, Southwest Health and Human Services made \$38,397 in contributions to the Partnership.

Renville County acts as fiscal agent for the Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from Renville County at Renville County Public Health, Renville County Government Services Center, 105 South 5th Street, Suite 1194, Olivia, Minnesota 56277.

Jointly-Governed Organizations

Lyon Murray Families Project Collaborative

The Lyon Murray Families Project Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. The current members are Southwest Health and Human Services, Western Mental Health, Western Community Action, Marshall Public Schools, Murray County Central Schools, and Russell-Tyler-Ruth-ton Public Schools. The governing board is composed of eight members. Southwest Health and Human Services acts as fiscal agent for the Lyon Murray Families Project Collaborative and reports the fiscal transactions of the Collaborative as a custodial fund in the financial statements. During the year, Southwest Health and Human Services made payments of \$149,358 to the Collaborative.

Rock-Pipestone Family Services Collaborative

The Rock-Pipestone Family Services Collaborative was established December 9, 2004, pursuant to Minn. Stat. §§ 471.59 and 142D.15. The purpose of the Collaborative is to provide an interagency approach to providing child and family services. The management of the Rock-Pipestone Family Services Collaborative is vested in a governing board composed of 16 members. Each member appoints its representative for a one-year term. No single member party retains control over the operations or has oversight responsibility for the Collaborative. Southwest Health and Human Services acts as fiscal agent for the Rock-Pipestone Family Services Collaborative and reports the fiscal transactions of the Collaborative as a custodial fund in the financial statements. During the year, Southwest Health and Human Services made payments of \$47,424 to the Collaborative.

Southwest Health and Human Services Marshall, Minnesota

Redwood Family Service Collaborative

The Redwood Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. This was transferred to Southwest Health and Human Services on January 1, 2013, when Redwood County joined Southwest Health and Human Services. Southwest Health and Human Services, in an agent capacity, reports the cash transactions of the Collaborative as a custodial fund in its financial statements. Southwest Health and Human Services has no operational or financial control over the Collaborative. During the year, Southwest Health and Human Services made payments of \$92,504 to the Collaborative.

Required Supplementary Information

Exhibit A-1

**Southwest Health and Human Services
Marshall, Minnesota**

**Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2025**

	Original Budget		Final Budget		Actual Amounts		Variance with Final Budget
Revenues							
Intergovernmental	\$	29,154,097	\$	29,154,097	\$	28,802,109	\$ (351,988)
Charges for services		2,491,777		2,491,777		2,573,609	81,832
Investment earnings		186,518		186,518		450,969	264,451
Miscellaneous		320,550		320,550		795,320	474,770
Total Revenues	\$	32,152,942	\$	32,152,942	\$	32,622,007	\$ 469,065
Expenditures							
Current							
Human services							
Administrative	\$	34,482	\$	34,482	\$	120,311	\$ (85,829)
Income maintenance		8,932,231		8,932,231		7,947,375	984,856
Social services		23,034,336		23,034,336		22,052,876	981,460
Local collaborative time study		-		-		285,754	(285,754)
Total human services	\$	32,001,049	\$	32,001,049	\$	30,406,316	\$ 1,594,733
Debt service							
Principal	\$	76,000	\$	76,000	\$	583,715	\$ (507,715)
Interest		10,100		10,100		15,581	(5,481)
Total debt service	\$	86,100	\$	86,100	\$	599,296	\$ (513,196)
Total Expenditures	\$	32,087,149	\$	32,087,149	\$	31,005,612	\$ 1,081,537
Excess of Revenues Over (Under) Expenditures	\$	65,793	\$	65,793	\$	1,616,395	\$ 1,550,602
Other Financing Sources (Uses)							
Leases issued		-		-		31,506	31,506
Net Change in Fund Balance	\$	65,793	\$	65,793	\$	1,647,901	\$ 1,582,108
Fund Balance – January 1		8,765,066		8,765,066		8,765,066	-
Fund Balance – December 31	\$	8,830,859	\$	8,830,859	\$	10,412,967	\$ 1,582,108

Exhibit A-2

**Southwest Health and Human Services
Marshall, Minnesota**

**Budgetary Comparison Schedule
Health Services Special Revenue Fund
For the Year Ended December 31, 2025**

	Original Budget		Final Budget		Actual Amounts		Variance with Final Budget
Revenues							
Intergovernmental	\$	4,100,659	\$	4,100,659	\$	3,900,456	\$ (200,203)
Settlements		153,362		153,362		217,959	64,597
Charges for services		642,700		642,700		584,625	(58,075)
Investment earnings		40,100		40,100		102,641	62,541
Miscellaneous		400		400		9,873	9,473
Total Revenues	\$	4,937,221	\$	4,937,221	\$	4,815,554	\$ (121,667)
Expenditures							
Current							
Health							
Administration	\$	1,211,325	\$	1,211,325	\$	1,190,818	\$ 20,507
Nursing service		2,630,626		2,630,626		2,069,247	561,379
Health education		730,324		730,324		759,871	(29,547)
Environmental health		357,071		357,071		350,545	6,526
Opioid education		153,362		153,362		124,180	29,182
Total health	\$	5,082,708	\$	5,082,708	\$	4,494,661	\$ 588,047
Debt service							
Principal	\$	20,400	\$	20,400	\$	132,499	\$ (112,099)
Interest		2,000		2,000		3,538	(1,538)
Total debt service	\$	22,400	\$	22,400	\$	136,037	\$ (113,637)
Total Expenditures	\$	5,105,108	\$	5,105,108	\$	4,630,698	\$ 474,410
Excess of Revenues Over (Under) Expenditures	\$	(167,887)	\$	(167,887)	\$	184,856	\$ 352,743
Other Financing Sources (Uses)							
Leases issued		-		-		7,151	7,151
Net Change in Fund Balance	\$	(167,887)	\$	(167,887)	\$	192,007	\$ 359,894
Fund Balance – January 1		5,196,311		5,196,311		5,196,311	-
Fund Balance – December 31	\$	5,028,424	\$	5,028,424	\$	5,388,318	\$ 359,894

Exhibit A-3

**Southwest Health and Human Services
Marshall, Minnesota**

**Schedule of Changes in Total OPEB Liability and Related Ratios
Other Postemployment Benefits
December 31, 2025**

	2025	2024	2023	2022
Total OPEB Liability				
Service cost	\$ 43,855	\$ 46,477	\$ 41,392	\$ 56,871
Interest	41,007	40,803	22,182	25,359
Differences between expected and actual experience	-	(15,438)	-	(39,051)
Changes of assumption or other inputs	(23,319)	80,772	(94,054)	(116,785)
Benefit payments	(68,176)	(55,412)	(72,012)	(67,610)
Net change in total OPEB liability	\$ (6,633)	\$ 97,202	\$ (102,492)	\$ (141,216)
Total OPEB Liability – Beginning	1,098,233	1,001,031	1,103,523	1,244,739
Total OPEB Liability – Ending	\$ 1,091,600	\$ 1,098,233	\$ 1,001,031	\$ 1,103,523
Covered-employee payroll	\$ 15,752,791	\$ 15,293,972	\$ 14,215,924	\$ 13,801,868
Total OPEB liability (asset) as a percentage of covered-employee payroll	6.93%	7.18%	7.04%	8.00%

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	\$ 66,423	\$ 55,172	\$ 70,021	\$ 74,242
Interest	34,363	61,617	53,975	52,825
Differences between expected and actual experience	-	(539,916)	-	-
Changes of assumption or other inputs	48,388	35,847	(44,892)	-
Benefit payments	(45,538)	(75,206)	(81,563)	(94,311)
Net change in total OPEB liability	\$ 103,636	\$ (462,486)	\$ (2,459)	\$ 32,756
Total OPEB Liability – Beginning	1,141,103	1,603,589	1,606,048	1,573,292
Total OPEB Liability – Ending	\$ 1,244,739	\$ 1,141,103	\$ 1,603,589	\$ 1,606,048
Covered-employee payroll	\$ 12,710,414	\$ 12,340,208	\$ 13,542,353	\$ 13,147,916
Total OPEB liability (asset) as a percentage of covered-employee payroll	9.79%	9.25%	11.84%	12.22%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Exhibit A-4

**Southwest Health and Human Services
Marshall, Minnesota**

**Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Plan
December 31, 2025**

Measurement Date	Employer's Proportion of the Net Pension Liability/Asset (%)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Southwest Health and Human Services (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c) (%)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (%)
2025	0.1639	\$ 5,431,300	\$ 131,020	\$ 5,562,320	\$ 14,843,584	36.59	90.78
2024	0.1657	6,125,490	158,393	6,283,883	14,023,285	43.68	89.08
2023	0.1686	9,427,923	259,824	9,687,747	13,408,171	70.31	83.10
2022	0.1650	13,068,054	383,032	13,451,086	12,356,509	105.76	76.67
2021	0.1695	7,238,409	221,076	7,459,485	12,201,405	59.32	87.00
2020	0.1683	10,090,354	311,169	10,401,523	12,003,684	84.06	79.06
2019	0.1684	9,310,459	289,321	9,599,780	11,925,419	78.07	80.23
2018	0.1853	10,279,684	337,230	10,616,914	12,455,109	82.53	79.53
2017	0.1864	11,899,653	149,646	12,049,299	12,009,718	99.08	75.90
2016	0.1760	14,290,327	186,638	14,476,965	10,922,481	130.83	68.91

The measurement date for each year is June 30.

Exhibit A-5

**Southwest Health and Human Services
Marshall, Minnesota**

**Schedule of Contributions
PERA General Employees Retirement Plan
December 31, 2025**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c) (%)
2025	\$ 1,103,610	\$ 1,103,610	\$ -	\$ 14,714,752	7.50
2024	1,098,869	1,098,869	-	14,651,526	7.50
2023	999,844	999,844	-	13,331,919	7.50
2022	942,944	942,944	-	12,572,550	7.50
2021	921,384	921,384	-	12,285,053	7.50
2020	946,816	946,816	-	12,624,148	7.50
2019	887,200	887,200	-	11,837,855	7.49
2018	910,272	910,272	-	12,135,946	7.50
2017	938,273	938,273	-	12,510,976	7.50
2016	826,463	826,463	-	11,019,480	7.50

The Health and Human Services' year-end is December 31.

Southwest Health and Human Services Marshall, Minnesota

Notes to the Required Supplementary Information For the Year Ended December 31, 2025

Note 1 – General Budget Policies

The Southwest Health and Human Services' Governing Board adopts estimated revenue and expenditure budgets for the General Fund and the Health Services Special Revenue Fund. The Southwest Health and Human Services' department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Health and Human Services' Governing Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

The budgets may be amended or modified at any time by the Health and Human Services' Governing Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and the Health Services Special Revenue Fund.

Note 2 – Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

Note 3 – Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following changes in actuarial assumptions occurred:

2025

- The discount rate was changed from 3.70 percent to 4.20 percent.

2024

- The health care trend rates were updated.
- The discount rate was changed from 4.00 percent to 3.70 percent.

2023

- The inflation rate was changed from 2.00 percent to 2.50 percent.
- The discount rate was changed from 2.00 percent to 4.00 percent.

2022

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans General Headcount-Weighted

Southwest Health and Human Services Marshall, Minnesota

Mortality tables with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2021 Generational Improvement Scale.

- The salary increase rates were updated to reflect the latest experience study.
- The retirement and withdrawal rates were updated to reflect the latest experience study.
- The inflation rate was changed from 2.50 percent to 2.00 percent.

2021

- The discount rate was changed from 2.90 percent to 2.00 percent.

2020

- The discount rate was changed from 3.80 percent to 2.90 percent.
- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from RP-2014 White Collar Mortality tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service.

2019

- The discount rate was changed from 3.30 percent to 3.80 percent.

2018

- The years of service required to be eligible for a benefit was increased from three years to five years.
- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP-2014 White Collar Mortality tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality tables with MP-2017 Generational Improvement Scale.
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 3.50 percent to 3.30 percent.
- The actuarial cost method used changed from the Projected Unit Credit with Linear Proration to Decrement to the Entry Age, level percent of pay.

Southwest Health and Human Services Marshall, Minnesota

Note 4 – Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2025

- The combined service annuity loading factors increased from 15 percent to 19 percent for vested terminated members and from 3.00 percent to 44 percent for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25 percent to 1.50 percent.
- The post-retirement benefit increase formula changed to 100 percent of the Social Security annual increase, between 1.00 percent and 1.75 percent, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85 percent for the last two consecutive annual valuations or is less than 80 percent in the most recent actuarial valuation, the maximum is reduced to 1.50 percent. Previously, the benefit increase was 50 percent of the Social Security annual increase, between 1.00 percent and 1.50 percent.
- The 1.00 percent additional employer contribution is eliminated when the plan reaches 98 percent funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100 percent funded status.

2024

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates.
- Assumed rates of withdrawal were increased for both males and females.
- Assumed rates of disability were decreased.
- Slight adjustments were made to the use of the Pub-2010 General Mortality table as recommended in the most recent experience study.
- Minor changes to form of payment assumptions were applied for male and female retirees.
- Minor changes to assumptions were made with respect to missing participant data.
- The workers' compensation offset for disability benefits was eliminated.
- The actuarial equivalent factors were updated to reflect changes in assumptions.

Southwest Health and Human Services Marshall, Minnesota

2023

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.
- A one-time direct state aid contribution of \$170.1 million occurred on October 1, 2023.
- The vesting period for those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- For Basic Plan members, a one-time, non-compounding benefit increase of 4.00 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- For Coordinated Plan members, a one-time, non-compounding benefit increase of 2.50 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled

Southwest Health and Human Services Marshall, Minnesota

annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

2018

- The mortality projection scale was changed from Scale MP-2015 to Scale MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost-of-living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Southwest Health and Human Services Marshall, Minnesota

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Supplementary Information

Southwest Health and Human Services Marshall, Minnesota

Fiduciary Funds

Custodial Funds

LCTS Lyon Murray Collaborative Custodial Fund – to account for the collection and disbursement of funds for the Lyon Murray Families Project Collaborative.

LCTS Rock-Pipestone Collaborative Custodial Fund – to account for the collection and disbursement of funds for the Rock-Pipestone Family Services Collaborative.

LCTS Redwood Collaborative Custodial Fund – to account for the collection and disbursement of funds for the Redwood Family Service Collaborative.

Local Advisory Council Custodial Fund – to account for the collection and disbursement of funds for the Local Advisory Council.

State Revenue Custodial Fund – to account for the state's share of collections and their payment to the state.

**Southwest Health and Human Services
Marshall, Minnesota**

**Combining Statement of Fiduciary Net Position
Fiduciary Funds – Custodial Funds
December 31, 2025**

	LCTS Lyon Murray Collaborative	LCTS Rock- Pipestone Collaborative	LCTS Redwood Collaborative	Local Advisory Council	State Revenue	Total Custodial Funds
<u>Assets</u>						
Cash and pooled investments	\$ 151,108	\$ 57,270	\$ 85,291	\$ 536	\$ -	\$ 294,205
Due from other funds	45,699	15,145	26,453	-	353,738	441,035
Total Assets	\$ 196,807	\$ 72,415	\$ 111,744	\$ 536	\$ 353,738	\$ 735,240
<u>Liabilities</u>						
Due to other governments	\$ -	\$ -	\$ -	\$ -	\$ 353,738	\$ 353,738
<u>Net Position</u>						
Restricted for individuals, organizations, and other governments	\$ 196,807	\$ 72,415	\$ 111,744	\$ 536	\$ -	\$ 381,502

**Southwest Health and Human Services
Marshall, Minnesota**

**Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds – Custodial Funds
For the Year Ended December 31, 2025**

	LCTS Lyon Murray Collaborative	LCTS Rock- Pipestone Collaborative	LCTS Redwood Collaborative	Local Advisory Council	State Revenue	Total Custodial Funds
Additions						
Contributions from individuals	\$ -	\$ -	\$ -	\$ -	\$ 1,000,503	\$ 1,000,503
Fees collected for the state	-	-	-	-	78,796	78,796
Payments from the state	148,758	47,424	88,616	-	-	284,798
Payments from other entities	600	-	3,888	-	-	4,488
Total Additions	\$ 149,358	\$ 47,424	\$ 92,504	\$ -	\$ 1,079,299	\$ 1,368,585
Deductions						
Payments to the state	\$ -	\$ -	\$ -	\$ -	\$ 1,079,299	\$ 1,079,299
Administrative expense	-	-	2,800	-	-	2,800
Payments to other individuals/entities	141,857	41,999	90,002	20	-	273,878
Total Deductions	\$ 141,857	\$ 41,999	\$ 92,802	\$ 20	\$ 1,079,299	\$ 1,355,977
Change in Net Position	\$ 7,501	\$ 5,425	\$ (298)	\$ (20)	\$ -	\$ 12,608
Net Position – January 1	189,306	66,990	112,042	556	-	368,894
Net Position – December 31	\$ 196,807	\$ 72,415	\$ 111,744	\$ 536	\$ -	\$ 381,502

Other Schedules

Exhibit C-1

Southwest Health and Human Services Marshall, Minnesota

Schedule of Intergovernmental Revenue For the Year Ended December 31, 2025

Appropriations and Shared Revenue**State**

PERA state aid	\$ 26,223
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Local

Out-of-home placement aid	106,515
Contributions from counties	15,122,073

Total appropriations and shared revenue	\$ 15,254,811
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Reimbursement for Services**State**

Minnesota Department of Human Services	\$ 4,996,032
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Local

Human Services of Faribault and Martin Counties	3,419
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Total reimbursement for services	\$ 4,999,451
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Payments**Local**

PrimeWest	\$ 72,340
LCTS Lyon Murray Collaborative	9,000
Southwest Minnesota Adult Mental Health Consortium	301,396
Taylor Family Farms Foundation	4,500
Lincoln County	5,000
Lyon County	5,000

Total payments	\$ 397,236
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Grants**State**

Minnesota Department of	
Children, Youth, and Families	\$ 1,592,711
Health	1,340,262
Human Services	2,321,413
Public Safety	266,339

Total state	\$ 5,520,725
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Federal

Department of	
Agriculture	\$ 1,227,684
Transportation	7,448
Health and Human Services	5,295,210

Total federal	\$ 6,530,342
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Total state and federal grants	\$ 12,051,067
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Total Intergovernmental Revenue	\$ 32,702,565
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Southwest Health and Human Services Marshall, Minnesota

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2025

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	222MN004W1003	\$ 564,446
WIC Grants to States (WGS)	10.578	Not Provided	1,319
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 \$661,852)	10.561	252MN101S2514	502,879
Passed Through Minnesota Department of Children, Youth, and Families SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 \$661,852)	10.561	242MN101S2514	158,973
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	Not Provided	67
Total U.S. Department of Agriculture			\$ 1,227,684
U.S. Department of Transportation			
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	69A37523300004020MN0	\$ 7,448
U.S. Department of Health and Human Services			
Direct Drug-Free Communities Support Program Grants	93.276		\$ 166,677
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	NU90TU000040	41,593
Early Hearing Detection and Intervention	93.251	H61MC00035	2,850
Immunization Cooperative Agreements	93.268	NH23IP922628	5,300
COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	NU50CK0000508	26,463
Refugee and Entrant Assistance State/Replacement Designee Administered Programs (Total Refugee and Entrant Assistance State/Replacement Designee Administered Programs 93.566 \$5,502)	93.566	6 NH231P000737-05-02	2,723
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$233,739)	93.558	2501MNTANF	127,609
Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	93.967	NE11OE00048	96,761
Maternal and Child Health Services Block Grant to the States	93.994	B0452933	117,347

Exhibit C-2*(Continued)*

**Southwest Health and Human Services
Marshall, Minnesota**

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2025**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Title IV-E Prevention Program	93.472	2602MNPSGP	3,267
(Total Title IV-E Prevention Program 93.472 \$5,131)			
MaryLee Allen Promoting Safe and Stable Families Program	93.556	2401MNFPS	67,079
(Total MaryLee Allen Promoting Safe and Stable Families Program 93.556 \$102,644)			
Temporary Assistance for Needy Families	93.558	2501MNTANF	106,130
(Total Temporary Assistance for Needy Families 93.558 \$233,739)			
Child Support Services	93.563	2501MNSSCS	642,036
Child Support Services	93.563	2501MNICSS	186,598
(Total Child Support Services 93.563 \$1,083,658)			
Refugee and Entrant Assistance State/Replacement Designee			
Administered Programs	93.566	2501MNRCA	2,779
(Total Refugee and Entrant Assistance State/Replacement Designee Administered Programs 93.566 \$5,502)			
CCDF Cluster			
Child Care and Development Block Grant	93.575	2501MNCCDF	20,973
Community-Based Child Abuse Prevention Grants	93.590	2402MNBCAP	11,893
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2401MNCWSS	8,848
Foster Care Title IV-E	93.658	2501MNFOS	168,232
(Total Foster Care Title IV-E 93.658 \$316,522)			
Social Services Block Grant	93.667	2501MNSOSR	566,425
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	2401MNCILP	7,855
Children's Health Insurance Program	93.767	2405MN5021	371
Medicaid Cluster			
Grants to States for Medicaid	93.778	2505MN5ADM	2,630,114
Grants to States for Medicaid	93.778	2505MN5MAP	23,329
(Total Grants to States for Medicaid 93.778 \$2,653,443)			
Block Grants for Community Mental Health Services	93.958	SM085364	29,684
Passed Through Minnesota Department of Children, Youth, and Families			
Title IV-E Prevention Program	93.472	2602MNPSGP	1,864
(Total Title IV-E Prevention Program 93.472 \$5,131)			
MaryLee Allen Promoting Safe and Stable Families Program	93.556	2401MNFPS	35,565
(Total MaryLee Allen Promoting Safe and Stable Families Program 93.556 \$102,644)			
Child Support Services	93.563	2501MNSSCS	199,915
Child Support Services	93.563	2501MNICSS	55,109
(Total Child Support Services 93.563 \$1,083,658)			
Foster Care Title IV-E	93.658	2501MNFOS	148,290
(Total Foster Care Title IV-E 93.658 \$316,522)			
Total U.S. Department of Health and Human Services			\$ 5,503,679
Total Federal Awards			\$ 6,738,811

The Health and Human Services did not pass any federal awards through to subrecipients during the year ended December 31, 2025.

Totals by Cluster

Total expenditures for SNAP Cluster	\$ 661,852
Total expenditures for Highway Safety Cluster	7,448
Total expenditures for CCDF Cluster	20,973
Total expenditures for Medicaid Cluster	2,653,443

Southwest Health and Human Services Marshall, Minnesota

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2025

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Southwest Health and Human Services. The Health and Human Services' reporting entity is defined in Note 1 to the financial statements.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of Southwest Health and Human Services under programs of the federal government for the year ended December 31, 2025. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of Southwest Health and Human Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of Southwest Health and Human Services.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting, with recognition criteria following Uniform Guidance. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 – De Minimis Cost Rate

Southwest Health and Human Services has elected to not use the de minimis indirect cost rate allowed under the Uniform Guidance.

Southwest Health and Human Services Marshall, Minnesota

Note 3 – Reconciliation to Schedule of Intergovernmental Revenue

Reconciliation to Schedule of Intergovernmental Revenue

Reconciling Items	Amount
Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 6,530,342
Grants received more than 60 days after year-end, considered unavailable revenue in 2025	
Title IV-E Prevention Program (Assistance Listing Number 93.472)	45
Marylee Allen Promoting Safe and Stable Families Program (Assistance Listing Number 93.556)	2,482
Temporary Assistance for Needy Families (Assistance Listing Number 93.558)	20,752
Child Support Services (Assistance Listing Number 93.563)	3,552
Community-Based Child Abuse Prevention Grants (Assistance Listing Number 93.590)	5,191
Stephanie Tubbs Jones Child Welfare Services Program (Assistance Listing Number 93.645)	4,424
Foster Care Title IV-E (Assistance Listing Number 93.658)	26,560
Grants to States for Medicaid (Assistance Listing Number 93.778)	166,978
Unavailable revenue in 2024, recognized as revenue in 2025	
Marylee Allen Promoting Safe and Stable Families Program (Assistance Listing Number 93.556)	(2,179)
Refugee and Entrant Assistance State/Replacement Designee Administered Programs (Assistance Listing Number 93.566)	(40)
Child Care and Development Block Grant (Assistance Listing Number 93.575)	(1,018)
Foster Care Title IV-E (Assistance Listing Number 93.658)	(18,278)
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 6,738,811</u>

Management and Compliance Section



**Independent Auditor's 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***

Members of the Joint Health and Human Services Board
Southwest Health and Human Services
Marshall, Minnesota

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, and have issued our report thereon dated August 27, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Health and Human Services' internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances 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 Health and Human Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health and Human Services' internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Health and Human Services' financial statements are free from 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 financial statements. 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

In connection with our audit, nothing came to our attention that caused us to believe that Southwest Health and Human Services failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Health and Human Services' noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Health and Human Services' internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health and Human Services' internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

Julie Blaha
State Auditor

/s/Lisa Young

Lisa Young, CPA
Deputy State Auditor

August 27, 2026

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Members of the Joint Health and Human Services Board
Southwest Health and Human Services
Marshall, Minnesota

Report on Compliance for Each Major Federal Program

Qualified Opinions

We have audited Southwest Health and Human Services' compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Southwest Health and Human Services' major federal programs for the year ended December 31, 2025. Southwest Health and Human Services' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on SNAP Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions section of our report, Southwest Health and Human Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on SNAP Cluster for the year ended December 31, 2025.

Qualified Opinion on Child Support Services

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions section of our report, Southwest Health and Human Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Child Support Services for the year ended December 31, 2025.

Qualified Opinion on Medicaid Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions section of our report, Southwest Health and Human Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Medicaid Cluster for the year ended December 31, 2025.

Basis for Qualified Opinions

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Southwest Health and Human Services and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinions on compliance for each major federal program. Our audit does not provide a legal determination of Southwest Health and Human Services' compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on SNAP Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, Southwest Health and Human Services did not comply with requirements regarding Assistance Listing Number 10.561 SNAP Cluster as described in finding numbers 2025-001 for Activities Allowed or Unallowed and Allowable Costs/Cost Principles and 2025-003 for Procurement and Suspension and Debarment.

Compliance with such requirements is necessary, in our opinion, for Southwest Health and Human Services to comply with the requirements applicable to that program.

Matter Giving Rise to Qualified Opinion on Child Support Services

As described in the accompanying Schedule of Findings and Questioned Costs, Southwest Health and Human Services did not comply with requirements regarding Assistance Listing Number 93.563 Child Support Services as described in finding number 2025-004 for Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

Compliance with such requirements is necessary, in our opinion, for Southwest Health and Human Services to comply with the requirements applicable to that program.

Matter Giving Rise to Qualified Opinion on Medicaid Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, Southwest Health and Human Services did not comply with requirements regarding Assistance Listing Number 93.778 Medicaid Cluster as described in finding number 2025-005 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting.

Compliance with such requirements is necessary, in our opinion, for Southwest Health and Human Services to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Southwest Health and Human Services' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Southwest Health and Human Services' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southwest Health and Human Services' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Health and Human Services' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of the Health and Human Services' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Health and Human Services' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2025-002 and 2025-006. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Southwest Health and Human Services' response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Southwest Health and Services' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2025-001 and 2025-003 through 2025-005 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than

a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2025-002 and 2025-006 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Southwest Health and Human Services' response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Southwest Health and Human Services' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

Julie Blaha
State Auditor

August 27, 2026

/s/Lisa Young

Lisa Young, CPA
Deputy State Auditor

Southwest Health and Human Services Marshall, Minnesota

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2025

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over the major federal programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor’s report issued on compliance for the major federal programs: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

Identification of the major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
10.561	SNAP Cluster
93.563	Child Support Services
93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$1,000,000.

Southwest Health and Human Services qualified as a low-risk auditee? **No**

Section II – Financial Statement Findings

No matters were reported.

Southwest Health and Human Services Marshall, Minnesota

Section III – Federal Award Findings and Questioned Costs

2025-001 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Prior Year Finding Number: 2024-002

Year of Finding Origination: 2024

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Material Weakness and Modified Opinion

Federal Agency: U.S. Department of Agriculture

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Award Number and Year: 252MN101S2514; 2025

Pass-Through Agency: Minnesota Department of Human Services and Minnesota Department of Children, Youth, and Families

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Administrative program costs for the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program are submitted to the Minnesota Department of Human Services (DHS) through the DHS Income Maintenance DHS-2550 report on a quarterly basis. DHS provides reporting instructions, including information regarding eligible and ineligible costs.

Condition: The following exceptions were noted in the sample of 41 expenditures tested:

- One claim included activity that was allocated on an incorrect full-time equivalent (FTE) split.
- One claim was paid to an incorrect vendor and the correct vendor in the same period. Both claims were included in the quarterly report.
- One claim was included on the incorrect report.

The items noted above are included in the Child Support Services Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2025-004) and the Grants to States for Medicaid Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting finding (2025-005).

Questioned Costs: \$1,595; known questioned costs were determined based on exceptions noted from a sample of transactions tested.

Context: DHS relies on accurate identification and reporting of program costs to ensure grant funds paid to the Health and Human Services are for allowable federal program activities and costs and provide detailed information necessary for maintaining proper oversight over federal programs.

Total expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) are \$661,852, consisting of 2,729 transactions. A sample of 40 expenditures was selected for testing and was then expanded to include one State Administrative Matching Grants for the Supplemental Nutrition Assistance Program expenditure included in

Southwest Health and Human Services Marshall, Minnesota

Child Support Services testing. The sample of 41 transactions totaled \$116,616. The sample size was based on guidance from Chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*, and subsequently expanded.

Effect: Errors in the identification and reporting of costs on the quarterly reports can impair DHS' ability to provide required oversight over federal programs and result in the Health and Human Services receiving either more or less federal funds than justified based on the actual underlying activity.

Cause: The Health and Human Services' controls over the identification of allowable activities and costs, preparation of the quarterly reports, and maintenance of payroll allocations in the accounting system were not sufficient to identify these errors.

Recommendation: We recommend the Health and Human Services implement controls to ensure activities allowed and allowable costs are appropriately identified and reported to DHS in accordance with federal program guidance and DHS instructions. We also recommend the Health and Human Services correct and resubmit reports submitted with unallowable activities or costs, costs allocated incorrectly, or activity reported incorrectly.

View of Responsible Official: Acknowledge

2025-002 Procurement Policy

Prior Year Finding Number: N/A

Year of Finding Origination: 2025

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Significant Deficiency and Other Matter

Federal Agency: U.S. Department of Agriculture

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Award Number and Year: 252MN101S2514; 2025

Pass-Through Agency: Minnesota Department of Human Services and Minnesota Department of Children, Youth, and Families

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform with applicable federal law and the standards identified in this regulation.

Condition: The Health and Human Services has written procurement policies; however, these policies do not include the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

Questioned Costs: None.

Southwest Health and Human Services Marshall, Minnesota

Context: This issue was discovered during the audit of the major federal program; however, it impacts federal programs entity-wide. Written policies that reflect the specific components of federal regulations improve controls to ensure compliance with federal award requirements.

Effect: Written policies and procedures that are not updated to reflect the federal procurement requirements could increase the risk of noncompliance with federal program requirements.

Cause: The Health and Human Services modified the procurement policy during the year resulting in language related to several procurement requirements being excluded due to an oversight.

Recommendation: We recommend the Health and Human Services include the specific components of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* requirements in its written procurement policies and procedures.

View of Responsible Official: Concur

2025-003 Procurement, Suspension, and Debarment

Prior Year Finding Number: 2024-003

Year of Finding Origination: 2024

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Material Weakness and Modified Opinion

Federal Agency: U.S. Department of Agriculture

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Award Number and Year: 252MN101S2514; 2025

Pass-Through Agency: Minnesota Department of Human Services and Minnesota Department of Children, Youth, and Families

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Title 2 U.S. *Code of Federal Regulations* § 200.318(i) states that the Health and Human Services must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Additionally, the Health and Human Services must follow further federal guidance over full and open competition as provided in Title 2 U.S. *Code of Federal Regulations* § 200.319 and perform a cost or price analysis as provided in Title 2 U.S. *Code of Federal Regulations* § 200.324.

Condition: The following exceptions were noted in the procurement testing:

- For three of the small purchases tested, the Health and Human Services did not have documentation of price or rate quotations obtained from an adequate number of qualified sources detailing the history of procurement or documentation of full and open competition.

Southwest Health and Human Services Marshall, Minnesota

- For two of the micro-purchase procurements tested, the Health and Human Services did not document how purchases are distributed among qualified suppliers, as practical.
- For the one transaction over the simplified acquisition threshold tested, no documentation was maintained detailing the history of the procurement, demonstrating full and open competition, or that a cost or price analysis was performed.

Questioned Costs: \$320,983; known questioned costs were determined based on exceptions noted from a sample of transactions.

Context: The thresholds used for procurement testing were based on the Health and Human Services' policy for simplified acquisition threshold (over \$150,000), small purchases (\$3,000 to \$150,000), and micro-purchases (\$3,000 or less) through November 18, 2025, and after November 18, 2025, then the thresholds used for procurement testing were small purchases (\$10,000 to \$100,000) and micro-purchases (\$10,000 or less).

The population consisted of one procurement over the simplified acquisition threshold, 32 small purchases, and 395 micro-purchases. The sample was one transaction over the simplified acquisition threshold, six small purchases, and five micro-purchases. The sample size was based on guidance from Chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: It cannot be determined that the contracting process was open and fair because the Health and Human Services did not document the rationale for the contractor selection.

Cause: The Health and Human Services does not have processes in place to ensure federal requirements for procurement are followed.

Recommendation: We recommend the Health and Human Services maintain documentation on the history of a procurement, provide for full and open competition, and perform a cost or price analysis to support compliance with Title 2 U.S. *Code of Federal Regulations* §§ 200.318, 200.319, and 200.324.

View of Responsible Official: Concur

2025-004 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Prior Year Finding Number: 2024-004

Year of Finding Origination: 2022

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Material Weakness and Modified Opinion

Federal Agency: U.S. Department of Health and Human Services

Program: 93.563 Child Support Services

Award Number and Year: 2501MNSCSS and 2501MNICSS, 2025

Pass-Through Agency: Minnesota Department of Human Services and Minnesota Department of Children, Youth, and Families

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is

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managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Administrative program costs for Child Support Services are submitted to the Minnesota Department of Human Services (DHS) through the DHS Income Maintenance DHS-2550 report on a quarterly basis. DHS provides reporting instructions, including information regarding eligible and ineligible costs.

Condition: The following exceptions were noted in the sample of 40 expenditures tested:

- One claim included activity that was allocated on an incorrect full-time equivalent (FTE) split.
- One claim was paid to an incorrect vendor and the correct vendor in the same period. Both claims were included in the quarterly report.
- One claim was included on the incorrect report.

The items noted above are included in the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2025-001) and the Grants to States for Medicaid Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting finding (2025-005).

Questioned Costs: Known questioned costs and likely questioned costs were under \$25,000.

Context: DHS relies on accurate identification and reporting of program costs to ensure grant funds paid to the Health and Human Services are for allowable federal program activities/costs and provide detailed information necessary for maintaining proper oversight over federal programs.

Total expenditures reported on the SEFA are \$1,083,658, consisting of 2,196 transactions. The sample of 40 transactions totaled \$159,828. The sample sizes were based on guidance from Chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Errors in the identification and reporting of costs on the quarterly reports can impair DHS' ability to provide required oversight over federal programs and result in the Health and Human Services receiving either more or less federal funds than justified based on the actual underlying activity.

Cause: The Health and Human Services' controls over the identification of allowable activities and costs, preparation of the quarterly reports, and maintenance of payroll allocations in the accounting system were not sufficient to identify these errors.

Recommendation: We recommend the Health and Human Services implement controls to ensure activities allowed and allowable costs are appropriately identified and reported to DHS in accordance with federal program guidance and DHS instructions. We also recommend the Health and Human Services correct and resubmit reports submitted with costs allocated incorrectly.

View of Responsible Official: Acknowledge

Southwest Health and Human Services

Marshall, Minnesota

2025-005 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting

Prior Year Finding Number: 2024-005

Year of Finding Origination: 2022

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Material Weakness and Modified Opinion

Federal Agency: U.S. Department of Health and Human Services

Program: 93.778 Grants to States for Medicaid

Award Number and Year: 2505MN5ADM and 2505MN5MAP, 2025

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Administrative program costs for Grants to States for Medicaid are submitted to DHS through the DHS Income Maintenance (DHS-2550) report, the Social Service Fund Report (DHS-2556), and Local Collaborative Time Study Cost Schedule Reports (DHS-3220) on a quarterly basis. DHS provides reporting instructions, including information regarding eligible and ineligible costs.

Condition: The following exceptions were noted in the sample of 42 expenditures tested:

- One claim included activity that was allocated on an incorrect full-time equivalent (FTE) split.
- One claim was paid to an incorrect vendor and the correct vendor in the same period. Both claims were included in the quarterly report.
- One claim was included on the incorrect report.

The items noted above are included in the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2025-001) and the Child Support Services Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2025-004).

In addition, the following exceptions were noted in the second and fourth quarter DHS reports tested:

- The DHS-2556 reports excluded \$27,318 to be reported as Direct Materials and Supplies.
- The DHS-3220 reports included amounts allocated at an incorrect rate for payroll. Payroll expenditures were overstated in the second quarter by \$7,016 and by \$16,883 in the fourth quarter.
- The DHS-3220 reports improperly included payroll amounts for two staff not eligible for reimbursement resulting in expenditures being overstated by \$65,654.

Questioned Costs: \$121,945. \$5,074 known questioned costs were determined based on exceptions noted from a sample of transactions tested, and \$116,871 known questioned costs were determined based on the exceptions noted in the DHS-2556 and DHS-3220 reports tested.

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Context: DHS relies on accurate identification and reporting of program costs to ensure grant funds paid to the Health and Human Services are for allowable federal program activities and costs and provide detailed information necessary for maintaining proper oversight over federal programs.

Total expenditures reported on the SEFA are \$2,653,443, consisting of 6,791 transactions. A sample of 40 expenditures was selected for testing and was then expanded to include two Grants to States for Medicaid expenditures included in Child Support Services testing. The sample of 42 transactions totaled \$130,315. The reporting population consisted of four quarterly DHS-2550, four quarterly DHS-2556, and four quarterly Public Health DHS-3220 reports; the sample was two quarterly DHS-2550, two quarterly DHS-2556, and two quarterly Public Health DHS-3220 reports. The sample sizes were based on guidance from Chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*, and subsequently expanded.

Effect: Errors in the identification and reporting of costs on the quarterly reports can impair DHS' ability to provide required oversight over federal programs and result in the Health and Human Services receiving either more or less federal funds than justified based on the actual underlying activity.

Cause: The Health and Human Services' controls over the identification of allowable activities and costs, preparation and review of the quarterly reports, and maintenance of payroll allocations in the accounting system were not sufficient to identify these errors.

Recommendation: We recommend the Health and Human Services implement controls to ensure activities allowed and allowable costs are appropriately identified and accurately reported to DHS in accordance with federal program guidance and DHS instructions. We also recommend the Health and Human Services correct and resubmit reports submitted with unallowable activities or costs, costs allocated incorrectly, or activity reporting incorrectly.

View of Responsible Official: Concur

2025-006 **Eligibility – MAXIS**

Prior Year Finding Number: 2024-006

Year of Finding Origination: 2011

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Significant Deficiency and Other Matter

Federal Agency: U.S. Department of Health and Human Services

Program: 93.778 Grants to States for Medicaid

Award Number and Year: 2505MN5ADM; 2025

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Title 42 U.S. *Code of Federal Regulations* §§ 435.911 and 435.945 require the state Medicaid agency to determine and verify eligibility of enrollees in Medicaid. The Minnesota Department of Human Services provides the Minnesota Health Care Programs Eligibility Policy Manual. The manual contains the Minnesota Department of

Southwest Health and Human Services Marshall, Minnesota

Human Services eligibility policies for the Minnesota Health Care Programs, including the eligibility requirements of Grants to States for Medicaid. Specific eligibility requirements are included for recipients' citizenship verification and asset verification. Minnesota Statutes, Section 256B.05, requires agencies to administer Grants to States for Medicaid.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the Health and Human Services to support the eligibility determination process. In the case files reviewed for eligibility, not all documentation to support recipient eligibility was available, updated, or input correctly. The following exceptions were noted in the sample of 40 case files tested:

- One recipient's case file did not have verification of citizenship.
- One recipient's case file included amounts for client accounts (assets) that were not properly updated or supported for the most recent application or renewal.

Questioned Costs: Not applicable. The Health and Human Services administers the program, but the State of Minnesota pays benefits to recipients in this program.

Context: The State of Minnesota and the Health and Human Services split the eligibility determination process. Pursuant to Minnesota statutes, the Health and Human Services performs the "intake function" needed for this program, while the State maintains the MAXIS system, which supports the eligibility determination process. Recipients receive benefit payments from the State.

The population consisted of 3,493 active MAXIS cases enrolled in Grants to States for Medicaid in 2025; the sample size was 40 case files. The sample size was based on the guidance from Chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The improper input or updating of information into MAXIS and the lack of verification or follow-up of eligibility-determining factors increase the risk that program recipients will receive benefits when they are not eligible.

Cause: Program personnel entering case file information into MAXIS did not ensure all required information was input or updated correctly, supported, or retained.

Recommendation: We recommend the Health and Human Services implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists, the program personnel properly input or update the documentation in MAXIS, and the program personnel follow up on issues in a timely manner. In addition, the Health and Human Services should consider providing further training to program personnel.

View of Responsible Official: Acknowledge



Offices Located in:

Redwood Falls, MN • 507-637-4041
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Pipestone, MN • 507-825-6720 Luverne, MN • 507-283-5070
Marshall, MN • Human Services 507-537-6747 • Health Services 507-537-6713

**Representation of Southwest Health and Human Services
Marshall, Minnesota**

Corrective Action Plan

For the Year Ended December 31, 2025

Finding Number: 2025-001

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Name of Contact Person Responsible for Corrective Action:

Jenny Severson – Fiscal Officer

Tiffany Bailey – Fiscal Manager

Corrective Action Planned:

The planned corrective action is to review report instructions regularly, accurately identify eligible revenue and expenditures for each report and resubmit any report corrections timely. A process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate programs.

Anticipated Completion Date:

December 31, 2026

Finding Number: 2025-002

Finding Title: Procurement Policy

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Name of Contact Person Responsible for Corrective Action:

Tiffany Bailey – Fiscal Manager

Corrective Action Planned:

The planned corrective action is to improve and update the agency policy for procurement that ensures the required federal components are met.

Anticipated Completion Date:

December 31, 2026

Finding Number: 2025-003

Finding Title: Procurement, Suspension, and Debarment

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Name of Contact Person Responsible for Corrective Action:

Tiffany Bailey – Fiscal Manager

Corrective Action Planned:

The planned corrective action is to improve and update the agency policy and procedures for procurement and implement a process with supporting documentation that ensures federal requirements are met.

Anticipated Completion Date:

December 31, 2026

Finding Number: 2025-004

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Program: 93.563 Child Support Services

Name of Contact Person Responsible for Corrective Action:

Jenny Severson – Fiscal Officer

Tiffany Bailey – Fiscal Manager

Corrective Action Planned:

The planned corrective action is to review report instructions regularly, accurately identify eligible revenue and expenditures for each report and resubmit any report corrections timely. A process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate programs.

Anticipated Completion Date:

December 31, 2026

Finding Number: 2025-005

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles, and Reporting

Program: 93.778 Grants to States for Medicaid

Name of Contact Person Responsible for Corrective Action:

Jenny Severson – Fiscal Officer

Tiffany Bailey – Fiscal Manager

Corrective Action Planned:

The planned corrective action is to review report instructions regularly, accurately identify eligible revenue and expenditures for each report and resubmit any report corrections timely. A process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate programs.

Anticipated Completion Date:

December 31, 2026

Finding Number: 2025-006

Finding Title: Eligibility - MAXIS

Program: 93.778 Grants to States for Medicaid

Name of Contact Person Responsible for Corrective Action:

Kathryn Herding – Eligibility Supervisor

Ashley VanOverbeke – Eligibility Supervisor

Chantelle Fogelson – Eligibility Supervisor

Corrective Action Planned:

The planned corrective action is to continue reminding and reviewing with staff on a regular basis and at unit meetings the need to utilize checklists with all applications and renewals, so all required documentation is on file, verify income and asset requirements, and complete case transfers correctly. Supervisors and/or Lead Workers will also complete case reviews for accuracy.

Anticipated Completion Date:

December 31, 2026

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Pipestone, MN • 507-825-6720 Luverne, MN • 507-283-5070
Marshall, MN • Human Services 507-537-6747 • Health Services 507-537-6713

Representation of Southwest Health and Human Services Marshall, Minnesota

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2025

Finding Number: 2024-001

Year of Finding Origination: 2024

Finding Title: Mileage Claims

Summary of Condition: In a sample of 25 disbursements, three claims paid to reimburse mileage for client transportation and employee travel were paid for incorrect amounts. In all three instances, the specific address of the destination was not included in the disbursement support.

Summary of Corrective Action Previously Reported: The planned corrective action is to review mileage claims for accuracy by using verifying reported miles to stated destination and calculations are completed correctly.

Status: Fully Corrected. Corrective action was taken.

Finding Number: 2024-002

Year of Finding Origination: 2024

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Summary of Condition: The following exceptions were noted in the sample of 40 expenditures tested:

- One claim was reported as eligible expenditures but was not eligible for federal reimbursement.
- Two claims included activity that was allocated on an incorrect full-time equivalent (FTE) split.
- Three timesheets tested included payroll costs that were incorrectly reported as Income Maintenance Random Moments Time Studies participants payroll expense.

Some of the items noted above are included in the Child Support Services Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2024-004) and the Medical Assistance Program Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting finding (2024-005).

Summary of Corrective Action Previously Reported: The planned corrective action is to review report instructions regularly, accurately identify appropriate eligible revenue and expenditures for each report and review for accuracy by implementing secondary review of the data that is being reported as well as resubmit any report corrections timely. An improved process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate program.

Status: Not Corrected. Due to staff turnover, errors were made during initial payments, which led to incorrect reporting. The planned corrective action is to continue to follow the DHS bulletin instructions and use DHS guidance to accurately report appropriate revenue and expenditures on the report. An improved process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate program as well as verifying initial payments were done accurately.

Finding Number: 2024-003

Year of Finding Origination: 2024

Finding Title: Procurement, Suspension, and Debarment

Program: 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Summary of Condition: The following exceptions were noted in the procurements testing:

- All five small purchases tested did not have documentation of price or rate quotations obtained from an adequate number of qualified sources detailing the history of procurement or documentation of full and open competition.
- For the five micro-purchase procurements tested, Southwest Health and Human Services did not document how purchases are distributed among qualified suppliers, as practical.
- For one of the four covered transactions tested, the verification for suspended or debarred vendors was not performed before entering into the procurement.
- For the one transaction over the simplified acquisition threshold tested, no documentation was maintained detailing the history of the procurement, demonstrating full and open competition, or that a cost or price analysis was performed.

Summary of Corrective Action Previously Reported: The planned corrective action is to improve and update the agency guidelines and policy for procurement and implement a process with supporting documentation that ensures federal requirements are met.

Status: Not Corrected. The updated policy and processes could not be implemented until later in the year, which led to a continued finding. A new policy and procedure have been implemented to ensure federal requirements are being met.

Finding Number: 2024-004

Year of Finding Origination: 2022

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Program: 93.563 Child Support Services

Summary of Condition: Five of the 40 expenditures selected for testing were allocated on an incorrect full-time equivalent (FTE) split or there was no documentation to support the allocation used.

Some of the items are included in the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2024-002) and the Medical Assistance Program Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Reporting finding (2024-005).

Summary of Corrective Action Previously Reported: The planned corrective action is to review report instructions regularly, accurately identify appropriate eligible revenue and expenditures for each report and review for accuracy by implementing secondary review of the data that is being reported as well as

resubmit any report corrections timely. An improved process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate program.

Status: Not Corrected. Due to staff turnover, errors were made during initial payments, which led to incorrect reporting. The planned corrective action is to continue to follow the DHS bulletin instructions and use DHS guidance to accurately report appropriate revenue and expenditures on the report. An improved process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate program as well as verifying initial payments were done accurately.

Finding Number: 2024-005

Year of Finding Origination: 2022

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles, and Reporting Program: 93.778 Grants to States for Medicaid

Summary of Condition: The following exceptions were noted in the sample of 40 expenditures tested for activities allowed or unallowed and allowable costs/cost principles:

- Two claims were incorrectly allocated in the DHS-2550 and Public Health DHS-3220 reports, which resulted in expenditures reported in the incorrect categories.
- One claim reported on the DHS-2550 report included expenditures ineligible for federal grant reimbursement.
- Two claims and two timesheets for a Minnesota Department of Public Safety program were included in the DHS-2556 report as eligible expenditures but were not eligible for federal reimbursement.
- For four timesheets tested, the payroll costs were incorrectly coded according to the Income Maintenance Random Moments Time Studies and Social Services Time Studies.

Some of the items are included in the Child Support Services Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2024-002) and the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Activities Allowed and Unallowed, Allowable Costs/Cost Principles finding (2024-004).

In addition, the following exceptions were noted in the first and third quarter DHS reports tested for reporting:

- The DHS-2550 and DHS-2556 reports improperly included interest on leased vehicles.
- Depreciation expense was incorrectly reported on the DHS-2550 reports.
- Payroll adjustments were made to the general ledger that were not reflected on the DHS-2550 and DHS-2556 reports.
- Postage and fuel costs were not reported at the correct rates on the DHS-2550 and DHS-2556 reports.
- The DHS-2556 reports incorrectly excluded Out of Home Placement Aid.
- The DHS-2556 reports excluded IT costs that were eligible expenditures.

Summary of Corrective Action Previously Reported: The planned corrective action is to review report instructions regularly, accurately identify appropriate eligible revenue and expenditures for each report and review for accuracy by implementing secondary review of the data that is being reported as well as resubmit any report corrections timely. An improved process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate program.

Status: Not Corrected. Due to staff turnover, errors were made during initial payments, which led to incorrect reporting. The planned corrective action is to continue to follow the DHS bulletin instructions and use DHS guidance to accurately report appropriate revenue and expenditures on the report. An improved process has been implemented for verifying FTE payroll splits and verifying staff time is allocated to the appropriate program as well as verifying initial payments were done accurately.

Finding Number: 2024-006

Year of Finding Origination: 2011

Finding Title: Eligibility – MAXIS

Program: 93.778 Grants to States for Medicaid

Summary of Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the Health and Human Services to support the eligibility determination process. In the case files reviewed for eligibility, not all documentation to support participant eligibility was available, updated, or input correctly. The following exceptions were noted in the sample of 40 case files tested:

- Five case files did not have verification of citizenship; and two additional case files had verification of citizenship, but MAXIS was not properly updated.
- One case file did not include support for the income listed in MAXIS.
- Two case files included amounts for client accounts (assets) that were not properly updated or supported for the most recent application or renewal.

Summary of Corrective Action Previously Reported: The planned corrective action is to continue reminding and reviewing with staff on a regular basis and at unit meetings the need to utilize checklists with all applications and renewals so all required documentation is on file, verify income and asset requirements, and complete case transfers correctly. Supervisors and/or Lead Workers will also complete case reviews for accuracy.

Status: Not Corrected. Due to staff turnover, corrective action plan was not completely implemented. The planned corrective action is to continue reminding and reviewing with staff on a regular basis and at unit meetings the need to utilize checklists with all applications and renewals so all required documentation is on file, verify income and asset requirements, and complete case transfers correctly. Supervisors and/or Lead Workers will also complete case reviews for accuracy.